

Annual Report 2016

Year ended December 31, 2016

Boosting Motors to
Drive Growth



Motor for
power window lifters
GD-558RE



Motor for
power window lifters
GD-558RC/LC

Small Direct-Current Electric Motors

Boosting Motors to Drive Growth

Ever since its founding, Mabuchi Motor Co., Ltd. has been a specialist manufacturer of small motors that delivers consistently high quality and efficiency at low prices in line with our basic policy “Bringing better and more reasonably priced goods to the market.” Our small motors find diverse applications in automotive products and consumer and industrial products, including home appliances, power tools, precision and office equipment, audio and visual equipment, and toys. In this way, we contribute to convenient, comfortable living for people the world over.

The Mabuchi Group is the world’s leading producer of small motors. Our annual production volume of approximately 1,467 million units (2016 results) is testimony to the excellent reputation and trust we have built with our customers and a source of great pride for us.

In the coming years, we will continue to aspire to create new value through product development adaptable to market needs, and a flexible supply system.

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Forward-Looking Statements

This annual report contains forward-looking statements about Mabuchi’s future plans, beliefs, strategies, and performance that are not historical facts. These statements are based on current expectations, forecasts, estimates, and projections about the industry in which Mabuchi operates and the beliefs and assumptions made by its management.

As such expectations, forecasts, estimates, and projections are subject to a number of risks, uncertainties, and assumptions, they may cause actual results to differ materially from those projected. Mabuchi therefore cautions readers not to place undue reliance on forward-looking statements. Furthermore, the Company undertakes no obligation to update any forward-looking statements as a result of new information, future events, or other developments.

Risks, uncertainties, and assumptions mentioned above include, but are not limited to, exchange rates and economic conditions; the outcome of pending and future litigation; commodity prices; and the continuing status of financing, financial instruments, and financial resources.

Mabuchi's Management Vision

MANAGEMENT PRINCIPLE

Contributing to International Society and Continuously Increasing Our Contribution

Mabuchi believes that a company can continue to exist and grow only if its business activities contribute to society on an ever-expanding basis. It goes without saying that a company cannot expand or even remain in business unless it generates profits. However, profit is not Mabuchi's sole management objective.

Our ultimate objective is to continue raising our level of contribution to society through our business activities and remain a company that society considers essential. This "Management Principle" is at the core of all our activities, unchanging through time and irrespective of the people at the management helm.



Our Missions

Mabuchi's missions embrace a set of values for all Mabuchi Group employees to share in overcoming various difficulties and conflicts that occur in carrying out their duties and achieving further growth.

Our Management Vision

MANAGEMENT GUIDELINES

Mabuchi's management guidelines, which flow from our management principle, spell out specifically how we "contribute." These guidelines outline the mission of Mabuchi's business activities.

MANAGEMENT POLICIES

Mabuchi's management policies provide guidelines for its corporate activities, which are a starting point for creating value and lead to greater levels of social contribution and achieving sound growth.

MANAGEMENT SCHEME

Based on Mabuchi's business policy of maximizing the potential of small DC (direct-current) brush motors as our core business, we mobilize our organizational skills and promote business activities in which we can continuously exert a unique "Mabuchi-ism" that cannot easily be emulated. Naturally, we do not aim at diversification without contributing to society, namely, diversification only to expand sales. We generate revenues and profits as a result of our contributions to markets in which we are truly welcome. We plan to continue reflecting this management philosophy, which has served us well in the past, into the future.

To Our Shareholders

We will steadily implement priority activities and aim to further improve corporate value.



Hiroo Okoshi

Representative Director and President,
President & CEO

Hiroo Okoshi

Business Results for Fiscal 2016

We will report on the consolidated performance for the fiscal year ended December 31, 2016 (January 1 to December 31, 2016).

For the fiscal year ended December 31, 2016 (fiscal 2016), consolidated net sales were 140,699 million yen, operating

income was 24,225 million yen, and profit attributable to owners of parent was 20,598 million yen.

During fiscal 2016, the world economy as a whole showed underlying strength, despite a sense of uncertainty about the outlook for the future. The economic environments of the major countries and regions were as follows.

Financial Highlights

	Millions of yen		Thousands of U.S. dollars	Rate of change
	2015	2016	2016	YoY
Net sales	¥143,143	¥140,699	\$1,212,925	-1.7%
Operating income	22,961	24,225	208,836	+5.5%
Profit attributable to owners of parent	18,546	20,598	177,573	+11.1%
Total assets	256,196	258,387	2,227,478	+0.9%
Net assets	233,245	232,917	2,007,909	-0.1%

Economic Environments of Major Countries and Regions

In the U.S. economy: The employment and income environments improved, and strong consumer spending continued.

In the European economy: Gradual recovery continued, driven by domestic demand.

In the Japanese economy: Consumer spending was weak, and business conditions were flat, despite improvement in the employment environment.

In the economies of emerging countries: Although the economic slowdown in China eased, overall growth remained low in emerging market economies.

In fiscal 2016, the Mabuchi Group achieved continued growth in the Automobile Products Market, led by expanding sales for medium-sized automotive motors. We also implemented new initiatives toward further improvements in laborsaving.

The Group's applications by market were as follows.

Applications by Market

In the Automobile Products Market: Healthy demand continued overall, and demand in China increased due to a tax cut on small-engine cars.

In the Consumer and Industrial Products Market: Although demand remained stable, markets for some applications continued to contract.

Main Initiatives for the Fiscal Year

The main initiatives and results of the fiscal year under review are as follows.

Issue 1 Acceleration of Growth in the Power Window Lifter Motor Business

Result Winning of orders from new customers by strengthening sales of new motors for power window lifters

Issue 2 Expansion of Medium-sized Automotive Motor Sales and New Applications

Result Expansion of orders for medium-sized automotive motors for each application by means of application-specific standard products

Issue 3 Development of New Applications in the Consumer and Industrial Products Sector

Result Securing of adoption for motors for the new applications for medical equipment and home appliances, following entry into the light electric vehicle (LEV) and commercial office equipment sectors

Issue 4 Implementation of Laborsaving Measures and Establishment of Next-Generation Manufacturing

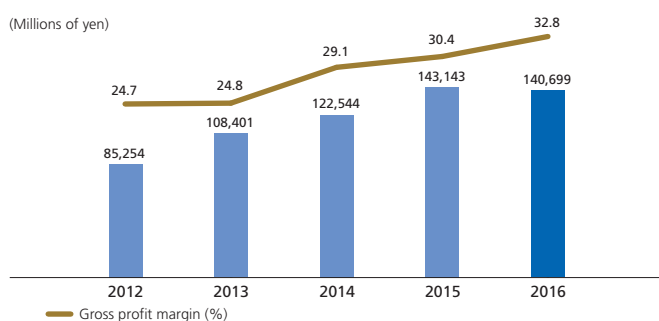
Result Expansion of laborsaving in production processes and man-hour reduction in primary parts production processes through the introduction of facilities to rationalize production

Issue 5 Implementation of Global Base Strategy

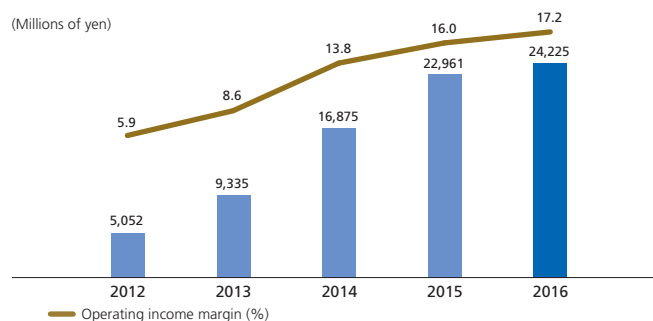
Result The decision to establish a new production base in Poland

We have been able to actively promote and realize various measures to expand sales and market share, develop new markets, and further advance progress in quality and efficiency, and achieve results that will lead to business growth now and in the future.

Net Sales/Gross Profit Margin



Operating Income/Operating Income Margin



Aiming to further expand our business worldwide through the introduction of new and improved products.

Outlook for Fiscal 2017

The economic environments of the major countries and regions for fiscal 2017 are forecast as follows.

○ Economic Environments of Major Countries and Regions

In the U.S. and European economies: Although the forecast is for both economies to remain strong, there are also many uncertain factors, such as the policies of the new U.S. administration, Brexit, and elections in European countries.

In the Japanese economy: Business conditions are expected to continue to recover gradually.

In the economies of emerging countries: Although the economic slowdown in China has bottomed out, the low economic growth in emerging countries overall is expected to continue.

The Group's applications by market are forecast as follows.

○ Applications by Market

In the Automotive Products Market: Gradual growth is expected, with continued strong demand in Europe and North America compensating for softening of growth in China and other emerging countries.

In the Consumer and Industrial Products Market: While demand for motors for home appliances, power tools, and office equipment in the business-use market is expected to be flat, contraction of demand for motors for office equipment in the personal-use products market is forecast.

Medium- to Long-term Management Strategy and Issues to Be Addressed

(1) Acceleration of Growth in the Power Window Lifter Motor Business

In the power window lifter motor business, sales growth is rapidly accelerating, with new high-torque standard products for the European and North American markets driving growth. At the same time, sales of improved versions of

products introduced at the time of the start-up of the power window lifter motor business continue to increase, and these products have become the foundation for development of the business.

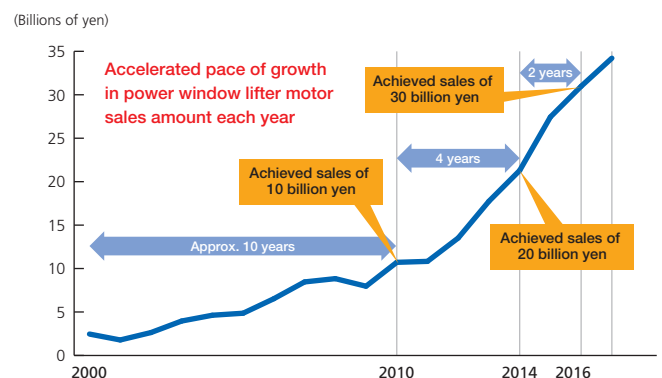
We started mass production of a high-torque standard product for a second major North American automaker in the second half of the year and will approach the remaining North American customer in earnest with the aim of winning orders. At the same time, taking advantage of the product features—compactness, lightweight, high performance, and high quality—we will further step up sales activities for high-torque standard products targeting major European automakers and China, the world's largest automobile market, and link these activities to orders.

There is an increasingly greater need among Japanese automakers for size and weight reductions to increase freedom in designs of components inside doors. We will accelerate the development of new products that are compact, lightweight, and price-competitive, and will become a standard product for the next generation, and aim to win orders.

(2) Expansion of Medium-sized Automotive Motor Sales and New Applications

Motors for power seats, electric parking brakes, engine peripheral equipment, and other medium-sized motor applications constitute a market sector for which continued market expansion can be expected in light of today's emphasis on automobile safety, comfort, and economy. The

○ Power Window Lifter Motor Sales Results



Mabuchi Group will work to increase sales to new customers and develop new applications by leveraging highly competitive application-specific standard products, and aim for further sales growth.

The Mabuchi Group will engage in sales expansion activities for power seat motors with the aim of winning orders from major customers in Japan and overseas by means of improved slider motors, products that are already competitive due to their compact and lightweight features. Electric parking brake motors are an application for which Mabuchi has maintained the top global market share. To further strengthen and expand this business, we will undertake share expansion by adding improvements to existing motors, which are standard products, and introducing them to customers that are some of the world's largest automakers as well as to new customers. In addition, door area motors are an expanding new application. In fiscal 2015, we obtained orders for geared motors for backdoor closers from a major Japanese automaker, and we will seek to win additional orders through further deployment across multiple applications.

(3) Development of New Applications in the Consumer and Industrial Products Sector

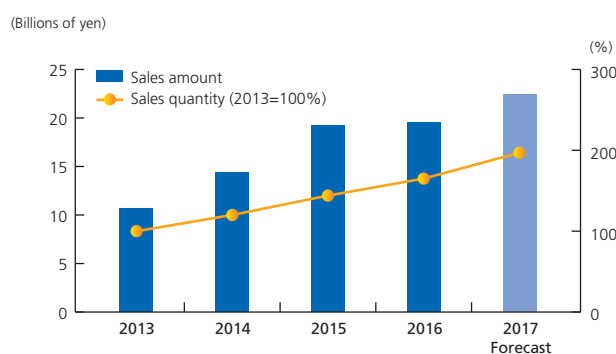
In the consumer and industrial products sector, in addition to business activities centered on existing small brush motors, we are reinforcing initiatives to develop and increase sales of brushless motors in order to focus on new applications and create new demand. With regard to brushless motors for LEVs, we continue to sell motors for electrically

assisted bicycles, and full-scale sales to a second major Japanese electrically assisted bicycle manufacturer are set to begin. Moreover, we also engage in in-house development of motor production facilities. We use standard motors for LEVs as the drive units of these production facilities, which are used in actual motor production at our plants, and at the same time are working to secure adoptions for use as drive motors by industrial equipment manufacturers. We will continue to develop new applications and realize deployment across multiple applications on the basis of application-specific standard products for LEVs. We will aim for sales expansion of brushless motors for multifunction printers (MFPs) by introducing new products with improved controllability and option adaptability. In the home appliances market, in recent years a movement toward high-end products, such as the inclusion of new products with increased power in cordless vacuum cleaners, hair dryers, and other product lines, has gained impetus. As these high-end home appliances require a wide range of motor performance characteristics, we will meet customer needs by developing and introducing new high-performance products that leverage Mabuchi's advanced technological capabilities as a specialized manufacturer.

(4) Implementation of Laborsaving Measures and Establishment of Next-Generation Manufacturing

The Mabuchi Group is working to mechanize production lines and undertaking laborsaving by introducing facilities in response to a major change in the business environment; namely, sharp increases in labor costs in countries where production bases are located. Under the Phase 2 Laborsaving Plan to achieve laborsaving exceeding 30% during the three-year period from fiscal 2014 to fiscal 2016, we achieved laborsaving in excess of 30% as planned, and production process innovation progressed significantly. We have again set high targets in the Phase 3 Laborsaving Plan covering the three-year period from fiscal 2017 to fiscal 2019, and will accelerate activities with the aim of achieving laborsaving of 30% from the fiscal 2016 level.

Medium-sized Automotive Motor Sales Results and Forecast



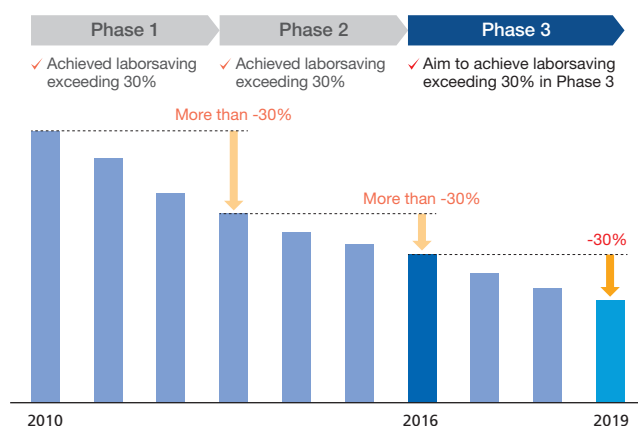
Note: Medium-sized Automotive Motors: power seats, parking brakes, steering column adjusters, engine peripheral equipment, and seat belt pretensioners

In addition, we will install at our headquarters a new and innovative core production line for the purpose of establishing next-generation manufacturing to further strengthen our manufacturing capabilities. This core production line will realize the ultimate in laborsaving and high-speed operation through new facilities, methods, and processes. We will

We will continue to reward shareholders for their commitment and dedication.

proceed with development of the line, with the aim of starting operations in fiscal 2017, as a new technology to lead the way into the future evolution of manufacturing.

Number of Direct Workers

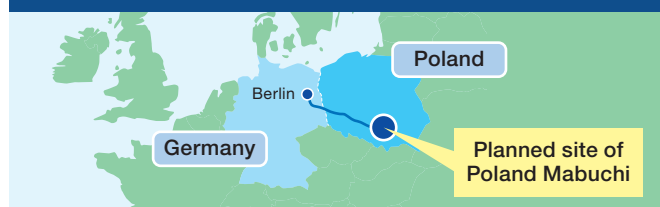


(5) Implementation of Global Base Strategy

The Mabuchi Group has long provided a stable supply of high-performance, high-quality, low-priced standard products to customers around the world by concentrating production of motors in the Asian region. In recent years, customer needs for “local production for local consumption” have increased, especially with regard to medium-sized automotive motors. We have received strong requests from customers in European markets to manufacture locally, and to meet these requests, in January 2017 we established a production subsidiary in Poland. We are now making preparations for the start of plant construction, planned for the third quarter, and will proceed with construction with the aim of starting operations in 2019.

Planned Site of Poland Mabuchi

Directly connected to the German border by land route (approx. 450 km)



Basic Policy on Profit Sharing, and Dividend Payments for the Current and Next Periods

Mabuchi maintains a basic policy of actively returning profits to shareholders in accordance with its business results. We do this while also providing funds from internal reserves for capital expenditures, research and development which are necessary for the growth and development of the Company, and while maintaining our financial soundness.

Under this policy, apart from when business results are remarkably sluggish due to a sudden deterioration in the business environment, we consistently distribute an annual ordinary dividend of 30 yen per share as payment of a long-term stable dividend, plus an additional special dividend equal to 30% of the consolidated net income divided by the number of outstanding shares, depending on the performance of the Company.

We will continue to consider repurchasing more treasury stock as necessary, as a way of flexibly responding to changes in the share price and the business environment, and as a means of fulfilling our capital policy and returning profits to shareholders.

It is our policy to appropriate internal reserves to further strengthen and deepen our existing businesses and to invest in areas of growth, with a view to increasing corporate value.

Five-year Summary

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries (Years Ended December 31)

	Millions of yen					Thousands of U.S. dollars
For the year:	2012	2013	2014	2015	2016	2016
Net sales	¥ 85,254	¥ 108,401	¥ 122,544	¥ 143,143	¥ 140,699	\$1,212,925
Cost of sales	64,214	81,546	86,929	99,673	94,510	814,745
Selling, general and administrative expenses	15,987	17,519	18,739	20,508	21,963	189,343
Operating income	5,052	9,335	16,875	22,961	24,225	208,836
Income before income taxes	8,426	15,015	23,595	26,593	26,539	228,787
Operating income ratio (%)	5.9	8.6	13.8	16.0	17.2	
Profit attributable to owners of parent	6,385	10,519	18,090	18,546	20,598	177,573
Capital expenditures	6,825	5,755	9,597	16,187	11,236	96,862
Depreciation and amortization	3,410	4,301	4,771	6,386	6,016	51,862
R&D expenses	3,794	3,763	4,503	5,164	5,024	43,310
Exchange gain	3,647	5,624	5,124	2,329	493	4,253
Cash flows:						
Net cash provided by operating activities	9,091	11,750	18,118	20,115	27,958	241,017
Net cash (used in) provided by investing activities	8,230	4,264	(11,977)	(1,178)	(3,440)	(29,659)
Net cash used in financing activities	(3,509)	(3,031)	(6,014)	(13,312)	(11,860)	(102,247)
At year-end:						
Total assets	196,702	227,253	256,368	256,196	258,387	2,227,478
Net assets	181,372	208,791	233,312	233,245	232,917	2,007,909
Per share data:					Yen	U.S. dollars
Net income	91.12	150.10	258.02	266.98	300.70	2.59
Net assets	2,588.38	2,978.02	3,325.99	3,363.01	3,405.14	29.35
Dividends payable	50.00	70.00	107.00	110.00	120.00	1.03
Other data:						
Operating income margin (%)	5.9	8.6	13.8	16.0	17.2	—
ROE (%)	3.6	5.4	8.2	8.0	8.8	—
ROA (%)	5.6	7.9	9.9	10.6	10.2	—
Shareholders' equity ratio (%)	92.2	91.9	91.0	91.0	90.1	—
Number of shares outstanding (Thousands of shares)	35,035	35,145	35,144	69,468	68,587	—
Number of employees (Persons)	29,058	28,188	25,354	24,419	23,768	—

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥116=U.S.\$1.
2. ROE is calculated by dividing net income by the average of total shareholders' equity plus the revaluation/translation adjustment during the period.
3. The shareholders' equity ratio is calculated by dividing the sum of total shareholders' equity and the revaluation/translation adjustment as of the end of the period by total assets as of the end of the period.
4. Per share data: The Company conducted a stock split on January 1, 2015, in which each share of the Company's common stock was split into two shares. Per share data has been calculated based on the number of shares issued after the stock split (excluding treasury stock). The results for fiscal years 2012 through 2014 have been adjusted and restated, and reflect the amounts after the stock split to facilitate year-on-year comparison of results.

Segment Information by Motor Application

Consumer and Industrial Products

28.8%

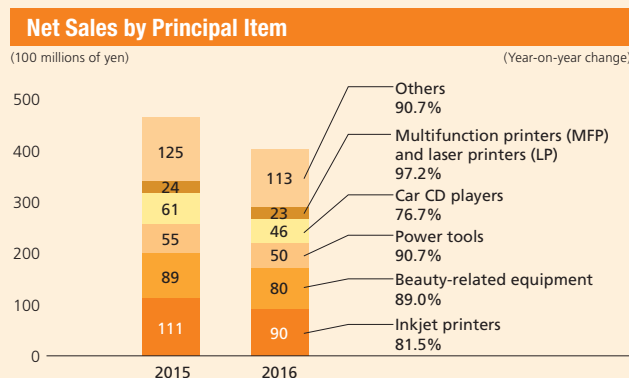
Below is a description of the market conditions for motors, the Mabuchi Group's main business, and a report on the Group's sales situation.

In fiscal 2016, consolidated net sales amounted to 140,674 million yen, down 1.7% from the previous fiscal year.

Consumer and Industrial Products Market

Net sales in this market fell, to 40,541 million yen (a 13.3% decrease on a year-on-year basis).

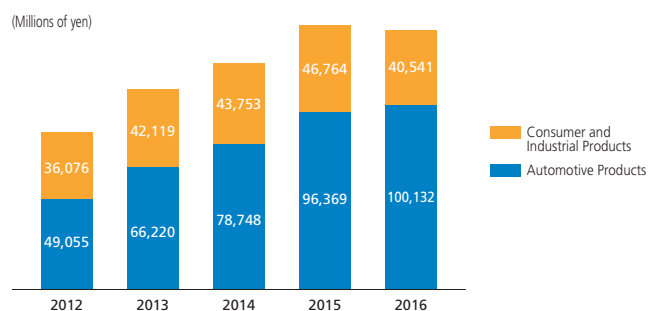
- Decrease in sales of motors for inkjet printers due to a policy of maximizing profitability, market contraction and foreign exchange impact
- In the market for beauty-related equipment, solid sales of motors for the high-end toothbrush and hair dryer segments
- Decrease in sales of motors for power tools due to foreign exchange impact, despite strong sales to the North American market
- Slight decrease in sales of MFP/LP motors due to foreign exchange impact
- In Others, increases in sales of motors for medical equipment and housing equipment



Net Sales by Application

	Millions of yen					Thousands of U.S. dollars
	2012	2013	2014	2015	2016	2016
Automotive Products	¥49,055	¥66,220	¥78,748	¥96,369	¥100,132	863,208
Consumer and Industrial Products	36,076	42,119	43,753	46,764	40,541	349,492
Total Sales	¥85,131	¥108,340	¥122,502	¥143,134	¥140,674	1,212,700

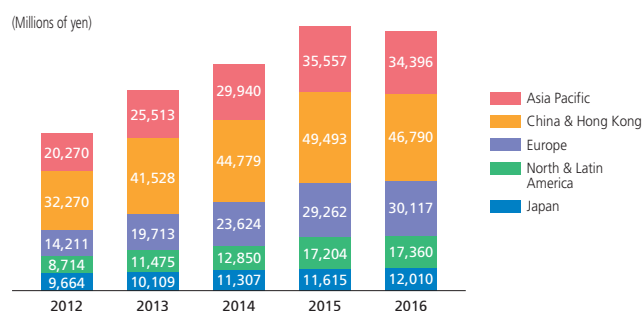
\$1=¥116



Net Sales by Region

	Millions of yen					Thousands of U.S. dollars
	2012	2013	2014	2015	2016	2016
Japan	¥9,664	¥10,109	¥11,307	¥11,615	¥12,010	103,535
North & Latin America	8,714	11,475	12,850	17,204	17,360	149,655
Europe	14,211	19,713	23,624	29,262	30,117	259,631
China & Hong Kong	32,270	41,528	44,779	49,493	46,790	403,362
Asia Pacific	20,270	25,513	29,940	35,557	34,396	296,517
Total Sales	¥85,131	¥108,340	¥122,502	¥143,134	¥140,674	1,212,700

\$1=¥116



Automotive Products Market

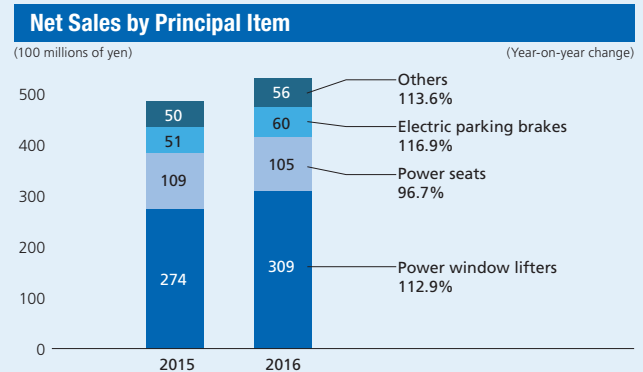
Net sales in this market rose, to 100,132 million yen (a 3.9% increase on a year-on-year basis).



Automotive
Products
71.2%

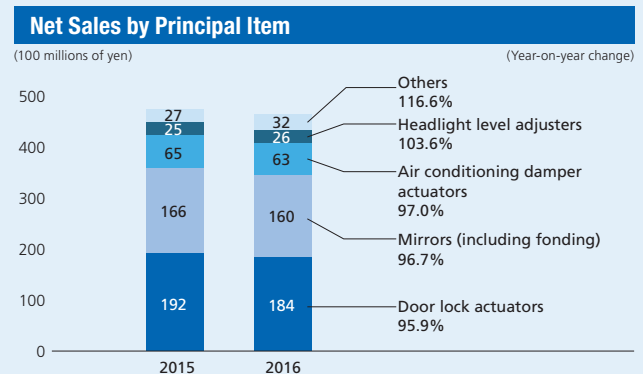
Medium-sized Automotive Motors

- Increase in sales of power window lifter motors due to strong sales to the North American, European, and Chinese markets
- Slight decrease in sales of power seat motors due to foreign exchange impact
- Increase in sales of electric parking brake motors due to higher installation rates and increase in the number of equipped car models
- In Others, increase in sales of motors for seat belt pretensioners



Small Automotive Motors

- Slight decrease in sales amount due to foreign exchange impact, despite strong results in sales quantity for each application due to stable demand for automobiles, higher installation rates, and higher market share



Sales Forecast by Market

Automotive Products Market

Medium-sized Automotive Motors: 60.5 billion yen (a 13.7% increase on a year-on-year basis)

- Increase in sales of power window lifter motors to the North American, European, and Chinese markets due to an increase in adoptions of high-torque standard products
- Increase in adoptions of new power seat motors by North American and European customers
- Increase in sales of electric parking brake motors due to an increase in the number of equipped car models and higher installation rates
- In Others, increases in sales of motors for engine peripheral equipment, seat belt pretensioners, and door closers

Small Automotive Motors: 47.0 billion yen (a 0.4% increase on a year-on-year basis)

- Maintenance of a high market share of motors for door lock actuators, car mirrors, and air conditioning damper actuators

- Increase in sales of headlight level adjusters due to market expansion to result from legislation and the spread of high-low switching
- In Others, increases in sales of motors for steering locks, grille shutter actuators, and shift-by-wire systems

Consumer and Industrial Products Market

36.4 billion yen (a 10.2% decrease on a year-on-year basis)

- Decrease in sales of motors for inkjet printers due to a policy of maximizing profitability and market contraction
- Decrease in sales of motors for beauty-related equipment due to continuation of a policy of maximizing profitability
- Increase in sales of MFP/LP motors due to higher sales of a new product
- In Others, increases in sales of motors for medical equipment, light electric vehicles (LEVs), and housing equipment, despite a sales decrease overall due to a policy of maximizing profitability

Research and Development Activities

The Mabuchi Motor Group's R&D activities are spearheaded by Mabuchi Motor Co., Ltd. (the parent company) and MABUCHI MOTOR (DONGGUAN) CO., LTD. (in the Asia segment). In this section, we provide an overview of the Group's R&D activities.

The R&D organization consists of the Research and Development Headquarters and its subordinate organizations: the Research and Development Dept. 1, the Research and Development Dept. 2, and the Production Engineering Dept. In addition, the Research and Development Headquarters directly controls groups that engage in activities pertaining to new technology development, intellectual property, test evaluation, technology research, and engineering management. The organization engages mainly in high-value-added work, including the development of elemental technologies based on the Group's technology roadmap, described below, as well as new product development centered on strategically important applications. From its inception, the Research and Development Center of MABUCHI MOTOR (DONGGUAN) CO., LTD. (the "R&D Center") has mainly engaged in design improvement work. The R&D Center also handles new product development aimed at rapidly launching products in the Chinese local market, as well as new product development tasks entrusted by the Company.

To materialize timely new product development and new product introductions, Mabuchi has prepared the technology roadmap based on information obtained from market research and benchmarking-based technical investigation, and is steadily developing elemental technologies in accordance with the roadmap. Our Technical Research Group, established in 2015, is implementing measures specific to this roadmap, including development of new product-out-type offerings.

Mabuchi is focusing particular attention on the strategies described below for examination and implementation of urgent measures, with the aims of strengthening its responsiveness to new motor-related fields and applications and addressing the steep rise in labor costs in overseas countries where it operates plants.

- (1) Strengthen technologies of brushless motors and their drive circuits
- (2) Consider further laborsaving for production lines in addition to existing laborsaving efforts
- (3) Shorten and eliminate development lead-times and processes

Meanwhile, our technology and sales teams will join forces to address applications in our core automotive motor business and applications that we must concentrate on in businesses earmarked to become operational pillars in the future.

Motors for power window lifters

Thanks to increasing sales to large-scale customers in Japan and overseas, sales of motors for power window lifters exceeded 30

billion yen in fiscal 2015, making this a core business for the Group. In fiscal 2016, we commenced mass production of the GD-558LE/RE, a medium-torque model aimed at large North American automakers, and we are currently working to further expand sales and provide technical support.

Motors for power seats

Mabuchi's introduction of distinctive, small, high-torque motors for power seats has led to increased adoption by large customers and sharp growth in sales and market share. Seeking to further increase market share, we are reinforcing our products and conducting sales expansion activities.

Engine peripheral equipment

Our engine peripheral equipment offerings have high future potential because they contribute to energy savings through precise engine control, and are also suited to engines subject to high temperatures and vibration. We are currently working to increase sales of the RS-4F5, a high-durability model that went into mass production in fiscal 2014.

Motors for light electric vehicles

In this market, we have continued our proactive product development activities in fiscal 2016, centering on the IS-92B and IS-94B brushless motors. These are finding widespread applications, including their adoption on new power electrically assisted bicycles and electric carriages, and are generating high demand.

In regard to existing models for other markets, Mabuchi will continue harnessing its know-how to improve its product features while remodeling to enhance added value. At the same time, we will deploy the aforementioned R&D Center to build a structure for promptly meeting market and customer needs.

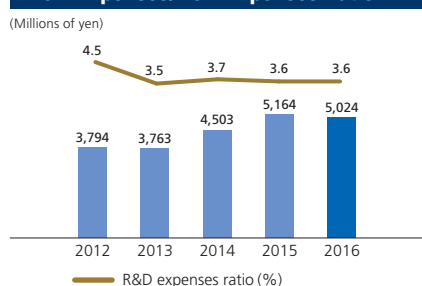
In fiscal 2016, R&D expenses amounted to 5,024 million yen. At fiscal year-end, the total number of industrial property rights held by the Company stood at 748 (157 in Japan and 591 overseas), and the total number of new industrial property applications domestically and overseas was 62. A total of 436 employees engaged in R&D activities (257 at our headquarters and 179 at the R&D Center of MABUCHI MOTOR (DONGGUAN) CO., LTD.).

Below is a major new product launched in fiscal 2016:

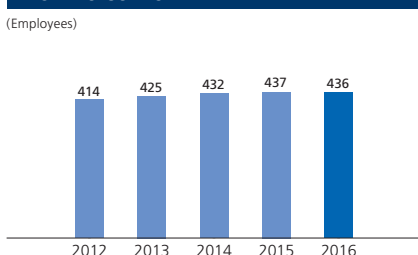
Brushless motor for printers (RS-655VA)

This brushless motor, intended mainly for use in laser printers, generates less heat during load times than the RS-645VA, our existing model, and has broader applications in the products of our customers.

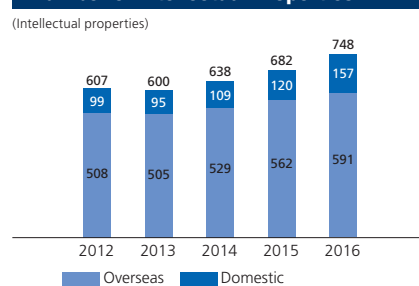
R&D Expenses/R&D Expenses Ratio



R&D Personnel



Number of Intellectual Properties

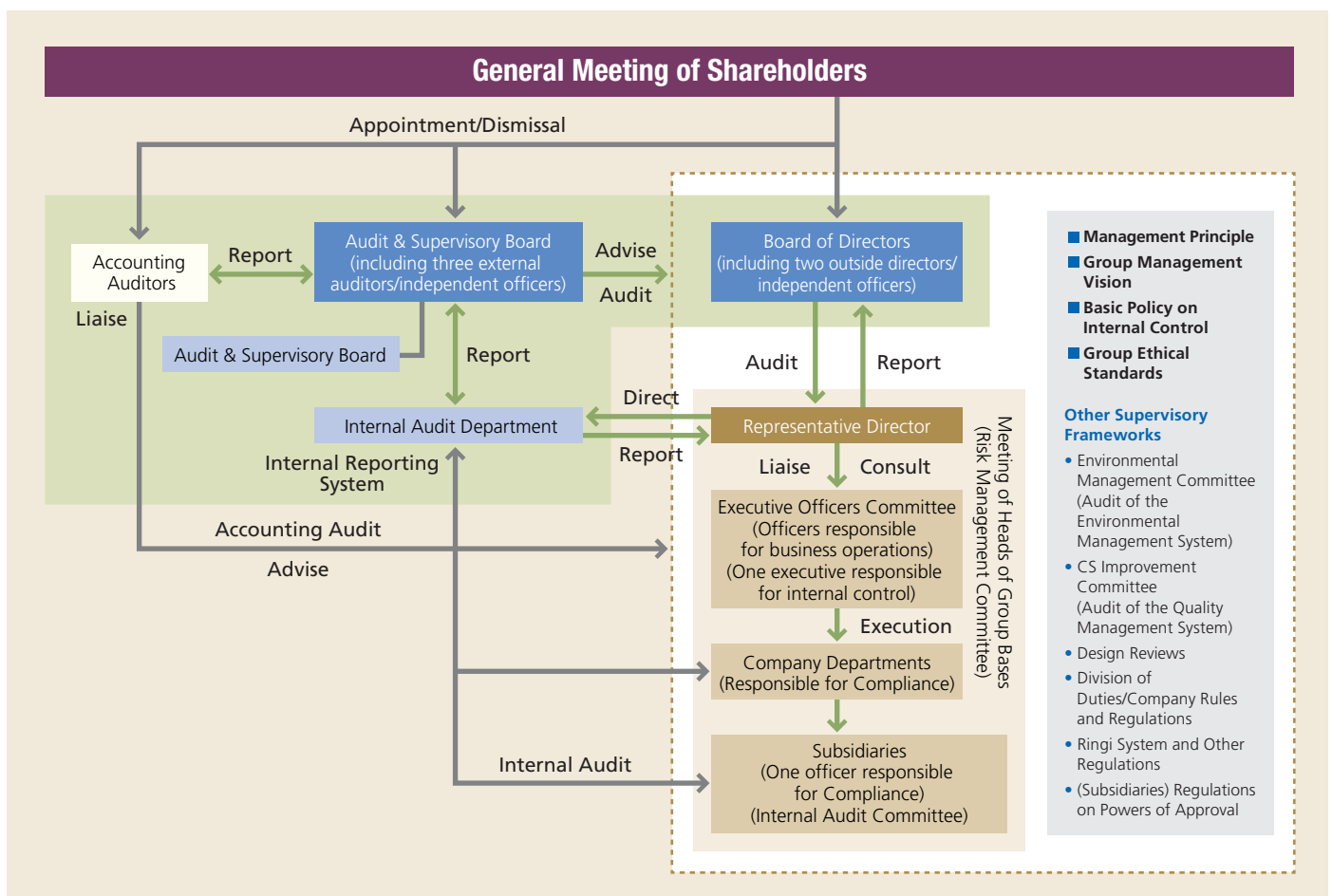


Corporate Governance

Basic Approach to Corporate Governance

The Management Principle of MABUCHI MOTOR CO., LTD. (the "Company") is "Contributing to International Society and Continuously Increasing Our Contribution" through the Company's small motors business. The Company understands that realizing this principle is its *raison d'être*. Corporate governance of the Company comprises the organizational structure and management systems that support the realization of its Management Principle and various managerial measures that maintain these systems. Accordingly, the fundamental objective in establishing and implementing an appropriate corporate governance framework is to further the interests of shareholders and other stakeholders on an ongoing basis through the creation of fair profits and the enhancement of corporate value. Constructing and maintaining a corporate governance system along the lines given below is indispensable for the Company as a listed company.

- To separate clearly management decision-making and efficient business execution, and to clarify the scope of accountability;
- To build and operate a sound internal control system;
- To appoint a suitable number of independent officers whose interests do not conflict with those of shareholders, to ensure the objectivity and neutrality of management supervision functions;
- To foster a corporate culture in which all employees recognize and share the understanding that the practices of corporate ethics and compliance support the organization's social impartiality and are fundamental to living up to the trust and expectations of all stakeholders; and
- To disclose corporate information to shareholders and other stakeholders in an appropriate, fair, timely and clear manner and to ensure accountability through the Board of Directors, the Audit & Supervisory Board and other bodies.



Board of Directors, Audit & Supervisory Board Members, and Executive Officers

(As of March 30, 2017)

Board of Directors



Hiroo Okoshi
Representative Director
and President,
President & CEO



Masato Itokawa
Representative Director,
Managing Executive Officer,
Chief Quality Officer and
Senior General Manager
- Quality Assurance
Headquarters



Tadashi Takahashi
Director, Managing
Executive Officer, Chief
Technology Officer and
Senior General Manager
- Manufacturing
Headquarters



Hirotarō Katayama
Director, Managing
Executive Officer and
Chief Business Operation
Officer



Tadahito Iyoda
Director, Executive Officer
and Senior General
Manager
- Administration
Headquarters, in charge
of Internal Controls



Eiji Uenishi
Director, Executive Officer
and Senior General
Manager
- Product Development
Headquarters



Ichiro Hashimoto
Outside Director



Naoki Mitarai
Outside Director

Audit & Supervisory Board Members



Kazuyuki Someya
Full-time Audit &
Supervisory Board
Member



Nobutaka Motohashi
Outside Audit &
Supervisory Board
Member



Toru Masuda
Outside Audit &
Supervisory Board
Member



Takashi Asai
Outside Audit &
Supervisory Board
Member

Executive Officers

(excluding those also serving
as directors)



Tsuyoshi Nakamura
Executive Officer, Senior
General Manager
- Sales & Marketing
Headquarters



Toichi Koyata
Executive Officer, Senior
General Manager
- Business Platform
Innovation Headquarters



Kentaro Shirai
Executive Officer, Senior
General Manager
- Purchasing
Headquarters



Katsuhiko Katayama
Managing Group
Executive Officer,
in charge of China and
Taiwan Business

Corporate Social Responsibility

Contributing to Society through Motors

Making Environment-Friendly Products

At the Mabuchi Group, we are committed to safely providing better and cheaper products in a more reliable way, while aiming to make our products lighter, more compact and more energy-efficient for end users, and helping to save resources and energy to benefit society as a whole.

Specifically, Mabuchi Motor's most important mission as a specialized motor manufacturer is to make the lives of our customers safer, and more convenient and comfortable. Therefore, we are striving to thoroughly develop the potential uses and benefits of motors and enhance their values.

Please refer to page 11 (Research and Development Activities) for details on new products.

Social Contribution Activities

We are actively engaging in social contribution activities as corporate citizens. We continue to support education through motors by targeting young people and children who will become leaders of the future. Their encounter with motors may give them an opportunity to develop interests in manufacturing, technology, and science. We can expect wonderful growth for these children who are full of enthusiasm and have sparkles in their eyes in the handicraft classes and visiting classes, as well as for students who are striving to come up with new inventions for robot contests.

Because the leading creators of society are the people themselves, developing the next generation of engineers, in particular, is extremely important for the international community.

We will continue striving to foster future leaders through activities that enable them to get a first-hand experience of our motors and its technologies, as well as manufacturing.



Providing support for robot contests (robot contest and our provided motors)

Motor Support

Providing support for the National Technical College Robot Contest and the College Robot Contest (around 22,000 motors provided in total)



RS-555VC with gear head, RS-385PH with gear head



JC/LC-578VA

etc.

Teaching the fun aspects of science to children

In 2016, we continued our engagement in social contribution activities, which included a summer vacation handicraft class for parents and children, a wooden craft event, a hands-on experiment class, and a visiting class (held at an elementary school).



Handicraft class



Craft event



Visiting class



Internship program

We work to provide work-experience opportunities for students who are about to become members of society, enabling them to become familiar with working and understand our Management Principle. To this end, we offer internships at our headquarters to vocational high school students, graduate students, and college students from the U.S.



Community Support Activities

The Mabuchi Group has been continuously providing educational support, such as providing scholarships, and donating books and school supplies.

We also make visits and donations to children's homes and nursing homes on an ongoing basis, to extend a helping hand.



Management's Discussion and Analysis

Analyses and studies of the Mabuchi Group's performance and financial position are, in principle, based on the consolidated financial statements.

Analysis of Operating Results

Business Development and Results

During the fiscal year ended December 31, 2016 (fiscal 2016), the world economy as a whole showed underlying strength, despite a sense of uncertainty about the outlook for the future. In the U.S. economy, the employment and income environments improved, and strong consumer spending continued. Gradual recovery continued in the European economy, driven by domestic demand. In the Japanese economy, consumer spending was weak, and business conditions were flat, despite improvement in the employment environment. Although the economic slowdown in China eased, overall growth remained low in emerging market economies.

In the markets in which the Mabuchi Group operates, healthy demand in the Automotive Products Market continued overall, and demand in China increased due to a tax cut on small-engine cars. Although demand in the Consumer and Industrial Products Market remained stable, markets for some applications continued to contract.

Under these business conditions, the Mabuchi Group addressed several issues: continued strengthening and expansion of the automotive products business and realization of new activities in the consumer and industrial products business,

promotion of manufacturing innovation, and establishment of new production bases.

As a result, consolidated net sales for fiscal 2016 were 140,699 million yen (a 1.7% decrease on a year-on-year basis). Motor sales, which account for the majority of consolidated net sales, were 140,674 million yen (a 1.7% decrease on a year-on-year basis).

Operating income for fiscal 2016 was 24,225 million yen (a 5.5% increase on a year-on-year basis), as the impact of positive factors, such as improvements in the product mix and a decline in raw material costs, exceeded the negative impact of an increase in selling, general and administrative expenses, reflecting increased investment in personnel and information technology in anticipation of future growth, and a stronger yen compared with the previous fiscal year.

Income before income taxes was 26,539 million yen (a 0.2% decrease on a year-on-year basis), and profit attributable to owners of parent was 20,598 million yen (an 11.1% increase on a year-on-year basis) as a result of a decrease in the effective tax rate resulting from a partial reversal of deferred tax liabilities that are reserved for the retained earnings of overseas subsidiaries.

Analysis of Financial Position

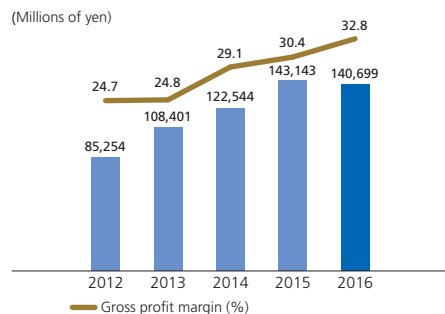
Assets, Liabilities and Net Assets

Total assets as of December 31, 2016, stood at 258,387 million yen, an increase of 2,191 million yen from the previous fiscal year-end. Major changes include an increase in cash and bank

deposits of 16,171 million yen, an increase in trade notes and accounts receivable of 2,821 million yen, a decrease in short-term investments of 10,514 million yen, a decrease in inventories of 4,311 million yen, and a decrease in investment securities of

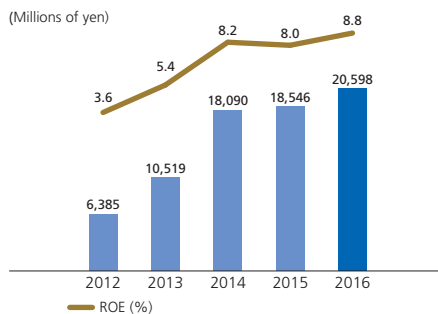
Net Sales/Gross Profit Margin

(Millions of yen)



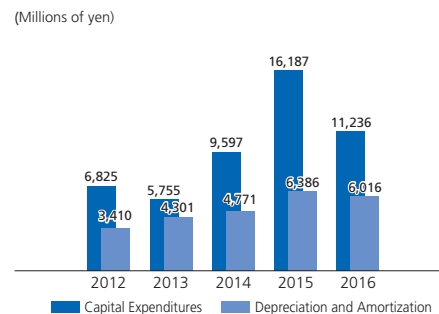
Profit Attributable to Owners of Parent/ROE

(Millions of yen)



Capital Expenditures/Depreciation and Amortization

(Millions of yen)



5,496 million yen.

Total liabilities stood at 25,470 million yen, an increase of 2,519 million yen compared with the previous fiscal year-end. The most noticeable changes were an increase in trade notes and accounts payable of 906 million yen, an increase in other current liabilities of 1,696 million yen, and a decrease in deferred tax liabilities (non-current) of 1,004 million yen.

Total net assets decreased 327 million yen from the previous fiscal year-end, to 232,917 million yen. Retained earnings increased 9,288 million yen, and foreign currency translation adjustments decreased 8,553 million yen.

Cash Flows

Net cash provided by operating activities amounted to 27,958 million yen, an increase of 7,842 million yen from the previous fiscal year. Cash flows from operating activities increased as a result of factors including a decrease in inventories, an increase in trade notes and accounts payable, and a decrease in income taxes paid.

Net cash used in investing activities amounted to 3,440 million yen, an increase in cash used of 2,262 million yen from the previous fiscal year. This is a result of a decrease in purchases of short-term investments and investment securities of 3,504 million yen and an increase in proceeds from sales of short-term investments and investment securities of 344 million yen. In addition, there were 2,019 million yen in expenditures as start-up capital for Poland Mabuchi.

Net cash used in financing activities amounted to 11,860 million yen, a decrease in cash used of 1,451 million yen from the previous fiscal year. This is a result of factors including a decrease in cash dividends paid of 1,168 million yen.

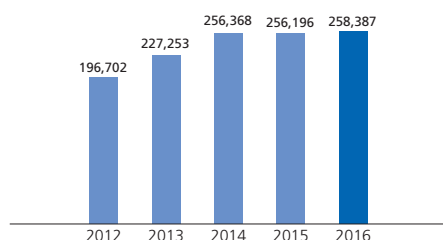
As a result, the balance of cash and cash equivalents amounted to 122,302 million yen, an increase of 9,345 million yen from the end of the previous fiscal year.

The following shows the trend of the Company's cash flow indicators:

- * The indicators have been calculated using the following formulae, and are based on figures in the consolidated financial statements.
 - Shareholders' equity ratio = Net assets / Total assets
 - Shareholders' equity ratio based on market value = Total market value of shares / Total assets
- * The total market value of shares has been calculated using the following formula:
Closing stock price at the end of the period × Number of shares outstanding at the end of the period (less treasury stock)
- * Since the Company does not bear substantial interest-bearing liabilities and the relevant interest paid, the ratio of interest-bearing liabilities to cash flows and interest coverage ratio are omitted.

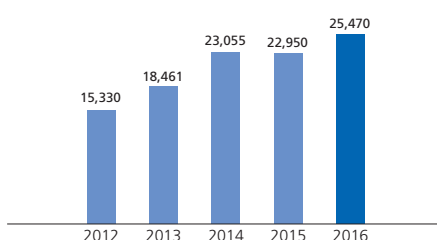
Total Assets

(Millions of yen)



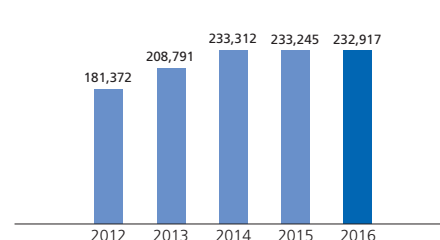
Liabilities

(Millions of yen)



Net Assets

(Millions of yen)



Outlook for Fiscal 2017

In the outlook for fiscal 2017, although the forecast is for both the U.S. and European economies to remain strong, there are also many uncertain factors, such as the policies of the new U.S. administration, Brexit, and elections in European countries. Business conditions are expected to continue to recover gradually in Japan. Although the economic slowdown in China has bottomed out, the low economic growth in emerging countries overall is expected to continue.

Regarding the markets in which the Mabuchi Group operates, gradual growth is expected in the Automotive Products Market, with continued strong demand in Europe and North America compensating for softening of growth in China and other emerging countries. In the Consumer and Industrial Products Market, while demand for motors for home appliances, power tools, and office equipment in the business-use market is expected to be flat, contraction of demand for motors for office

equipment in the personal-use products market is forecast.

As a result, in fiscal 2017 we expect to record net sales of 144,000 million yen (a 2.3% increase on a year-on-year basis).

In terms of our business results, despite the continued positive effect of growth in earnings through improvements in the product mix, we expect to record operating income of 21,600 million yen (a 10.8% decrease on a year-on-year basis). This is a result of the strong yen and higher prices of commodities such as copper and steel, coupled with an increase in selling, general and administrative expenses reflecting increased investment in personnel and information technology in anticipation of further growth. We anticipate profit attributable to owners of parent of 16,600 million yen (a 19.4% decrease on a year-on-year basis).

Consolidated Balance Sheet

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2016

ASSETS	Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2016
Current Assets:			
Cash and bank deposits (Notes 4,5)	¥106,305	¥122,477	\$1,055,842
Trade notes and accounts receivable (Note 5)	25,527	28,348	244,382
Less – Allowance for doubtful accounts	(113)	(102)	(881)
Short-term investments (Note 5)	11,014	499	4,309
Merchandise and finished goods	21,417	18,631	160,620
Work in process	1,271	1,296	11,177
Raw materials and supplies	8,316	6,765	58,326
Deferred tax assets – current (Note 9)	1,637	1,667	14,375
Other current assets	3,601	5,292	45,627
Total current assets	178,978	184,878	1,593,779
Property, Plant and Equipment:			
Land	6,238	6,197	53,430
Buildings and structures	47,221	46,131	397,689
Machinery and equipment	61,927	65,669	566,114
Construction in progress	4,694	4,966	42,817
	120,081	122,966	1,060,052
Less – Accumulated depreciation	(61,317)	(62,629)	(539,913)
Property, plant and equipment, net	58,763	60,336	520,138
Investments and Other Assets:			
Investment securities (Note 5)	16,001	10,504	90,554
Deferred tax assets – non-current (Note 9)	407	488	4,215
Other investments and other assets	2,045	2,179	18,790
Total investments and other assets	18,453	13,173	113,560
Total Assets	¥256,196	¥258,387	\$2,227,478

LIABILITIES AND NET ASSETS	Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2016
Current Liabilities:			
Trade notes and accounts payable (Note 5)	¥ 6,434	¥ 7,340	\$ 63,279
Short-term loans payable	113	113	979
Accrued income taxes	2,119	2,462	21,224
Accrued bonuses due to employees	218	252	2,178
Accrued bonuses due to directors	130	145	1,250
Deferred tax liabilities – current (Note 9)	16	65	561
Other current liabilities	7,860	9,556	82,384
Total current liabilities	16,892	19,935	171,857
Long-term Liabilities:			
Long-term loans payable	170	56	489
Accrued benefits for stock payment	–	77	663
Liability for retirement benefits (Note 8)	2,080	2,620	22,594
Asset retirement obligations	15	13	116
Deferred tax liabilities – non-current (Note 9)	3,481	2,476	21,350
Other long-term liabilities – non-current	311	289	2,496
Total long-term liabilities	6,058	5,534	47,711
Total liabilities	22,950	25,470	219,569
Net Assets (Note 3):			
Shareholders' Equity			
Common stock, no par value:			
Authorized: 200,000,000 shares			
Issued: 70,927,562 shares in 2015			
69,927,562 shares in 2016	20,704	20,704	178,489
Additional paid-in capital	20,419	20,579	177,411
Retained earnings	183,853	193,141	1,665,016
Treasury stock, at cost: 1,589,906 shares in 2015 and 1,558,170 shares in 2016	(6,046)	(6,633)	(57,188)
Total shareholders' equity	218,932	227,792	1,963,729
Accumulated other comprehensive income			
Net unrealized holding gains on securities	2,441	2,708	23,349
Deferred gains or losses on hedges	–	(472)	(4,073)
Foreign currency translation adjustments	12,775	4,222	36,399
Retirement benefits liability adjustments (Note 8)	(965)	(1,443)	(12,445)
Total accumulated other comprehensive income	14,251	5,014	43,229
Subscription rights to shares	61	110	950
Total net assets	233,245	232,917	2,007,909
Total Liabilities and Net Assets	¥256,196	¥258,387	\$2,227,478

See notes to consolidated financial statements.

Consolidated Statement of Income

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2015 and 2016

	Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2016
Net Sales (Note 18)	¥143,143	¥140,699	\$1,212,925
Cost of Sales	99,673	94,510	814,745
Gross profit	43,470	46,188	398,180
Selling, General and Administrative Expenses (Notes 13,15)	20,508	21,963	189,343
Operating income	22,961	24,225	208,836
Other Income (Expenses):			
Interest and dividend income	938	521	4,499
Exchange gain, net	2,329	493	4,253
Gain on sale of raw material scrap	983	832	7,173
Gain on disposal of fixed assets, net (Note 16)	744	196	1,690
Gain on sales of investment securities, net	5	433	3,735
Business structure improvement expenses	(355)	(133)	(1,154)
Impairment loss (Note 17)	(906)	(90)	(777)
Other, net	(108)	61	529
	3,632	2,314	19,951
Profit before Income Taxes	26,593	26,539	228,787
Income Taxes (Note 9):			
Current	6,883	6,833	58,912
Deferred	1,164	(893)	(7,698)
	8,047	5,940	51,213
Profit	18,546	20,598	177,573
Profit attributable to owners of parent	¥ 18,546	¥ 20,598	\$ 177,573

	Yen		U.S. Dollars
	2015	2016	2016
Per Share Data (Note 12):			
Profit attributable to owners of parent – Basic	¥ 266.98	¥ 300.70	\$ 2.59
– Diluted	266.90	300.59	2.59
Dividends applicable to current year earnings	110.00	120.00	1.03

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2015 and 2016

	Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2016
Profit	¥18,546	¥20,598	\$177,573
Other Comprehensive Income (Note 10)			
Net unrealized holding gains on securities	472	266	2,300
Deferred gains or losses on hedges	–	(472)	(4,073)
Foreign currency translation adjustments	(5,536)	(8,553)	(73,732)
Retirement benefits liability adjustments	(222)	(478)	(4,122)
Total other comprehensive income	(5,286)	(9,236)	(79,627)
Comprehensive income	¥13,259	¥11,361	\$ 97,945
Comprehensive income attributable to:			
Owners of parent	¥13,259	¥11,361	\$ 97,945
Non-controlling interests	¥ –	¥ –	\$ –

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2015 and 2016

	Number of Shares (Thousands)		Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2015	2016	2016
Common Stock:					
Beginning balance	75,751	70,927	¥ 20,704	¥ 20,704	\$ 178,489
Treasury stock cancellation	(4,824)	(1,000)	—	—	—
Ending balance	70,927	69,927	¥ 20,704	¥ 20,704	\$ 178,489
Additional Paid-in Capital:					
Beginning balance			¥ 20,419	¥ 20,419	\$ 176,033
Treasury stock disposal			—	159	1,378
Ending balance			¥ 20,419	¥ 20,579	\$ 177,411
Retained Earnings:					
Beginning balance			¥192,606	¥183,853	\$1,584,943
Cumulative effect of change in accounting principle			(190)	—	—
Restated balance			192,416	183,853	1,584,943
Profit attributable to owners of parent			18,546	20,598	177,573
Dividends paid			(8,216)	(7,047)	(60,750)
Treasury stock disposal			(7)	—	—
Treasury stock cancellation			(18,884)	(4,263)	(36,750)
Ending balance			¥183,853	¥193,141	\$1,665,016
Treasury Stock:					
Beginning balance			¥ (20,010)	¥ (6,046)	\$ (52,121)
Treasury stock acquisition			(5,011)	(5,442)	(46,916)
Treasury stock disposal			91	591	5,098
Treasury stock cancellation			18,884	4,263	36,750
Ending balance			¥ (6,046)	¥ (6,633)	\$ (57,188)
Net Unrealized Holding Gains on Securities:					
Beginning balance			¥ 1,968	¥ 2,441	\$ 21,048
Net change during the year			472	266	2,300
Ending balance			¥ 2,441	¥ 2,708	\$ 23,349
Deferred Gains or Losses on Hedges:					
Beginning balance			¥ —	¥ —	\$ —
Net change during the year			—	(472)	(4,073)
Ending balance			¥ —	¥ (472)	\$ (4,073)
Foreign Currency Translation Adjustments:					
Beginning balance			¥ 18,311	¥ 12,775	\$ 110,132
Net change during the year			(5,536)	(8,553)	(73,732)
Ending balance			¥ 12,775	¥ 4,222	\$ 36,399
Retirement Benefit Liability Adjustments:					
Beginning balance			¥ (742)	¥ (965)	\$ (8,323)
Net change during the year			(222)	(478)	(4,122)
Ending balance			¥ (965)	¥ (1,443)	\$ (12,445)
Total Accumulated Other Comprehensive Income:					
Beginning balance			¥ 19,537	¥ 14,251	\$ 122,857
Net change during the year			(5,286)	(9,236)	(79,627)
Ending balance			¥ 14,251	¥ 5,014	\$ 43,229
Subscription Rights to Shares:					
Beginning balance			¥ 54	¥ 61	\$ 530
Net change during the year			7	48	419
Ending balance			¥ 61	¥ 110	\$ 950
Total Net Assets:					
Beginning balance			¥233,312	¥233,245	\$2,010,733
Cumulative effect of change in accounting principle			(190)	—	—
Restated balance			233,122	233,245	2,010,733
Profit attributable to owners of parent			18,546	20,598	177,573
Dividends paid			(8,216)	(7,047)	(60,750)
Treasury stock acquisition			(5,011)	(5,442)	(46,916)
Treasury stock disposal			83	751	6,477
Net changes in items other than those in shareholders' equity			(5,278)	(9,188)	(79,208)
Ending balance			¥233,245	¥232,917	\$2,007,909

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2015 and 2016

	Yen (Millions)		U.S. Dollars (Thousands) (Note 1)
	2015	2016	2016
Cash Flows from Operating Activities:			
Profit before income taxes	¥ 26,593	¥ 26,539	\$ 228,787
Depreciation and amortization	6,580	6,359	54,826
Impairment loss	906	90	777
Increase (decrease) in liability for retirement benefits	427	610	5,266
Interest and dividend income	(938)	(521)	(4,499)
Exchange (gain) loss	(157)	131	1,132
(Gain) loss on sales of short-term investments and investment securities	(5)	(433)	(3,735)
(Gain) loss on disposal of fixed assets	(744)	(196)	(1,690)
Decrease (increase) in trade notes and accounts receivable	(3,341)	(4,082)	(35,197)
Decrease (increase) in inventories	(3,683)	1,960	16,899
Increase (decrease) in trade notes and accounts payable	(758)	2,081	17,947
Other, net	2,150	1,423	12,274
Subtotal	27,029	33,963	292,787
Interest and dividends received	953	519	4,478
Interest paid	(0)	-	-
Income taxes paid	(7,866)	(6,524)	(56,249)
Net cash provided by operating activities	20,115	27,958	241,017
Cash Flows from Investing Activities:			
Increase in time deposits	(9,978)	(170)	(1,468)
Proceeds from withdrawal of time deposits	17,237	326	2,812
Purchases of short-term investments	(5,500)	(2,000)	(17,241)
Proceeds from sales of short-term investments	8,400	6,000	51,724
Purchases of property, plant and equipment	(15,592)	(11,352)	(97,867)
Proceeds from sales of property, plant and equipment	1,208	429	3,701
Purchases of investment securities	(4)	-	-
Proceeds from sales of investment securities	3,064	5,808	50,073
Payments for establishment of subsidiary	-	(2,019)	(17,411)
Other, net	(14)	(462)	(3,982)
Net cash used in investing activities	(1,178)	(3,440)	(29,659)
Cash Flows from Financing Activities:			
Repayment of long-term loans payable	(113)	(113)	(979)
Cash dividends paid	(8,214)	(7,046)	(60,745)
Purchases of treasury stock	(5,049)	(5,451)	(46,999)
Proceeds from sales of treasury stock	65	751	6,477
Net cash used in financing activities	(13,312)	(11,860)	(102,247)
Effect of exchange rate changes on cash and cash equivalents	(1,888)	(3,311)	(28,548)
Net increase in cash and cash equivalents	3,736	9,345	80,562
Cash and Cash Equivalents at the Beginning of Year	109,220	112,956	973,765
Cash and Cash Equivalents at the End of Year	¥112,956	¥122,302	\$1,054,328

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2016

1. Summary of Significant Accounting Policies

a Basis of presentation

The accompanying consolidated financial statements of Mabuchi Motor Co., Ltd. (the "Company") and consolidated subsidiaries are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

For the purpose of this report, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

The consolidated financial statements are expressed in Japanese yen. However, the consolidated financial statements as of, and for the year ended December 31, 2016, have been translated into U.S. dollars at the rate of ¥116=U.S. \$1, the approximate exchange rate prevailing on December 31, 2016. Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

b Principles of consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant inter-company balances, transactions, and profits have been eliminated on consolidation. Investments in an unconsolidated subsidiary are stated at cost.

c Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as foreign currency translation adjustments in the consolidated financial statements.

d Cash equivalents

For the purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

e Short-term investments and investment securities

The Company classifies securities as "trading securities," when they are held for the purpose of earning capital gains in the short-term, "held-to-maturity," where management has the positive intent and ability to hold the securities to maturity, and "other securities," where those securities are not classified as either trading or held-to-maturity, which represent primarily available-for-sale securities.

Held-to-maturity securities are reported at amortized cost. Available-for-sale securities are stated at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, presented in a separate component of net assets. However, when the fair value of held-to-maturity securities and available-for-sale securities declines significantly and the decline is considered to be irrecoverable, such unrealized holding losses are recognized as impairment losses. Available-for-sale securities for which fair value is not readily determinable are stated at moving average cost.

Corporate bonds classified as held-to-maturity securities and debt securities (corporate bonds) classified as available-for-sale securities include compound financial instruments.

The Company considers a decline in the value of securities to be irrecoverable where market values decline to more than 50% of acquisition costs. Where market values decline to between 30% and 50% of acquisition costs, the Company judges the necessity of recognizing any impairment losses by assessing the potential of market values to recover taking into consideration declining price trends and other individually relevant factors.

f Inventories

Finished goods, work in process and raw materials are stated at average cost, however, where net realizable value is lower than cost, the carrying value of the inventory is reduced.

g Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining-balance method for the Company (except for certain buildings) and for overseas subsidiaries, principally using the straight-line method over their estimated useful lives. Buildings acquired by the Company on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method. Maintenance and repairs, including minor repairs and improvements, are charged to income as incurred.

h Leased assets

Assets under finance leases, except for those under lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, are depreciated using the straight-line method over the lease period with the assumption that there is no residual value.

i Allowance for doubtful accounts

Allowance to provide for potential loss on receivables is provided at the estimated amount of irrecoverable receivables. Allowance for ordinary debt is computed based on the historical rate of default. For certain debts, such as those where recovery is doubtful, the likelihood of recovery is considered on an individual basis.

The allowance for doubtful accounts is adjusted after offsetting receivables and payables between consolidated subsidiaries.

j Accrued bonuses due to employees

Accrued bonuses due to employees are provided at the estimated amount to be paid to employees for the services rendered by the balance sheet date.

k Accrued bonuses due to directors

Accrued bonuses due to directors are provided at the estimated amount to be paid to directors for the services rendered by the balance sheet date.

l Accrued benefits for stock payment

Accrued benefits for stock payment are provided at the amount of stocks to be paid to directors through the trust at December 31, 2016, based on the performance-linked stock compensation plan.

m Retirement benefits

a. Allocation of projected retirement benefit obligation

In calculating the retirement benefit obligation, the benefit formula basis is used to allocate the projected retirement benefit obligation to the estimated years of service of eligible employees.

b. Method for amortizing actuarial gain or loss and prior service cost

Actuarial gains and losses are amortized commencing from the year following the year in which the gains or losses arose, primarily using the straight-line method within the average remaining years of service of the employees, which is mainly 10 years.

Prior service costs are amortized using the straight-line method mainly over 10 years.

c. Application of simplified method at smaller-sized companies, etc.

Certain subsidiaries have pension plans similar to the Company or unfunded retirement and termination allowance plans for qualifying employees. Any amounts required under the rules of the plans have been fully accrued.

n Income taxes

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using current enacted tax rates.

o Derivative and hedging activities

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the Company defers recognition of gains or losses on revaluation of the forward foreign exchange contract until the related losses or gains on the hedged items are recognized.

p Accounting standards issued but not yet effective

"Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No.26 revised on March 28, 2016)

1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- ① Treatment of companies that do not satisfy any of the category requirements for (Category 1)
- ② Category requirements for (Category 2) and (Category 3)
- ③ Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- ④ Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- ⑤ Treatment in cases where companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the fiscal year beginning January 1, 2017.

3) Impact of adopting revised implementation guidance

The Company is currently evaluating the impact of adopting this revised implementation guidance on its consolidated financial statements.

q Additional information

(Accounting treatment for Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

1. Outline of transactions

The ESOP Trust is a trust-type employee incentive plan that uses the mechanism of an employee shareholding association, with the purpose of attempting to expand the savings system that promotes the asset accumulation of employees who own the Company's shares (enhancement of the employee welfare programs). It is based on the Employee Stock Ownership Plan (ESOP) system in the United States.

The major purpose of introducing the ESOP Trust is to improve welfare programs for employees who support the Company's growth. The introduction thereof also aims to enhance the Company's corporate value over the medium to long term by granting an incentive toward high stock prices and creating greater awareness of the Company's business performance and stock value among its employees.

The Company has established a trust with those employee members of Mabuchi Motor Employee Shareholding Association (hereinafter "Our Shareholding Association") who meet certain requirements as its beneficiaries, and during a predetermined period for acquisition, said trust, or the ESOP Trust, will acquire the number of the Company's shares that Our Shareholding Association is expected to acquire over the next several years. Afterward, the ESOP Trust sells off the Company's shares to Our Shareholding Association on a fixed day every month. The remaining funds will be distributed according to the contribution ratio of the employees as beneficiaries when there are ESOP Trust earnings resulting from an upward swing in stock prices when the term of the ESOP Trust ends. There is no additional burden on the employees as the Company will pay back the loan payable collectively to the bank based on its guarantee clause in the loan agreement with the bank if a liability associated with the trust estate resulting from a loss is caused by a drop in stock prices.

The Company applied the "Revised Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No.30 revised on March 26, 2015).

2. Treasury shares remaining in the trust

Shares of the Company remaining in the trust are recorded as treasury shares under net assets through the carrying value (net of associated costs) in the trust. The carrying value was ¥333 million at December 31, 2015, and ¥251 million (\$2,169 thousand) at December 31, 2016.

Per share amounts are computed based on the number of shares outstanding less treasury stock including shares of the ESOP trust account. The number at year end and weighted average number of such treasury shares were 130,700 and 145,780 shares, respectively, during the fiscal year ended December 31, 2015, and 98,700 and 116,973 shares, respectively, during the fiscal year ended December 31, 2016.

3. Carrying value of loans recorded through application of the gross price method

As of December 31, 2015: ¥283 million; as of December 31, 2016: ¥170 million (\$1,468 thousand)

(Accounting treatment for Performance-based Stock Compensation Plan for Directors and Executive Officers)

1. Outline of transactions

The Company has introduced the Executive Compensation BIP (Board Incentive Plan) Trust Plan, the executive remuneration system closely linked to the achievement of performance targets as set out in the medium-term management plan, with the purpose of enhancing the motivation of Directors to contribute to improved business performance and increased corporate value over the medium term.

Under the Plan, the Company's shares acquired through the BIP Trust and money equivalent to the amount obtained by converting the Company's shares into cash (collectively, the "Company Shares, etc.") will be delivered and paid (the "Delivery, etc." or "delivered, etc.") to those serving as Directors, etc., during the target period based on factors such as the status and level of attainment of performance targets throughout the trust term. Directors, etc., will receive the Delivery, etc., of Company Shares, etc., during a certain timeframe following the end of the target period. At first, the target period is over the three-year period from the fiscal year ending December 31, 2016, to the fiscal year ending December 31, 2018.

The Company applied the "Revised Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc.

through Trusts" (ASBJ PITF No.30 revised on March 26, 2015).

2. Treasury shares remaining in the trust

Shares of the Company remaining in the trust are recorded as treasury shares under net assets through the carrying value (net of associated costs) in the trust. The carrying value was ¥669 million (\$5,773 thousand) at December 31, 2016.

Per share amounts are computed based on the number of shares outstanding less treasury stock including shares of the BIP trust account. The number of such treasury shares at December 31, 2016 was 119,600 shares, and the number of such treasury shares during the fiscal year ended December 31, 2016 was 67,643 shares.

2. Accounting Changes

(Application of Accounting Standard for Business Combinations)

The Company has applied the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, revised on September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, revised on September 13, 2013), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, revised on September 13, 2013), and other standards from the fiscal year ended December 31, 2016.

The Company changed its presentation of net income and related items, and renamed "minority interests" as "non-controlling interests." The consolidated financial statements for the year ended December 31, 2015, have been reclassified to reflect this change.

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following revisions to the Corporation Tax Act of Japan, the Company applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Practical Issues Task Force No.32 issued on June 17, 2016), and changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements for the fiscal year ended December 31, 2016, was immaterial.

3. Changes in Net Assets

Information regarding changes in net assets for the years ended December 31, 2015 and 2016, is as follows:

a Shares issued and outstanding/Treasury stock

2015

Type of shares	Shares Issued (Thousands)		Treasury Stock (Thousands)	
	Common stock		Common stock	
Number of shares as of December 31, 2014	37,875		2,809	
Increase in number of shares	37,875		3,636	
Decrease in number of shares	4,824		4,856	
Number of shares as of December 31, 2015	70,927		1,589	

Notes: 1. The Company carried out a 2-for-1 stock split of its common stock effective January 1, 2015. The increase of 37,875 thousand shares during the fiscal year was due to the common stock split.

2. The increase in the number of treasury stock was due to the common stock split of 2,809 thousand shares, purchase of the treasury stock of 824 thousand shares and purchase of shares of less than one unit of 2 thousand shares.

3. The decrease in the number of shares issued and the number of shares of treasury stock were due to the cancellation of 4,824 thousand shares.

4. The decrease in the number of shares of treasury stock was, other than that above, due to the exercise of stock options of 6 thousand shares and sales of 25 thousand shares to Our Shareholding Association by the ESOP Trust.

5. There were 78 thousand shares and 130 thousand shares of treasury stock held by the ESOP Trust included in the number of shares of treasury stock as of January 1, 2015 and December 31, 2015, respectively.

2016

Type of shares	Shares Issued (Thousands)		Treasury Stock (Thousands)	
	Common stock		Common stock	
Number of shares as of December 31, 2015	70,927		1,589	
Increase in number of shares	-		1,119	
Decrease in number of shares	1,000		1,151	
Number of shares as of December 31, 2016	69,927		1,558	

Notes: 1. The decrease in the number of shares issued and the number of shares of treasury stock were due to the cancellation of 1,000 thousand shares.

2. The increase in the number of shares of treasury stock was due to the purchase of 1,000 thousand shares of treasury stock, the purchase of 119 thousand shares by the BIP Trust and the purchase of 0 thousand shares of less than one unit.

3. The decrease in the number of shares of treasury stock was, other than Note 1, due to sales of 119 thousand shares to the BIP Trust and sales of 32 thousand shares to Our Shareholding Association by the ESOP Trust.

4. There were 130 thousand shares and 98 thousand shares of treasury stock held by the ESOP Trust included in the number of shares of treasury stock as of January 1, 2016 and December 31, 2016, respectively, and there were 0 shares and 119 thousand shares of treasury stock held by the BIP Trust included in the number of shares of treasury stock as of January 1, 2016 and December 31, 2016, respectively.

b Share subscription rights

2015

Company	Description	Type of shares issued	Number of shares issued		Number of shares at December 31, 2015	Balance at December 31, 2015 Yen (Millions)
			Increase	Decrease		
Parent company	Subscription rights as stock options	-	-	-	-	¥61
Total		-	-	-	-	¥61

2016

Company	Description	Type of shares issued	Number of shares issued			Number of shares at December 31, 2016	Balance at December 31, 2016 Yen (Millions)	U.S. Dollars (Thousands)
			Number of shares at January 1, 2016	Increase	Decrease			
Parent company	Subscription rights as stock options	—	—	—	—	—	¥110	\$950
Total		—	—	—	—	—	¥110	\$950

c Dividends

Dividends paid during the fiscal year ended December 31, 2015

2015

	Shareholders' Meeting	Board of Directors' Meeting
Resolution by	March 27, 2015	August 12, 2015
Total amount of dividends	¥4,603 million	¥3,612 million
Dividends per share	¥131	¥52
Record date	December 31, 2014	June 30, 2015
Effective date	March 30, 2015	September 18, 2015

Note: Dividends approved at the shareholders' meeting on March 27, 2015 paid to the ESOP Trust in the amount of ¥10 million have been included in the total amount of dividends. Dividends approved at the Board of Directors' meeting on August 12, 2015 paid to the ESOP Trust in the amount of ¥7 million have been included in the total amount of dividends.

Dividends whose record date was in the fiscal year ended December 31, 2015, but whose effective date was in the following fiscal year

2015

	Shareholders' Meeting
Resolution by	March 30, 2016
Total amount of dividends	¥4,029 million
Dividends per share	¥58
Record date	December 31, 2015
Effective date	March 31, 2016

Note: Dividends paid to the ESOP Trust in the amount of ¥7 million have been included in the total amount of dividends.

Dividends paid during the fiscal year ended December 31, 2016

2016

	Shareholders' Meeting	Board of Directors' Meeting
Resolution by	March 30, 2016	August 12, 2016
Total amount of dividends	¥4,029 million (\$34,734 thousand)	¥3,017 million (\$26,016 thousand)
Dividends per share	¥58 (\$0.50)	¥44 (\$0.37)
Record date	December 31, 2015	June 30, 2016
Effective date	March 31, 2016	September 20, 2016

Note: Dividends approved at the shareholders' meeting on March 30, 2016 paid to the ESOP Trust in the amount of ¥7 million (\$65 thousand) have been included in the total amount of dividends. Dividends approved at the Board of Directors' meeting on August 12, 2016 paid to the ESOP Trust and BIP Trust in the amount of ¥10 million (\$88 thousand) have been included in the total amount of dividends.

Dividends whose record date was in the fiscal year ended December 31, 2016, but whose effective date was in the following fiscal year

2016

	Shareholders' Meeting
Resolution by	March 30, 2017
Total amount of dividends	¥5,212 million (\$44,936 thousand)
Dividends per share	¥76 (\$0.65)
Record date	December 31, 2016
Effective date	March 31, 2017

Note: Dividends paid to the ESOP Trust and BIP Trust in the amount of ¥16 million (\$143 thousand) have been included in the total amount of dividends.

d Stock options

The Company issued the following share subscription rights for the purchase of new shares of common stock in accordance with the Corporation Law of Japan.

For the years ended December 31, 2015 and 2016, the Company recognized and allocated share-based compensation costs as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Selling, general and administrative expenses	¥25	¥48	\$419
Total	¥25	¥48	\$419

A description of the 2013, 2014, 2015 and 2016 Stock Option Plans as of December 31, 2015 and 2016, respectively, are summarized as follows:

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan	2016 Stock Option Plan
Grantee categories and number of grantees	6 directors of the Company	6 directors of the Company	6 directors of the Company	6 directors of the Company 5 executive officers of the Company
Number of shares	11,940 shares of common stock	7,980 shares of common stock	4,650 shares of common stock	10,360 shares of common stock
Grant date	May 20, 2013	April 21, 2014	April 20, 2015	April 20, 2016
Vesting conditions	None	None	None	None
Service period	None	None	None	None
Exercisable period	May 21, 2013 to May 20, 2033	April 22, 2014 to April 21, 2034	April 21, 2015 to April 20, 2035	April 21, 2016 to April 20, 2036

Note: The Company conducted a 2-for-1 stock split of its common stock on January 1, 2015. The number of shares for fiscal 2013 and 2014 reflect the stock split.

The following table summarizes the option activity under the stock option plans referred to above.

	Number of shares			
	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan	2016 Stock Option Plan
Non-vested:				
Outstanding as of December 31, 2015	–	–	–	–
Granted	–	–	–	10,360
Forfeited	–	–	–	–
Vested	–	–	–	10,360
Outstanding as of December 31, 2016	–	–	–	–
Vested:				
Outstanding as of December 31, 2015	7,960	5,320	4,650	–
Vested	–	–	–	10,360
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding as of December 31, 2016	7,960	5,320	4,650	10,360

Note: Number of stock options is listed after conversion to share numbers.

Price information of stock options for the 2013, 2014, 2015 and 2016 Stock Option Plans are summarized as follows:

	2013 Stock Option Plan Yen	2014 Stock Option Plan Yen	2015 Stock Option Plan Yen	2016 Stock Option Plan Yen	2016 Stock Option Plan U.S. Dollars
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	\$ 0
Average price on exercise	–	–	–	–	–
Fair value on grant date	4,967	6,158	5,465	4,699	40

Fair value as of the grant date for the stock options issued during the year ended December 31, 2016, was estimated using the Black-Scholes option pricing model with the following assumptions:

	2016 Stock Option Plan
Expected volatility ^{*1}	28.5%
Expected remaining period ^{*2}	5.6 years
Expected dividend yield ^{*3}	¥110 per share (\$0.94 per share)
Risk-free interest rate ^{*4}	-0.27%

^{*1} The expected volatility is estimated based on a period of 5 years and 7 months (September 6, 2010 to April 11, 2016).

^{*2} The expected remaining period is based on the estimated term of incumbency of directors.

^{*3} The expected dividend yield is based on the actual dividend amount for interim and year-end dividend of 2015.

^{*4} Risk-free interest rate represents the interest rate of Japanese government bonds whose remaining period corresponds to the expected remaining period of the stock options.

Since it is fundamentally difficult to reasonably estimate the forfeited number of stock options for future periods, an estimation of the vested number is based upon actual forfeitures in prior periods.

4. Cash and Cash Equivalents

Cash and cash equivalents at the end of the year in the accompanying consolidated statement of cash flows are reconciled to cash and bank deposits reported in the accompanying consolidated balance sheets as of December 31, 2015 and 2016, as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Cash and bank deposits	¥106,305	¥122,477	\$1,055,842
Time deposits with maturities over three months at the time of purchase	(363)	(175)	(1,513)
Short-term investments	11,014	499	4,309
Securities exposed to price risk	(4,000)	(499)	(4,309)
Cash and cash equivalents	¥112,956	¥122,302	\$1,054,328

Significant non-cash transactions for the years ended December 31, 2015 and 2016, were as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Treasury stock cancellation	¥18,884	¥4,263	\$36,750

5. Financial Instruments

(1) Financial instruments

a. Policies for financial instruments

The Company funds R&D expenditure and equipment investment through retained earnings to maintain a sound financial position. According to this policy, the Company limits the management of surplus funds to short-term deposits and other highly secure financial assets. The Company uses derivatives to mitigate risks as described below, and does not engage in speculative transactions.

b. Financial instruments description and risks

Trade notes and accounts receivable are exposed to customer credit risk and some are also exposed to foreign currency risk.

Short-term investments and investment securities, primarily securities and investments in stocks of trading partners, are exposed to the risk of fluctuations in market prices.

Trade notes and accounts payable are due within one year, and some are exposed to foreign currency risk.

The Company uses forward foreign exchange contracts to hedge the risk of foreign exchange fluctuations associated with receivables and payables and forecasted transactions denominated in foreign currencies.

c. Risk management of financial instruments

1. Management of credit risk (risks associated with the default of counterparties)

The Company and its consolidated subsidiaries manage credit risk in compliance with internal control rules and procedures. The due dates and the balances of trade notes and accounts receivable from major counterparties are monitored and managed regularly to ensure early detection and to mitigate the risk of doubtful receivables.

2. Management of market risk (risks associated with fluctuations in foreign exchange rates and interest rates)

The Company and some of its consolidated subsidiaries hedge the risk of foreign exchange rate fluctuations on foreign currency denominated receivables and payables and forecasted transactions, using foreign exchange forward contracts on a monthly and individual currency basis. The Company enters into exchange contracts based on the decision of the Board of Directors and these are monitored regularly by the head office administrative department.

The Company monitors the fair value and the financial position of the respective issuers of short-term investments and investment securities regularly in the head office administrative department, and continually reviews the condition of stocks held. The Company reports the condition of stocks held and their fair value to the Board of Directors, and monitors the rating and financial conditions of issuers.

3. Management of liquidity risk related to financing activities (risk of non-payment on due date)

The Company manages liquidity risk centrally through the administrative department, which ensures a certain amount of liquidity through the preparation and update of cash forecasts based on reports from each department and the finance plans prepared by the accounting departments of each subsidiary.

d. Supplemental information on the fair value of financial instruments

The Company calculates the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available.

These estimates include variable factors, and therefore may change depending on changes in the underlying assumptions. The contract amounts of the derivatives are described in Note 7. Derivative Financial Instruments below and are not indicative of the market risk associated with derivatives transactions.

(2) Fair value of financial instruments

The carrying value, fair value and variance for financial instruments as of December 31, 2015 and 2016, were as follows. Fair values that are not readily determinable are not included in the following table.

	Yen (Millions)		
	Carrying value	2015 Fair value	Variance
Assets:			
(1) Cash and bank deposits	¥106,305	¥106,305	¥ -
(2) Trade notes and accounts receivable	25,527	25,527	-
(3) Short-term investments and investment securities	26,903	27,527	623
Total assets	¥158,736	¥159,360	¥623
Liabilities			
(1) Trade notes and accounts payable	¥ 6,434	¥ 6,434	¥ -
Total liabilities	¥ 6,434	¥ 6,434	¥ -

	Yen (Millions)			U.S. Dollars (Thousands)		
	2016			2016		
	Carrying value	Fair value	Variance	Carrying value	Fair value	Variance
Assets:						
(1) Cash and bank deposits	¥122,477	¥122,477	¥-	\$1,055,842	\$1,055,842	\$-
(2) Trade notes and accounts receivable	28,348	28,348	-	244,382	244,382	-
(3) Short-term investments and investment securities	10,892	10,892	-	93,902	93,902	-
Total assets	¥161,718	¥161,718	¥-	\$1,394,127	\$1,394,127	\$-
Liabilities						
(1) Trade notes and accounts payable	¥ 7,340	¥ 7,340	¥-	\$ 63,279	\$ 63,279	\$-
Total liabilities	¥ 7,340	¥ 7,340	¥-	\$ 63,279	\$ 63,279	\$-

1: Method for calculating the fair values of financial instruments, short-term investments and derivative transactions

Assets:

(1) Cash and bank deposits and (2) Trade notes and accounts receivable

The carrying value is used for the fair value of these short-term items because these amounts are approximately the same.

(3) Short-term investments and investment securities

Market prices on securities exchanges are used to determine the fair value of stock. Prices quoted by exchanges or financial institutions are used to determine the fair value of bonds.

Liabilities:

(1) Trade notes and accounts payable

The carrying value is used for the fair value of these short-term items because these amounts are approximately the same.

Derivative instruments:

Please refer to Note 7. Derivative Financial Instruments.

2: Carrying value of financial instruments for which fair values were extremely difficult to determine

	Yen (Millions)		U.S. Dollars (Thousands)	
	2015	2016	2015	2016
Unlisted stocks	¥111	¥111	\$961	

These items are not included in "(3) Short-term investments and investment securities" because market prices do not exist for these items and their fair values are not readily determinable.

3: Redemption schedule for receivables and marketable securities with maturities at December 31, 2015 and 2016

	Yen (Millions)		
	2015		
	Within 1 year	1-5 years	5-10 years
Cash and bank deposits	¥106,305	¥ -	¥ -
Trade notes and accounts receivable	25,527	-	-
Short-term investments and investment securities			
Held-to-maturity securities			
Corporate bonds	-	3,375	3,000
Commercial paper	2,000	-	-
Other securities			
Corporate bonds	2,000	500	-
Certificates of deposit	2,000	-	-
Investment trust	2,500	-	-
Total	¥140,333	¥3,875	¥3,000

	Yen (Millions)			U.S. Dollars (Thousands)		
	2016			2016		
	Within 1 year	1-5 years	5-10 years	Within 1 year	1-5 years	5-10 years
Cash and bank deposits	¥122,477	¥ -	¥-	\$1,055,842	\$ -	\$-
Trade notes and accounts receivable	28,348	-	-	244,382	-	-
Short-term investments and investment securities						
Held-to-maturity securities						
Corporate bonds	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-
Other securities						
Corporate bonds	500	1,000	-	4,310	8,620	-
Certificates of deposit	-	-	-	-	-	-
Investment trust	-	-	-	-	-	-
Total	¥151,326	¥1,000	-	\$1,304,535	\$8,620	-

6. Investment Securities

The carrying value, fair value and variance for held-to-maturity securities as of December 31, 2015 and 2016, were as follows:

(1) Held-to-maturity securities

	Yen (Millions)		
	2015		
	Carrying value	Fair value	Variance
Securities whose fair value exceeds their carrying value			
Corporate bonds	¥5,375	¥6,079	¥703
Subtotal	5,375	6,079	703
Securities whose carrying value exceeds their fair value			
Corporate bonds	2,999	2,919	(80)
Subtotal	2,999	2,919	(80)
Total	¥8,374	¥8,998	¥623

There were no applicable transactions to be disclosed for the fiscal year ended December 31, 2016.

Note: Corporate bonds include compound financial instruments.

The acquisition cost, carrying value and variance for other securities as of December 31, 2015 and 2016, were as follows:

(2) Other securities

	Yen (Millions)		
	2015		
	Carrying value	Acquisition cost	Variance
Securities whose carrying value exceeds their acquisition cost			
Stock	¥ 7,070	¥ 3,529	¥3,540
Corporate bonds	500	500	0
Subtotal	¥ 7,570	¥ 4,029	¥3,540
Securities whose acquisition cost exceeds their carrying value			
Stock	866	999	(132)
Corporate bonds	1,999	2,000	(0)
Other	8,092	8,140	(48)
Subtotal	10,958	11,139	(181)
Total	¥18,528	¥15,169	¥3,359

	Yen (Millions)			U.S. Dollars (Thousands)		
	2016			2016		
	Carrying value	Acquisition cost	Variance	Carrying value	Acquisition cost	Variance
Securities whose carrying value exceeds their acquisition cost						
Stock	¥7,499	¥3,529	¥3,969	\$64,647	\$30,427	\$34,220
Corporate bonds	–	–	–	–	–	–
Subtotal	7,499	3,529	3,969	64,647	30,427	34,220
Securities whose acquisition cost exceeds their carrying value						
Stock	883	999	(116)	7,612	8,613	(1,000)
Corporate bonds	1,444	1,500	(55)	12,453	12,931	(477)
Other	1,065	1,126	(60)	9,188	9,707	(519)
Subtotal	3,393	3,625	(231)	29,254	31,252	(1,997)
Total	¥10,892	¥7,154	¥3,737	\$93,902	\$61,679	\$32,223

Notes: 1. Corporate bonds include compound financial instruments.

2. Unlisted stocks (¥41 thousand) are not included in "Other securities" because their market prices do not exist and their fair values are not readily determinable.

(3) Other securities sold

	Yen (Millions)						U.S. Dollars (Thousands)		
	2015			2016			2016		
	Sold amount	Total gain	Total loss	Sold amount	Total gain	Total loss	Sold amount	Total gain	Total loss
Stock	¥64	¥15	¥9	¥–	¥–	¥–	\$–	\$–	\$–
Total	¥64	¥15	¥9	¥–	¥–	¥–	\$–	\$–	\$–

(4) Held-to-maturity securities sold

	Yen (Millions)						U.S. Dollars (Thousands)		
	2015			2016			2016		
	Acquisition cost	Sold amount	Total gain	Acquisition cost	Sold amount	Total gain	Acquisition cost	Sold amount	Total gain
Bonds (Corporate bonds)	¥–	¥–	¥–	¥3,375	¥3,808	¥433	\$29,096	\$32,831	\$3,735
Total	¥–	¥–	¥–	¥3,375	¥3,808	¥433	\$29,096	\$32,831	\$3,735

(5) Reclassified securities

For increasing asset efficiency, the Company has reclassified held-to-maturity security (carrying value ¥1,000 million (\$8,620 thousand)) to other securities.

As a result, investment securities and net unrealized holding gains on securities decreased by ¥55 million (\$474 thousand).

7. Derivative Financial Instruments

The Company enters into forward exchange contracts and options, and forward precious metal contracts, as a normal part of risk management efforts. The Company also utilizes compound financial instruments for the purpose of efficient management of surplus funds. However, only principal guaranteed instruments are used, and derivatives are not used for speculative trading purposes. As a result, the Company is exposed to risk of currency rate fluctuations and commodity price risk. The Company is also exposed to credit related losses in the event of the nonperformance of the counterparties to foreign exchange contracts, precious metal contracts and compound instruments. Management believes such credit risks are minor because of the high credit worthiness of the counterparties and as such financial instruments are not held for trading purposes.

Forward precious metal contracts are used by the Company to hedge the risk of changes in market prices resulting from the purchase of precious metals as raw materials for motor products. These contracts are long-term purchase contracts of raw materials, and are also not in the scope of the accounting standards of financial instruments.

The fair value of derivative transactions for which hedge accounting is not applied is the forward foreign exchange quotation or the price provided by correspondent financial institutions.

(1) Derivative transactions for which hedge accounting is not applied

1. Forward exchange contracts and currency option transactions

There were no applicable transactions to be disclosed for the fiscal year ended December 31, 2015.

Yen (Millions)				
2016				
	Contract amount	Maturity over 1 year	Fair value	Revaluation gain/loss
Non-market transactions				
Forward exchange contracts				
Sell US\$	¥15,852	¥-	¥(11)	¥(11)
Total	¥15,852	¥-	¥(11)	¥(11)

U.S. Dollars (Thousands)				
2016				
	Contract amount	Maturity over 1 year	Fair value	Revaluation gain/loss
Non-market transactions				
Forward exchange contracts				
Sell US\$	\$136,657	\$-	\$(96)	\$(96)
Total	\$136,657	\$-	\$(96)	\$(96)

2. Forward precious metal contracts

Yen (Millions)				
2015				
	Contract amount	Maturity over 1 year	Fair value	Revaluation gain/loss
Non-market transactions				
Buy	¥22,126	¥17,514	¥17,387	¥(4,739)
Total	¥22,126	¥17,514	¥17,387	¥(4,739)

Yen (Millions)				
2016				
	Contract amount	Maturity over 1 year	Fair value	Revaluation gain/loss
Non-market transactions				
Buy	¥17,853	¥13,817	¥16,971	¥(881)
Total	¥17,853	¥13,817	¥16,971	¥(881)

U.S. Dollars (Thousands)				
2016				
	Contract amount	Maturity over 1 year	Fair value	Revaluation gain/loss
Non-market transactions				
Buy	\$153,905	\$119,115	\$146,303	\$(7,602)
Total	\$153,905	\$119,115	\$146,303	\$(7,602)

(2) Derivative transactions for which hedge accounting is applied

Dividends receivable from foreign subsidiaries

There were no applicable transactions to be disclosed for the fiscal year ended December 31, 2015.

Yen (Millions)					
2016					
Hedge accounting method	Hedging instrument	Hedged item	Contract amount	Maturity over 1 year	Fair value
Principle-based accounting	Forward exchange contracts Sell US\$	Dividends	¥6,234	¥-	¥(681)
Total			¥6,234	¥-	¥(681)

U.S. Dollars (Thousands)					
2016					
Hedge accounting method	Hedging instrument	Hedged item	Contract amount	Maturity over 1 year	Fair value
Principle-based accounting	Forward exchange contracts Sell US\$	Dividends	\$53,743	\$-	\$(5,876)
Total			\$53,743	\$-	\$(5,876)

8. Retirement Benefit Plans

The table below sets forth the plans' statuses and amounts recognized in the consolidated balance sheets at December 31, 2015 and 2016.

1. Movement in retirement benefit obligations

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Beginning balance	¥11,482	¥11,679	\$100,682
Cumulative effect of change in accounting principle	289	-	-
Restated balance	11,772	11,679	100,682
Service cost	437	438	3,780
Interest cost	118	99	859
Actuarial loss (gain)	391	600	5,173
Benefit paid	(934)	(624)	(5,386)
Other	(105)	(68)	(593)
Ending balance	¥11,679	¥12,123	\$104,516

2. Movement in plan assets

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Beginning balance	¥10,378	¥10,017	\$86,361
Expected return on plan assets	137	107	923
Actuarial gain (loss)	92	21	188
Contributions paid by the employer	441	449	3,871
Benefit paid	(934)	(624)	(5,386)
Other	(96)	(54)	(471)
Ending balance	¥10,017	¥ 9,916	\$85,486

3. Movement in retirement benefit obligations calculated using the simplified method

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Beginning balance	¥342	¥419	\$3,612
Retirement benefit cost	110	30	258
Benefit paid	(13)	(16)	(141)
Other	(19)	(19)	(165)
Ending balance	¥419	¥413	\$3,564

4. Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Funded retirement benefit obligations	¥ 11,679	¥12,123	\$104,516
Plan assets	(10,017)	(9,916)	(85,486)
	1,661	2,207	19,029
Unfunded retirement benefit obligations	419	413	3,564
Total net liability for retirement benefits at December 31	¥ 2,080	¥ 2,620	\$ 22,594

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Liability for retirement benefits	¥2,080	¥2,620	\$22,594
Total net liability for retirement benefits at December 31	¥2,080	¥2,620	\$22,594

5. Retirement benefit costs

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Service cost	¥ 437	¥ 438	\$3,780
Interest cost	118	99	859
Expected return on plan assets	(137)	(107)	(923)
Amortization of unrecognized actuarial gain	71	100	868
Amortization of prior service cost	20	20	180
Retirement benefit costs applying a simplified method	110	30	258
Other	452	158	1,366
Total retirement benefit costs for the fiscal year ended December 31	¥1,072	¥ 741	\$6,391

6. Retirement benefits liability adjustments before tax effect in other comprehensive income

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Prior service cost	¥ 20	¥ 20	\$ 180
Actuarial loss	(253)	(621)	(5,360)
Total balance amount for the year	¥(232)	¥(600)	\$(5,179)

7. Retirement benefits liability adjustments before tax effect in accumulated other comprehensive income

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Unrecognized prior service cost	¥ 43	¥ 22	\$ 195
Unrecognized actuarial loss	1,221	1,834	15,890
Total balance amount for the year	¥1,265	¥1,865	\$16,085

8. Plan assets

The fair values of plan assets, by major category, as a percentage of total plan assets were as follows:

① Plan assets at December 31, 2015 and 2016, comprise:

	2015	2016
General accounts	71.9%	73.6%
Bonds	17.5%	14.5%
Cash and deposits	5.0%	5.3%
Other	5.6%	6.6%
Total	100.0%	100.0%

② Long-term expected rates of return

The expected rates of return on plan assets have been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2015	2016
Discount rates	Mainly 0.7%	Mainly 0.4%
Expected rates of return on plan assets	Mainly 1.0%	Mainly 1.0%
Expected rates of salary increase	Mainly 2.8%	Mainly 2.8%

9. Income Taxes

1. Income taxes in Japan applicable to the Company consist of corporation tax, inhabitants' tax and enterprise tax, which in the aggregate, resulted in a statutory rate of approximately 35.4% and 32.8% for the years ended December 31, 2015 and 2016, respectively. Income taxes of foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates for the years ended December 31, 2015 and 2016 was as follows:

	2015	2016
	Percentage	Percentage
Effective statutory tax rates	35.4	32.8
Tax credits on dividend income	0.3	0.8
Different tax rates applied to foreign subsidiaries	(9.6)	(8.0)
Undistributed earnings in foreign subsidiaries	5.1	(3.9)
Valuation allowance	0.5	0.4
Tax deduction	(1.7)	(0.5)
Other, net	0.3	0.8
Effective tax rates	30.3	22.4

2. The significant components of deferred tax assets and liabilities at December 31, 2015 and 2016, were as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Deferred tax assets:			
Evaluation losses on investment securities and other assets	¥ 538	¥ 319	\$ 2,750
Depreciation	143	165	1,429
Allowance for retirement benefits	22	21	181
Liability for retirement benefits	519	598	5,159
Impairment loss	638	476	4,110
Unrealized profits on inventories and fixed assets	1,409	1,475	12,720
Deferred gains or losses on hedges	–	209	1,803
Net operating loss carry forwards	169	368	3,176
Other	538	542	4,673
Valuation allowance	(1,319)	(1,353)	(11,666)
Total	¥ 2,659	¥ 2,823	\$ 24,337
Deferred tax liabilities:			
Tax on undistributed earnings in foreign subsidiaries	¥ 3,041	¥ 2,009	\$ 17,321
Unrealized holding gains on securities	917	1,029	8,874
Other	152	169	1,464
Total	¥ 4,112	¥ 3,208	\$ 27,659
As reported in the consolidated balance sheet:			
Deferred tax assets – Current	¥ 1,637	¥ 1,667	\$ 14,375
Deferred tax assets – Non-current	407	488	4,215
Deferred tax liabilities – Current	(16)	(65)	(561)
Deferred tax liabilities – Non-current	(3,481)	(2,476)	(21,350)

3. The effect of changes in the effective statutory tax rate

The “Act to partially revise the Income Tax Act and Others” (Act No.15 of 2016) and the “Act to partially revise the Local Tax Act and Others” (Act No.13 of 2016) were enacted by the Japanese Diet on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.1% to 30.7% for the temporary differences expected to be realized or settled in the years beginning January 1, 2017 and 2018, and to 30.5% for the temporary differences expected to be realized or settled from the year beginning January 1, 2019.

As a result of this change in the effective statutory tax rate, deferred tax liabilities (net of deferred tax assets) decreased by ¥50 million (\$438 thousand), deferred income taxes decreased by ¥13 million (\$112 thousand), retirement benefits liability adjustments decreased by ¥3 million (\$27 thousand), deferred gains or losses on hedges decreased by ¥9 million (\$80 thousand), and net unrealized holding gains on securities increased by ¥50 million (\$434 thousand) as of and for the year ended December 31, 2016.

10. Consolidated Statement of Comprehensive Income

The following table presents reclassification adjustments and tax effects for each component of other comprehensive income for the years ended December 31, 2015 and 2016.

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Unrealized holding gains (losses) on securities:			
Amount arising during the year	¥ 675	¥ 378	\$ 3,261
Reclassification adjustments for gains and losses included in net income	(5)	–	–
Amount before tax effect	670	378	3,261
Tax effect	(197)	(111)	(961)
Unrealized holding gains (losses) on securities	472	266	2,300
Deferred gains or losses on hedges			
Amount arising during the year	–	(681)	(5,876)
Tax effect	–	209	1,803
Deferred gains or losses on hedges	–	(472)	(4,073)
Foreign currency translation adjustments			
Amount arising during the year	(5,536)	(8,553)	(73,732)
Retirement benefits liability adjustments:			
Amount arising during the year	(298)	(722)	(6,228)
Reclassification adjustments for gains and losses included in net income	66	121	1,049
Amount before tax effect	(232)	(600)	(5,179)
Tax effect	9	122	1,057
Retirement benefits liability adjustments	(222)	(478)	(4,122)
Total other comprehensive income	¥(5,286)	¥(9,236)	\$ (79,627)

11. Shareholders' Equity

Under the Japanese Corporation Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, where a distribution of earnings is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and the legal earnings reserve must be set aside as additional paid-in capital or as part of the legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

As of December 31, 2016, the total amount of additional paid-in capital and the legal earnings reserve exceeded 25% of the common stock; therefore, no additional transfer is required.

Additional paid-in capital and the legal earnings reserve may not be distributed as dividends. However, by a resolution at a shareholders' meeting, additional paid-in capital and the legal earnings reserve may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

Year-end dividends are approved by the shareholders after the end of each fiscal year, and semiannual interim cash dividends are declared by the Board of Directors after the end of each interim six-month period.

On September 20, 2016, interim dividends (¥44 or \$0.37 per share) totaling ¥3,017 million (\$26,016 thousand) were paid to shareholders based on the shareholders' record at June 30, 2016. On March 30, 2017, the shareholders approved the declaration of dividends (¥76 or \$0.65 per share) totaling ¥5,212 million (\$44,936 thousand).

12. Amounts Per Share

	Yen		U.S. Dollars
	2015	2016	2016
Profit attributable to owners of parent			
Basic	¥ 266.98	¥ 300.70	\$ 2.59
Diluted	¥ 266.90	¥ 300.59	\$ 2.59
	Yen		U.S. Dollars
	2015	2016	2016
Net assets	¥3,363.01	¥3,405.14	\$29.35

Notes: 1. Per share amounts are computed based on the number of shares outstanding less treasury stock including shares of the ESOP trust account and BIP trust account.

2. The number at year end of such treasury shares were 130,700 and 0 shares respectively, during the fiscal year ended December 31, 2015, and 98,700 and 119,600 shares, respectively, during the fiscal year ended December 31, 2016.

3. The weighted average number of such treasury shares were 145,780 and 0 shares respectively, during the fiscal year ended December 31, 2015, and 116,973 and 67,643 shares, respectively, during the fiscal year ended December 31, 2016.

The bases for calculation (net assets per share) are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Total net assets	¥ 233,245	¥ 232,917	\$2,007,909
Amounts deducted from total net assets:			
Share subscription rights	61	110	950
Net assets attributable to shares of common stock	¥ 233,183	¥ 232,807	\$2,006,959
Number of common stock on December 31 (Shares)	69,337,656	68,369,392	—

The bases for calculation (basic and diluted profit attributable to owners of parent per share) are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Profit attributable to owners of parent per share			
Profit attributable to owners of parent	¥ 18,546	¥ 20,598	\$177,573
Amounts not attributable to ordinary shareholders	—	—	—
Profit attributable to owners of parent in relation to common stock	18,546	20,598	177,573
Average number of common stock (Shares)	69,466,567	68,501,074	—
Diluted profit attributable to owners of parent per share			
Profit attributable to owners of parent adjustments	—	—	—
Increase in number of shares of common stock (Shares)	21,541	25,172	—
Share subscription rights (Shares)	21,541	25,172	—

13. Selling, General and Administrative Expenses

The main components of "Selling, General and Administrative Expenses" for the years ended December 31, 2015 and 2016, were as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Packing and freightage expenses	¥1,300	¥1,167	\$10,067
Salaries and wages	8,536	8,701	75,011
Provision for bonuses due to employees	212	247	2,130
Provision for bonuses due to directors	130	141	1,215
Retirement benefit expenses	581	477	4,114
Employee benefit costs	1,561	1,630	14,053
Depreciation	1,572	1,532	13,214
Provision of allowance for doubtful debts	49	199	1,720
Research expenses	1,325	1,242	10,713

14. Contingent Liabilities

As of December 31, 2015 and 2016, the Company is contingently liable principally for forward precious metal contracts in the amounts of ¥22,126 million and ¥17,853 million (\$153,905 thousand), respectively.

15. Research and Development Expenses

Expenditures relating to research and development activities are charged to income as incurred and amounted to ¥5,164 million and ¥5,024 million (\$43,318 thousand) for the years ended December 31, 2015 and 2016, respectively.

16. Other Income (Expenses)

A gain of ¥412 million (\$3,558 thousand) on the sale of buildings and structures was recognized for the year ended December 31, 2016, and included in gain on disposal of fixed assets, net.

17. Impairment of Fixed Assets

Impairment losses relating to a fixed asset group in a subsidiary in China of ¥906 million were incurred due to the decline in demand for motors in the consumer and industrial products market during the year ended December 31, 2015. The recoverable amount of the fixed asset group was calculated by value in use. As expected future cash flows were negative, these assets were written down to zero. There were no impairment losses relating to fixed assets to be disclosed for the fiscal year ended December 31, 2016.

18. Segment Information

1. Overview of reporting segments

The reporting segments of the Company and its consolidated subsidiaries are regularly reviewed by the Board of Directors using the segregated financial information available within each segment of the Company and its consolidated subsidiaries, to determine the allocation of management resources and evaluate business results.

The Company and its consolidated subsidiaries specialize in small motors manufacturing and sales as a single line of business. The Company is in charge of the business activities in Japan. Meanwhile, subsidiaries located overseas are in charge of operations in Asia, North and Latin America, Europe, etc. Subsidiaries located overseas are independent management units and propose comprehensive product strategies while pursuing business expansion.

Since the Company and its consolidated subsidiaries are composed of regional segments based on a manufacturing and selling system, the Company and its consolidated subsidiaries have designated "Japan," "Asia," "North and Latin America" and "Europe" as their reporting segments.

2. Methods for calculating net sales, income or loss, assets, liabilities and other items by reporting segment

The accounting policies and methods for the Group's reporting segments are the same as described in "1. Summary of Significant Accounting Policies."

As described in 2. Accounting Changes, following revisions to the Corporation Tax Act of Japan, the Company applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Practical Issues Task Force No.32 issued on June 17, 2016), and changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The impact of this change on segment income for the fiscal year ended December 31, 2016, was immaterial.

Intersegment net sales are based on prevailing market prices.

3. Information concerning net sales, income or loss, assets, liabilities and other items by reporting segment

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Net sales:			
Japan			
External customers	¥ 11,305	¥ 11,851	\$ 102,169
Intersegment	93,729	87,996	758,586
Total	105,035	99,847	860,756
Asia			
External customers	85,370	81,370	701,467
Intersegment	83,725	75,201	648,290
Total	169,095	156,572	1,349,758
North and Latin America			
External customers	17,204	17,360	149,655
Intersegment	–	0	0
Total	17,204	17,360	149,655
Europe			
External customers	29,262	30,117	259,631
Intersegment	–	–	–
Total	29,262	30,117	259,631
Corporate and elimination	(177,454)	(163,197)	(1,406,877)
Consolidated	¥ 143,143	¥ 140,699	\$ 1,212,925
Segment income:			
Japan	¥ 7,881	¥8,703	\$ 75,029
Asia	13,509	14,546	125,400
North and Latin America	446	228	1,970
Europe	1,520	1,112	9,591
Corporate and elimination	(396)	(366)	(3,155)
Consolidated	¥ 22,961	¥ 24,225	\$ 208,836
Segment assets:			
Japan	¥ 88,903	¥ 95,262	\$ 821,231
Asia	156,105	157,238	1,355,506
North and Latin America	12,238	13,745	118,499
Europe	14,454	15,784	136,076
Corporate and elimination	(15,506)	(23,644)	(203,834)
Consolidated	¥ 256,196	¥ 258,387	\$ 2,227,478
Others:			
Depreciation and amortization:			
Japan	¥ 998	¥ 1,124	\$ 9,693
Asia	5,784	5,406	46,605
North and Latin America	70	125	1,080
Europe	7	6	59
Corporate and elimination	(280)	(303)	(2,612)
Consolidated	¥ 6,580	¥ 6,359	\$ 54,826
Increase in tangible and intangible fixed assets:			
Japan	¥ 1,840	¥ 904	\$7,799
Asia	10,530	8,740	75,351
North and Latin America	2,829	1,652	14,246
Europe	11	10	86
Corporate and elimination	(1,092)	(105)	(910)
Consolidated	¥ 14,119	¥ 11,202	\$ 96,574

Notes: 1. (1) The segment income eliminations of ¥(396) million in fiscal 2015 and ¥(366) million (\$ (3,155) thousand) in fiscal 2016 represent intersegment transaction eliminations.

(2) The segment assets eliminations include: corporate assets of ¥78,966 million in fiscal 2015 and ¥75,026 million (\$646,779 thousand) in fiscal 2016, not allocated to each segment; intersegment debt and credit eliminations of ¥(94,472) million in fiscal 2015 and ¥(98,671) million (\$850,614 thousand) in fiscal 2016. Corporate assets primarily include the parent company's surplus funds for investment (e.g., cash and bank deposits and short-term investments) and long-term investment funds (e.g., investment securities).

(3) The depreciation and amortization eliminations of ¥(280) million in fiscal 2015 and ¥(303) million (\$ (2,612) thousand) in fiscal 2016 represent intersegment transaction eliminations.

(4) Increase in tangible and intangible fixed assets eliminations of ¥(1,092) million in fiscal 2015 and ¥(105) million (\$ (910) thousand) in fiscal 2016 represent intersegment transaction eliminations.

2. Segment income is adjusted for operating income reported in the consolidated statement of income.

Related information

Information on net sales, tangible fixed assets and impairment losses by geographic area is summarized as follows. For the fiscal year ended December 31, 2015, there were no sales to a specific major customer that accounted for 10% or more of consolidated net sales. For the fiscal year ended December 31, 2016, sales to one specific major customer in the amount of ¥14,154 million (\$122,020 thousand) accounted for 10% or more of consolidated net sales.

Geographical Information

	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Net sales:			
Japan	¥ 11,618	¥ 12,018	\$ 103,610
Asia	85,057	81,203	700,026
North and Latin America	17,204	17,360	149,655
Europe	29,262	30,117	259,631
Total	¥143,143	¥140,699	\$1,212,925
	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Tangible fixed assets:			
Japan	¥15,861	¥16,123	\$138,992
Asia	39,708	40,227	346,789
North and Latin America	3,164	3,955	34,096
Europe	29	30	260
Total	¥58,763	¥60,336	\$520,138
	Yen (Millions)		U.S. Dollars (Thousands)
	2015	2016	2016
Impairment loss:			
Japan	¥ –	¥ –	\$ –
Asia	906	90	777
North and Latin America	–	–	–
Europe	–	–	–
Corporate and elimination	–	–	–
Total	¥906	¥90	\$777

19. Subsequent Events

Purchase and cancellation of treasury stock

On February 14, 2017, the Company resolved, at the Board of Directors' meeting, to purchase treasury stock pursuant to the provisions of Article 156 of the Companies Act, applied by replacing terms pursuant to the provisions of Article 165, paragraph 3 of said Act, and resolved to cancel treasury stock pursuant to the provisions of Article 178 of the Companies Act, as described below.

1. Reasons for the purchase and cancellation of treasury stock

The Company will purchase and cancel treasury stock in order to implement a flexible capital policy to respond to changes in the business environment and to improve shareholder returns and capital efficiency.

2. Details of matters pertaining to the purchase of treasury stock

- (1) Class of shares to be purchased: Common stock of the Company
- (2) Total number of shares to be purchased: 1,200,000 shares (maximum)
(1.75% of the total number of shares issued [excluding treasury stock])
- (3) Total amount of purchase cost: ¥5.0 billion (maximum)
- (4) Purchase period: February 16, 2017 to March 24, 2017
- (5) Purchase method: Purchase in the open market through discretionary trading
- (6) As a result, the Company purchased 801,600 shares of common stock (total amount ¥4,999 million).

3. Details of matters pertaining to the cancellation of treasury stock

- (1) Class of shares to be cancelled: Common stock of the Company
- (2) Number of shares to be cancelled: All shares of treasury stock purchased as stated in item 2 above
- (3) Scheduled date of cancellation: April 14, 2017
- (4) The Company will cancel 801,600 shares of common stock, pursuant to the above-mentioned Board of Directors' resolution.

Establishment of New Production Plant in Poland

On November 4, 2016, the Company resolved, at the Board of Directors' meeting, to establish a Mabuchi Motor production plant in Poland, and on January 4, 2017, the Company established the following subsidiary.

1. Purpose of establishment of subsidiary

The Company will open its first production plant in Europe in order to ensure sufficient production capacity to keep up with demand, due to expanding sales of motors for automotive applications and the subsequent need to build a global production and supply chain system.

2. Outline of new plant

- (1) Company name: MABUCHI MOTOR POLAND sp. z o.o. (abbreviation: Poland Mabuchi)
- (2) Location: Lesser Poland Voivodeship (in Polish, województwo małopolskie), Poland
- (3) President: Hiroto Katayama (Director of the Company)
- (4) Shareholder: The Company: 100%
- (5) Capital: PLN 75 million (approx. ¥2 billion)
- (6) Business description: Manufacturing and sales of small electric motors and motor parts
- (7) Planned start of operation: Winter of 2019

Issue of subscription rights to shares

On March 30, 2017, the Company resolved, at the Board of Directors' meeting, to issue subscription rights to shares for directors based on Articles 236, 238 and 240 of the Law, for the purpose of increasing their willingness to serve and motivation toward improved corporate value and raised share prices.

Details

Resolution date	March 30, 2017
Classification and number of grantees	6 directors of the Company (excluding outside directors) 4 executive officers of the Company
Type of shares to be issued under the subscription rights to shares	Common stock
Number of shares	Directors of the Company: 6,550 shares Executive officers of the Company: 1,630 shares
Amount to be paid at the time of exercise of the subscription rights to shares	¥1 per share
Period during which the subscription rights to shares may be exercised	Note 8
Conditions for the exercise of the subscription rights to shares	Note 9
Matters relating to restriction on transfer of the subscription rights to shares	Note 11
Matters relating to the distribution of the subscription rights to shares following a reorganization	Note 13

Notes:

(1) Designation of the subscription rights to shares

Mabuchi Motor Co., Ltd. 5th Subscription Rights to Shares (Stock-compensation Type)

(2) Eligible persons to whom the subscription rights to shares are allotted and the number thereof

Six (6) directors of the Company : 655 units

Four (4) executive officers of the Company : 163 units

(3) Total number of the subscription rights to shares: 818 units

The above figure is the planned number to be allotted and therefore if the total number of the subscription rights to shares allotted decreases, for example, in the case where applications for the subscription are not made, the total number of the subscription rights to shares to be allotted shall be the total number of the subscription rights to shares issued.

(4) Type and number of shares underlying the subscription rights to shares

The type of shares underlying the subscription rights to shares shall be the Company's common stock, and the number of shares underlying for each subscription right to shares (hereinafter the "Number of Granted Shares") shall be ten (10).

In cases where the Company conducts stock splits or reverse stock splits for the Company's common stock, the Number of Granted Shares shall be adjusted according to the following formula, and the resulting fractions of less than one (1) share, if any, shall be rounded down.

Number of Granted Shares after adjustment = Number of Granted Shares before adjustment × Ratio of the stock split or reverse stock split

In cases where the Company conducts a merger, a demerger or a gratis allotment of shares after the allotment date or any adjustment to the Number of Granted Shares is necessary mutatis mutandis to these cases, the Number of Granted Shares shall be appropriately adjusted within a reasonable range.

(5) Subscription amount for the subscription rights to shares

The subscription amount for the subscription rights to shares shall be the value based on the fair value, which is calculated using the Black-Scholes option pricing model as of the allotment date of the subscription rights to shares. Persons to whom the subscription rights to shares have been allotted (hereinafter the "Subscription Right Holders") shall offset the claim for compensation held thereby toward the Company instead of payment of said subscription amount.

(6) Allotment date of the subscription rights to shares

April 20, 2017

(7) Amount to be paid at the time of exercise of the subscription rights to shares

Amount to be paid per share when exercising the subscription rights to shares shall be one (1) yen, and total amount to be paid is calculated by multiplying one (1) yen by the number of shares to be issued.

(8) Period during which the subscription rights to shares may be exercised

The period during which the subscription rights to shares may be exercised shall be from April 21, 2017 to April 20, 2037.

Provided, however, that if the last day of such exercise period falls on a holiday of the Company, the business day preceding said date shall be the last exercisable day.

(9) Conditions for the exercise of the subscription rights to shares

1) A Subscription Right Holder shall be allowed to exercise the subscription rights to shares, solely in a lump sum, only within a period of ten (10) days after he/she forfeits the director's position of the Company.

2) In cases where a Subscription Right Holder dies, his/her heir may exercise the subscription rights to shares. Provided, however, that any person who has inherited the subscription rights to shares from the heir of an allotted person is not allowed to exercise the subscription rights to shares.

(10) Matters relating to acquisition of the subscription rights to shares

1) In cases where a Subscription Right Holder forfeits his/her subscription rights to shares before the exercise thereof pursuant to either of the clauses in Item (9) above or any provision(s) of the Subscription Rights to Shares Allotment Agreement, the Company may acquire said subscription rights to shares without charge as of a date separately specified by the Board of Directors of the Company.

2) In cases where a General Meeting of Shareholders of the Company (the Board of Directors if such a General Meeting of Shareholders is unnecessary) approves a proposal for (i) a merger agreement by which the Company becomes extinct; (ii) an absorption-type company split agreement or an incorporation-type company split plan by which the Company becomes a splitting company; or (iii) a share exchange agreement or a share transfer plan by which the Company becomes a wholly owned subsidiary of another company or companies, the Company may acquire the subscription rights to shares that have not been exercised as of a date separately specified by the Board of Directors of the Company without charge as of such a date.

(11) Restriction on transfer of the subscription rights to shares

Approval of the Board of Directors of the Company via resolution thereat shall be required for the transfer of the subscription rights to shares.

(12) Matters relating to common stock and additional paid-in capital that will be increased in the case of stock issuance as a result of the exercise of subscription rights to shares

1) The amount of common stock that will be increased in the case of stock issuance as a result of the exercise of the subscription rights to shares shall be one-half (1/2) of the maximum limit of common stock, etc., which is calculated in accordance with Article 17, Paragraph 1, of the Ordinance on Company Accounting, and the resulting fractions of less than one (1) yen, if any, shall be rounded up.

2) The amount of additional paid-in capital that will be increased in the case of stock issuance as a result of the exercise of the subscription rights to shares shall be the amount of the maximum limit of common stock, etc., stated in 1) above after deducting the amount of common stock to increase, which is set forth in 1) above.

(13) Treatment of the subscription rights to shares in conducting organizational restructuring

In cases where the Company conducts mergers (limited to cases where the Company is to become extinct as a result of the merger), absorption-type company splits, incorporation-type company splits, share exchanges or share transfers (hereinafter collectively an "Organizational Restructuring Action"), the subscription rights to shares of any of the joint-stock corporations (hereinafter the "Reorganized Company"), which are listed in sub-items (a) through (e) of Article 236, Paragraph 1, Item 8, of the Law, shall be newly issued pursuant to the following conditions with regard to the subscription rights to shares that remain as of the effective date of the Organizational Restructuring Action (hereinafter the "Residual Subscription Rights to Shares"). In such cases, the Residual Subscription Rights to Shares shall be extinguished and the subscription rights to shares of the Reorganized Company shall be newly issued.

Provided, however, that the aforementioned clause shall apply only to cases where such issuance of subscription rights to shares of the Reorganized Company pursuant to the following conditions has been stipulated in the statement to that effect in the relevant merger agreement, the absorption-type company split agreement, the incorporation-type company split plan, the share exchange agreement or the share transfer plan.

1) Number of the subscription rights to shares of the Reorganized Company to be issued

The subscription rights to shares of the Reorganized Company shall be issued in the same number as the Residual Subscription Rights to Shares held by the Subscription Right Holders.

2) Type and number of the Reorganized Company's shares underlying the subscription rights to shares

The type of shares underlying the subscription rights to shares shall be the Reorganized Company's common stock, and the number of such Reorganized Company's common stock to be issued as a result of the exercise of the subscription rights to shares shall be determined mutatis mutandis to Item (4) above by taking into account the conditions for the Organizational Restructuring Action and the like.

3) Amount to be paid at the time of exercise of the subscription rights to shares

The exercise price after the restructuring shall be one (1) yen per share of the Reorganized Company's shares that could be issued as a result of the exercise of the subscription rights to shares issued. Amount to be paid at the time of exercise of the subscription rights to shares is calculated by multiplying the exercise price after the restructuring by the number of shares underlying each subscription rights to shares.

4) Period during which the subscription rights to shares may be exercised

Period during which the subscription rights to shares may be exercised shall be from the later date of either the start date of the period during which the subscription rights to shares may be exercised, which is set forth in the aforementioned Item (8), or the effective date of the Organizational Restructuring Action, until the expiration date of the period during which the subscription rights to shares may be exercised, which is set forth in the aforementioned Item (8).

5) Matters relating to acquisition of the subscription rights to shares

Acquisition of the subscription rights to shares shall be determined mutatis mutandis to Item (10) above.

6) Restriction on transfer of the subscription rights to shares

Approval of the Board of Directors of the Reorganized Company shall be required for the transfer of the subscription rights to shares.

7) Matters relating to common stock and additional paid-in capital that will be increased in the case of stock issuance as a result of the exercise of subscription rights to shares

Common stock and additional paid-in capital to be increased in the case of stock issuance as a result of the exercise of subscription rights to shares shall be determined mutatis mutandis to Item (12) above.

(14) Treatment of fractions of less than one (1) share

In cases where there are fractions of less than one (1) share in the number of shares to be issued to a Subscription Right Holder when the subscription rights to shares are exercised by said Subscription Right Holder, the resulting fractions shall be rounded down.

(15) Non-issuance of certificates for subscription rights to shares

The Company shall not issue certificates for the subscription rights to shares.

(16) Place for payment in exercising the subscription rights to shares

Asakusabashi Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

23-6, Yanagibashi 1-chome, Taito-ku, Tokyo

Independent Auditor's Report



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
Mabuchi Motor Co., Ltd.

We have audited the accompanying consolidated financial statements of Mabuchi Motor Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mabuchi Motor Co., Ltd. and its consolidated subsidiaries as at December 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

March 30, 2017

Investor Information

(As of December 31, 2016)

■ Stock Data

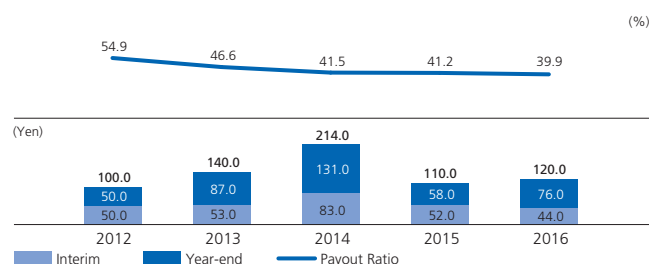
Number of Shares Authorized 200,000,000
 Number of Shares Issued 69,927,562
 Number of Shareholders 13,106

■ Major Shareholders

Major Shareholders	Number of Shares Held (Thousands)	Ratio of Shareholders (%)
Takaichi Mabuchi	5,000	7.3
Japan Trustee Services Bank, Ltd. (Trust Account)	3,817	5.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,198	4.7
Mabuchi International Scholarship Foundation	3,000	4.4
Premiere Corporation	2,068	3.0
Takashi Mabuchi	2,060	3.0
Tamotsu Mabuchi	2,060	3.0
Taka Corporation Co., Ltd.	2,056	3.0
TEXAS Inc.	1,856	2.7
BBH FOR MATTHEWS JAPAN FUND	1,281	1.9

- Notes: 1. In addition to the above, Mabuchi Motor Co., Ltd. retains 1,339,870 shares of treasury stock.
 2. The number of shares of treasury stock is excluded from "Ratio of Shareholders." The percentages are rounded to one decimal place.
 3. 98,700 shares held by the ESOP Trust Utilizing Employee Shareholding Association and 119,600 shares held by the Board Incentive Plan Trust are included in the calculation of "Percentage of shares held."

■ Cash Dividends per Share/Payout Ratio

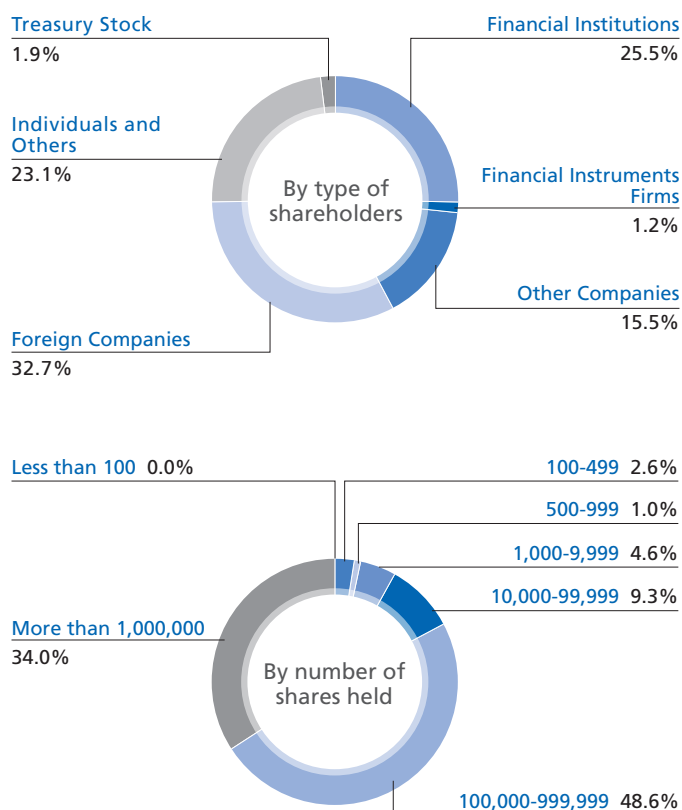


■ Changes in Standards for Calculating Dividends

Year	Ordinary Dividend per Share	Standard Value for Calculating Special Dividend
2015	30 yen *1	30% of consolidated net income
2014	60 yen	30% of consolidated net income
2007 *2	60 yen	20% of consolidated net income
2005	60 yen	20% of consolidated net income
2003	50 yen	20% of consolidated net income
1999	50 yen	5% of consolidated net income

- *1 The Company conducted a 2-for-1 stock split of its common stock on January 1, 2015.
 *2 The actual full-year dividend amount shall be based on the above calculation standards and shall not be less than the expected dividend amount announced during the full-year period unless a significant profit warning is issued.

■ Composition of Shareholders



■ Share Repurchase

Transaction period	Number of shares repurchased	Amount (Millions of yen)
Mar. 1, 2017 - Mar. 24, 2017	474,800	¥2,978
Feb. 16, 2017 - Feb. 28, 2017	326,800	¥2,021
Feb. 16, 2016 - Feb. 25, 2016	1,000,000	¥4,771
Mar. 13, 2015 - Mar. 23, 2015	219,200	¥1,393
Feb. 17, 2015 - Mar. 12, 2015	605,000	¥3,605

■ Trend of Stock Price and Related Indicators

	2012	2013	2014	2015	2016
High (Yen)	3,930	6,380	10,540	8,230	6,740
Low (Yen)	2,931	3,675	5,430	4,385	3,810
At year-end (Yen)	3,655	6,250	9,620	6,640	6,100
PER	20.1	20.8	18.6	24.9	20.3
PBR	0.7	1.0	1.4	2.0	1.8

Corporate Data

(As of December 31, 2016)

Company Name

MABUCHI MOTOR CO., LTD.

Corporate Headquarters

430 Matsuhidai, Matsudo City,
Chiba 270-2280, Japan
Tel: +81-47-710-1111

Established

January 18, 1954

Paid-in Capital

¥20,704 million

Number of Employees

781 (Non-consolidated)
23,768 (Consolidated)

Ordinary General Meeting of Shareholders

The Ordinary General Meeting of Shareholders will be held every March at Corporate Headquarters.

Independent Accountants

Ernst & Young ShinNihon LLC
Tokyo, Japan

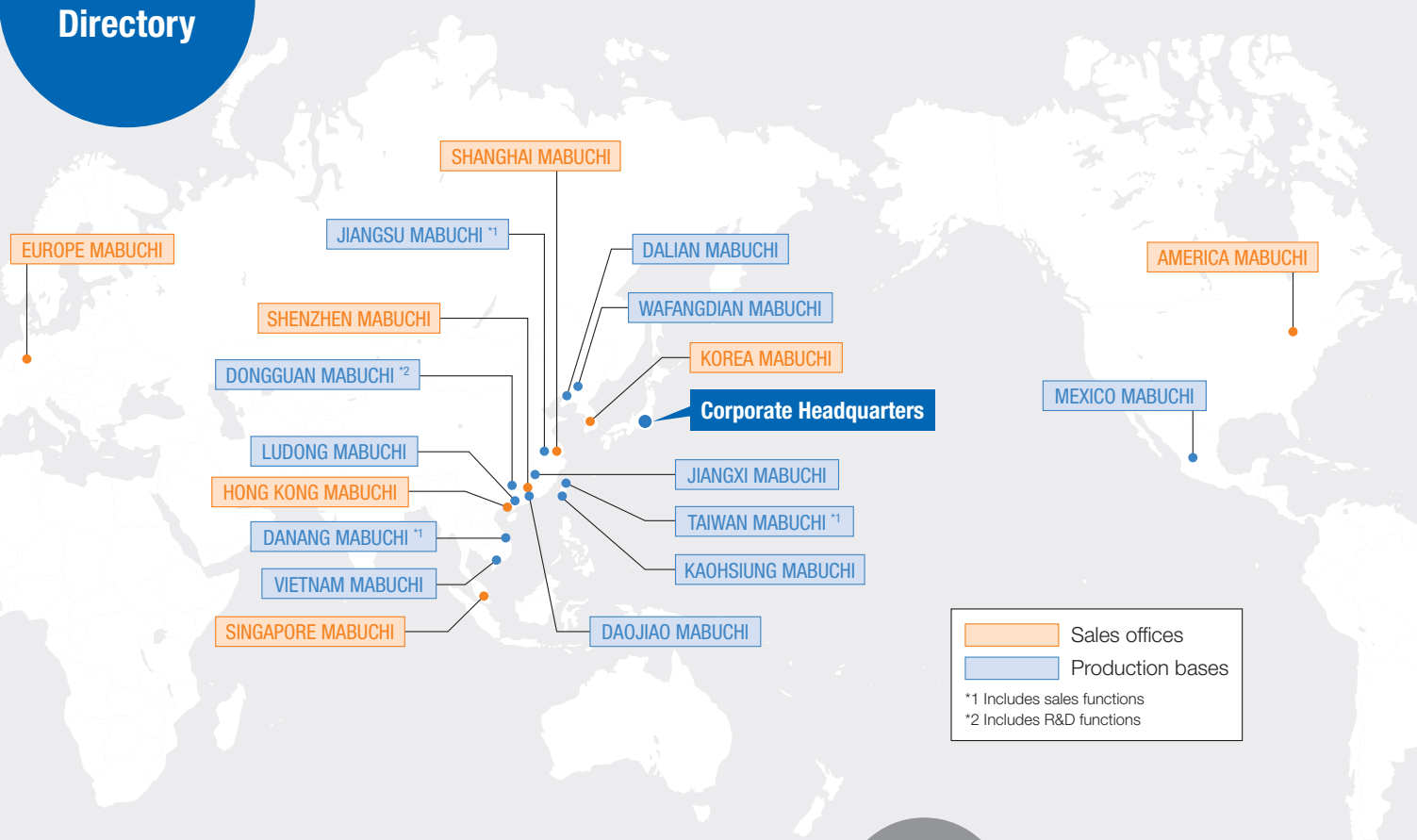
Shareholders' Register Custodian

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Department
10-11, Higashi-suna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Tel: +81-120-232-711

Stock Listing

Japanese Stock Exchange Listing
Tokyo Stock Exchange

Corporate Directory



Non-consolidated
Subsidiary

MABUCHI REAL ESTATE CO., LTD.



CORPORATE HEADQUARTERS
430 Matsuhidai, Matsudo-City, Chiba 270-2280, Japan
<http://www.mabuchi-motor.co.jp>