

# **Futaba Corporation**

## **FINANCIAL STATEMENTS 2020**

Year Ended 31st March, 2020

## Highlights of the Year Year Ended 31st March, 2020

	Millions of Japanese Yen	
	2020	2019
Net Sales	57,210	67,084
Net Income (Loss) Attributable to Owners of the Parent	(10,119)	(16,016)
Net Income (Loss) per Share (Yen)	(238.59)	(377.56)
Cash Dividends	3,733	3,733

## Corporate Data As of 31st March, 2020

Corporate Name	FUTABA CORPORATION	
Founded	1948	
Principal Office	629 Oshiba, Mobara, Chiba Prefecture 297-8588, Japan	
Common Stock	Authorized	196,099,900 shares
	Issued	42,426,739 shares
Capitalized	¥22,559 million	
Shareholders	10,410	
Employees	4,445	

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## ***Futaba Corporation and Consolidated Subsidiaries***

*Consolidated Financial Statements  
for the Year Ended 31st March, 2020,  
and Independent Auditor's Report*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Futaba Corporation:

### **Opinion**

We have audited the consolidated financial statements of Futaba Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31st March, 2020, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31st March, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

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

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

26th June, 2020

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Balance Sheet 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
<u>ASSETS</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 15)	¥ 29,585	¥ 32,855	\$ 271,848
Marketable securities (Notes 3 and 15)	994	1,314	9,133
Short-term investments (Note 4)	13,173	14,012	121,040
Receivables (Note 15):			
Trade notes	3,266	4,019	30,007
Trade accounts	10,924	14,448	100,379
Other	118	219	1,088
Allowance for doubtful receivables	(502)	(424)	(4,613)
Inventories (Note 5)	13,117	16,648	120,530
Prepaid expenses and other current assets	1,460	1,573	13,412
Total current assets	<u>72,135</u>	<u>84,664</u>	<u>662,824</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Notes 6 and 8)	8,058	9,580	74,040
Buildings and structures (Notes 6 and 8)	34,592	38,627	317,855
Machinery and equipment (Note 6)	52,831	56,011	485,448
Lease assets (Notes 6 and 14)	62	342	566
Construction in progress (Note 6)	134	153	1,232
Other	427		3,926
Total	<u>96,104</u>	<u>104,713</u>	<u>883,067</u>
Accumulated depreciation	<u>(79,447)</u>	<u>(83,015)</u>	<u>(730,016)</u>
Net property, plant and equipment	<u>16,657</u>	<u>21,698</u>	<u>153,051</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments in unconsolidated subsidiaries	20	20	184
Investment securities (Notes 3, 8 and 15)	6,648	9,488	61,085
Goodwill (Note 6)	117	1,117	1,079
Intangibles (Note 6)	653	1,067	5,996
Asset for retirement benefits (Note 9)	469	519	4,314
Deferred tax assets (Note 11)	395	313	3,626
Other investments	944	965	8,674
Total investments and other assets	<u>9,246</u>	<u>13,489</u>	<u>84,958</u>
<b>TOTAL</b>	<u>¥ 98,038</u>	<u>¥ 119,851</u>	<u>\$ 900,833</u>

(Continued)

# Futaba Corporation and Consolidated Subsidiaries

## Consolidated Balance Sheet 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term debt (Note 8)	¥ 191	¥ 20	\$ 1,753
Payables (Notes 8 and 15):			
Trade notes	208	647	1,916
Trade accounts	2,060	3,141	18,930
Unconsolidated subsidiaries	19	21	179
Other	763	745	7,006
Short-term bank loans (Notes 7 and 15)	720	810	6,618
Electronically recorded obligations	589	2,020	5,410
Accrued expenses	3,292	3,314	30,236
Income taxes payable	379	225	3,485
Other current liabilities (Note 8)	465	490	4,276
Total current liabilities	8,686	11,433	79,809
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 8 and 15)	463	78	4,253
Liability for retirement benefits (Note 9)	878	1,023	8,066
Retirement allowances for directors	61	63	563
Deferred tax liabilities (Note 11)	598	938	5,494
Other	226	227	2,081
Total long-term liabilities	2,226	2,329	20,457
<b>CONTINGENT LIABILITIES (Note 17)</b>			
<b>EQUITY (Note 10):</b>			
Common stock—authorized, 196,099,900 shares; issued, 42,426,739 shares in 2020 and 43,886,739 shares in 2019	22,559	22,559	207,283
Capital surplus	21,561	21,561	198,114
Retained earnings	39,030	55,844	358,645
Treasury stock—at cost, 8,271 shares in 2020 and 1,467,996 shares in 2019	(15)	(2,737)	(140)
Accumulated other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities	(641)	615	(5,892)
Foreign currency translation adjustments	(5,056)	(3,077)	(46,455)
Remeasurements of defined benefit plans	132	1,014	1,211
Total	77,570	95,779	712,766
Noncontrolling interests	9,556	10,310	87,801
Total equity	87,126	106,089	800,567
<b>TOTAL</b>	<b>¥98,038</b>	<b>¥ 119,851</b>	<b>\$ 900,833</b>

See notes to consolidated financial statements.

(Concluded)



# Futaba Corporation and Consolidated Subsidiaries

## Consolidated Statement of Operations Year Ended 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
NET SALES	¥ 57,210	¥ 67,084	\$ 525,682
COST OF SALES	<u>48,339</u>	<u>53,558</u>	<u>444,172</u>
Gross profit	8,871	13,526	81,510
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	<u>12,569</u>	<u>13,202</u>	<u>115,491</u>
Operating income (loss)	<u>(3,698)</u>	<u>324</u>	<u>(33,981)</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	637	633	5,854
Foreign exchange gain (loss)—net	(406)	405	(3,733)
Gain on sales of property, plant and equipment	252	608	2,315
Loss on sales of property, plant and equipment	(60)	(26)	(552)
Loss on disposals of property, plant and equipment	(11)	(50)	(100)
Loss on valuation of investment securities	(317)		(2,910)
Impairment loss (Note 6)	(5,802)	(17,287)	(53,317)
Gain on sales of investment securities	107	65	987
Restructuring loss (Note 13)	(291)		(2,675)
Other—net	<u>163</u>	<u>67</u>	<u>1,501</u>
Other expenses—net	<u>(5,728)</u>	<u>(15,585)</u>	<u>(52,630)</u>
LOSS BEFORE INCOME TAXES	<u>(9,426)</u>	<u>(15,261)</u>	<u>(86,611)</u>
INCOME TAXES (Note 11):			
Current	491	291	4,510
Deferred	<u>(125)</u>	<u>(38)</u>	<u>(1,150)</u>
Total income taxes	<u>366</u>	<u>253</u>	<u>3,360</u>
NET LOSS	(9,792)	(15,514)	(89,971)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>327</u>	<u>502</u>	<u>3,007</u>
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ (10,119)</u>	<u>¥ (16,016)</u>	<u>\$ (92,978)</u>
	<u>Japanese Yen</u>	<u>U.S. Dollars</u>	
AMOUNTS PER SHARE (Note 2.q):			
Net loss	¥ (238.59)	¥ (377.56)	\$ (2.19)
Cash dividends applicable to the year	88.00	88.00	0.81

See notes to consolidated financial statements.

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Comprehensive Income Year Ended 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
NET LOSS	¥ (9,792)	¥ (15,514)	\$ (89,971)
OTHER COMPREHENSIVE LOSS (Note 19):			
Unrealized loss on available-for-sale securities	(1,355)	(1,894)	(12,453)
Foreign currency translation adjustments	(2,769)	(44)	(25,445)
Remeasurements of defined benefit plans	(835)	18	(7,674)
Total other comprehensive loss	(4,959)	(1,920)	(45,572)
COMPREHENSIVE LOSS	<u>¥ (14,751)</u>	<u>¥ (17,434)</u>	<u>\$ (135,543)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)			
ATTRIBUTABLE TO:			
Owners of the parent	¥ (14,235)	¥ (17,739)	\$ (130,800)
Noncontrolling interests	(516)	305	(4,743)

See notes to consolidated financial statements.

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended 31st March, 2020

	Thousands	Millions of Japanese Yen				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 1ST APRIL, 2018	42,420	¥22,559	¥21,595	¥76,046	¥(2,735)	¥117,465
Change in scope of consolidation			(34)	(453)		(487)
Net loss attributable to owners of the parent				(16,016)		(16,016)
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock	(1)				(2)	(2)
Net change in the year						
BALANCE, 31ST MARCH, 2019 (1ST APRIL, 2019, as previously reported)	42,419	22,559	21,561	55,844	(2,737)	97,227
Cumulative effect of accounting change				(240)		(240)
BALANCE, 1ST APRIL, 2019 (as restated)	42,419	22,559	21,561	55,604	(2,737)	96,987
Net loss attributable to owners of the parent				(10,119)		(10,119)
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock					(0)	(0)
Cancellation of treasury shares			(2,722)		2,722	
Transfer from retained earnings to capital surplus			2,722	(2,722)		
Net change in the year						
BALANCE, 31ST MARCH, 2020	<u>42,419</u>	<u>¥22,559</u>	<u>¥21,561</u>	<u>¥39,030</u>	<u>¥ (15)</u>	<u>¥ 83,135</u>

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## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended 31st March, 2020

	Millions of Japanese Yen					
	Accumulated Other Comprehensive Income (Loss)			Total	Noncon- trolling Interests	Total Equity
	Unrealized Gain (Loss) on Available- for-Sale Securities	Foreign Currency Translation Adjust- ments	Remea- surements of Defined Benefit Plans			
BALANCE, 1ST APRIL, 2018	¥2,527	¥(3,177)	¥ 923	¥ 117,738	¥ 9,693	¥ 127,431
Change in scope of consolidation				(487)		(487)
Net loss attributable to owners of the parent				(16,016)		(16,016)
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock				(2)		(2)
Net change in the year	<u>(1,912)</u>	<u>100</u>	<u>91</u>	<u>(1,721)</u>	<u>617</u>	<u>(1,104)</u>
BALANCE, 31ST MARCH, 2019(1ST APRIL, 2019, as previously reported)	615	(3,077)	1,014	95,779	10,310	106,089
Cumulative effect of accounting change (Note 2.r)	<u>      </u>	<u>      </u>	<u>      </u>	<u>(240)</u>	<u>      </u>	<u>(240)</u>
BALANCE, 1ST APRIL, 2019 (as restated)	615	(3,077)	1,014	95,539	10,310	105,849
Net loss attributable to owners of the parent				(10,119)		(10,119)
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock				(0)		(0)
Cancellation of treasury shares						
Transfer from retained earnings to capital surplus						
Net change in the year	<u>(1,256)</u>	<u>(1,979)</u>	<u>(882)</u>	<u>(4,117)</u>	<u>(754)</u>	<u>(4,871)</u>
BALANCE, 31ST MARCH, 2020	<u>¥ (641)</u>	<u>¥(5,056)</u>	<u>¥ 132</u>	<u>¥ 77,570</u>	<u>¥ 9,556</u>	<u>¥ 87,126</u>

(Continued)

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended 31st March, 2020

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 31ST MARCH, 2019 (1ST APRIL, 2019, as previously reported)	\$ 207,283	\$ 198,114	\$ 513,140	\$ (25,148)	\$ 893,389
Cumulative effect of accounting change (Note 2.r)			(2,206)		(2,206)
BALANCE, 1ST APRIL, 2019 (as restated)	207,283	198,114	510,934	(25,148)	891,183
Net loss attributable to owners of the parent			(92,978)		(92,978)
Cash dividends			(34,300)		(34,300)
Purchase of treasury stock				(3)	(3)
Cancellation of treasury shares		(25,011)		25,011	
Transfer from retained earnings to capital surplus		25,011	(25,011)		
Net change in the year					
BALANCE, 31ST MARCH, 2020	<u>\$ 207,283</u>	<u>\$ 198,114</u>	<u>\$ 358,645</u>	<u>\$ (140)</u>	<u>\$ 763,902</u>

(Continued)

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended 31st March, 2020

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income (Loss)			Total	Noncon- trolling Interests	Total Equity
	Unrealized Gain (Loss) on Available- for-Sale Securities	Foreign Currency Translation Adjust- ments	Remea- surements of Defined Benefit Plans			
BALANCE, 31ST MARCH, 2019 (1ST APRIL, 2019, as previously reported)	\$ 5,647	\$ (28,277)	\$ 9,316	\$ 880,075	\$ 94,739	\$ 974,814
Cumulative effect of accounting change (Note 2.r)	—	—	—	(2,206)	—	(2,206)
BALANCE, 1ST APRIL, 2019 (as restated)	5,647	(28,277)	9,316	877,869	94,739	972,608
Net loss attributable to owners of the parent				(92,978)		(92,978)
Cash dividends				(34,300)		(34,300)
Purchase of treasury stock				(3)		(3)
Cancellation of treasury shares						
Transfer from retained earnings to capital surplus						
Net change in the year	(11,539)	(18,178)	(8,105)	(37,822)	(6,938)	(44,760)
BALANCE, 31ST MARCH, 2020	<u>\$ (5,892)</u>	<u>\$ (46,455)</u>	<u>\$ 1,211</u>	<u>\$ 712,766</u>	<u>\$ 87,801</u>	<u>\$ 800,567</u>

See notes to consolidated financial statements.

(Concluded)

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
OPERATING ACTIVITIES:			
Loss before income taxes	¥ (9,426)	¥ (15,261)	\$ (86,611)
Adjustments for:			
Income taxes—paid	(341)	(903)	(3,133)
Income taxes—refund	175	10	1,611
Depreciation and amortization	1,635	3,337	15,024
Amortization of goodwill	111	172	1,017
Impairment loss	5,802	17,287	53,317
Increase in provision for doubtful receivables	46	57	419
Increase in asset for retirement benefits	(590)	(248)	(5,426)
Decrease in liability for retirement benefits	(2)	(845)	(16)
Increase in accrued bonuses	20	1	188
Foreign exchange gain (loss)	132	(70)	1,210
Gain on sales and disposal of property, plant and equipment	(181)	(532)	(1,664)
(Gain) loss on sales and valuation of investment securities	209	(65)	1,923
Restructuring loss	291		2,675
Decrease in trade receivables	3,737	197	34,339
(Increase) decrease in inventories	3,045	(1,213)	27,981
Decrease in trade payables	(2,553)	(301)	(23,460)
Other—net	(593)	(409)	(5,457)
Total adjustments	<u>10,943</u>	<u>16,475</u>	<u>100,548</u>
Net cash provided by operating activities	<u>1,517</u>	<u>1,214</u>	<u>13,937</u>
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	644	774	5,921
Purchases of property, plant and equipment	(1,797)	(1,821)	(16,516)
Purchases of investment securities	(170)	(449)	(1,559)
Proceeds from sales and redemption of investment securities	1,355	494	12,450
(Increase) decrease in short-term investments and marketable securities—net	342	(398)	3,144
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 18)		(479)	
Other—net	<u>(317)</u>	<u>(274)</u>	<u>(2,916)</u>
Net cash provided by (used in) investing activities	<u>57</u>	<u>(2,153)</u>	<u>524</u>
FORWARD	<u>¥ 1,574</u>	<u>¥ (939)</u>	<u>\$ 14,461</u>

(Continued)

## Futaba Corporation and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended 31st March, 2020

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
FORWARD	¥ 1,574	¥ (939)	\$ 14,461
FINANCING ACTIVITIES:			
Repayments of short-term bank loans	(89)	(91)	(815)
Repayments of long-term debt	(199)	(24)	(1,832)
Repurchases of treasury stock		(2)	(3)
Dividends paid	(3,733)	(3,733)	(34,300)
Other—net	(239)	(195)	(2,195)
Net cash used in financing activities	<u>(4,260)</u>	<u>(4,045)</u>	<u>(39,145)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(584)</u>	<u>122</u>	<u>(5,359)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,270)	(4,862)	(30,043)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>32,855</u>	<u>37,717</u>	<u>301,891</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥29,585</u>	<u>¥32,855</u>	<u>\$ 271,848</u>

See notes to consolidated financial statements.



# Futaba Corporation and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Year Ended 31st March, 2020

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### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Futaba Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.83 to \$1, the approximate rate of exchange at 31st March, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of 31st March, 2020, include the accounts of the Company and its 26 (26 in 2019) significant subsidiaries (together, the "Group").

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) ("US GAAP") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recoding a gain or loss through profit or loss on the sale of an investment in an equity instrument for the

difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

- c. Business Combinations**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- d. Cash and Cash Equivalents**—Cash and cash equivalents include cash on hand, highly liquid bank accounts and investments, generally with original maturities of three months or less, which are readily convertible into known amounts of cash and are exposed to insignificant risk of changes in value.
- e. Inventories**—Finished goods and work in process are stated at the lower of cost determined by the average cost method or net selling value, and raw materials and supplies are stated at the lower of cost determined by the moving-average cost method or net selling value for the Company and its consolidated domestic subsidiaries. Inventories are stated at the lower of cost determined by the moving-average cost method or market value for its consolidated foreign subsidiaries.
- f. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities, which are not classified as trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- g. Property, Plant and Equipment**—Property, plant and equipment are stated at cost.

Depreciation of buildings of the Company and consolidated subsidiaries is computed by the straight-line method.

Depreciation of other property, plant and equipment of the Company and consolidated domestic subsidiaries is computed principally by the declining-balance method, while the straight-line method or the declining-balance method is applied to other property, plant and equipment of consolidated foreign subsidiaries.

The range of useful lives is principally from 3 to 47 years for buildings and structures and 4 to 12 years for machinery and equipment.

- h. Goodwill**—Goodwill is amortized using the straight-line method over a period of five to eight years.
- i. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- j. Retirement and Pension Plans**—The Company and certain consolidated subsidiaries have funded defined benefit pension plans, unfunded retirement benefit pension plans, and defined contribution pension plans covering substantially all of their employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to period on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years no longer than the expected average remaining service period of the employees.

Retirement allowances for directors are recorded as a liability at the amount that would be required if all directors retired at each balance sheet date.

- k. Research and Development Costs**—Research and development costs are charged to income as incurred.
- l. Leases**—Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet.

The Group's overseas subsidiaries (except for those that have adopted US GAAP) have adopted IFRS 16 "Leases" from the fiscal year ended 31st March, 2020. Accordingly, all lease transactions where the subsidiaries are lessees are recognized as assets and liabilities, in principle. Adoption of IFRS 16 is based on a transitional approach, whereby the cumulative effects of changes in accounting policies are recorded in retained earnings as of the beginning of the fiscal year ended 31st March, 2020.

As a result, as of the beginning of the fiscal year ended 31st March, 2020, all leases are recorded as assets and liabilities on the consolidated balance sheet by the borrower of the lease.

The impact of this change on the consolidated financial statements and the per share information for the fiscal year ended 31st March, 2020, was immaterial.

- m. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- n. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

- o. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate for the period.
- p. Derivatives and Hedging Activities**—The Group uses derivative financial instruments, such as foreign exchange forward contracts, to manage foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement of operations and (b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions.

Foreign currency forward contracts employed to hedge foreign currency exposures for export sales and import purchases are measured at fair value and the unrealized gains/losses are recognized in income. Deposits, trade receivables and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rates if the forward contracts qualify for hedge accounting.

- q. Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

The weighted-average number of shares used in the computation was 42,410,637 shares for 2020 and 42,419,156 shares for 2019.

Diluted net income per share is not disclosed as there were no securities with a dilutive effect.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

- r. New Accounting Pronouncements**

**Accounting Standard for Revenue Recognition**

—"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued on 31st March, 2020)

—"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on 31st March, 2020)

(1) *Overview*

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued "Revenue from Contracts with Customers" in May 2014 (IFRS 15 by IASB, and Topic 606 by FASB). IFRS 15 was applied for annual reporting periods beginning on or after 1st January, 2018, and Topic 606 was also applied from annual reporting periods beginning after 15th December, 2017. Based on such a situation, the ASBJ developed the comprehensive accounting standard for revenue recognition and the implementation guidance and issued them together. The basic objective of the ASBJ in developing the accounting standard for revenue recognition was to enhance comparability between financial statements, which is one of the points of convenience of interfacing with IFRS 15. Accordingly, the accounting standard fundamentally incorporates the basic policies of IFRS 15. Also, where there are items that should be considered to reflect the business practices in Japan, alternative policies will be added to the extent that comparability is not lost.

(2) *Date of adoption*

The Company and its domestic consolidated subsidiaries will adopt the issued accounting standard and implementation guidance from the beginning of the fiscal year ending 31st March, 2022.

(3) *Impact of the adoption of the accounting standard and implementation guidance*

The Company is in the process of measuring the effects of applying the accounting standard and implementation guidance in future applicable periods.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of 31st March, 2020 and 2019, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Current—Government and corporate bonds	¥ 994	¥1,314	\$ 9,133
Total	<u>¥ 994</u>	<u>¥1,314</u>	<u>\$ 9,133</u>
Non-current:			
Marketable equity securities	¥4,982	¥6,912	\$45,774
Government and corporate bonds	1,606	2,516	14,761
Trust fund investments and other	<u>60</u>	<u>60</u>	<u>550</u>
Total	<u>¥6,648</u>	<u>¥9,488</u>	<u>\$61,085</u>

The costs and aggregate fair values of marketable and investment securities at 31st March, 2020 and 2019, were as follows:

<u>31st March, 2020</u>	Millions of Japanese Yen			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,736	¥127	¥1,115	¥4,748
Debt securities	2,604	6	10	2,600

<u>31st March, 2019</u>	<u>Millions of Japanese Yen</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,807	¥1,094	¥156	¥6,745
Debt securities	3,815	15		3,830

<u>31st March, 2020</u>	<u>Thousands of U.S. Dollars</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as—				
Available-for-sale:				
Equity securities	\$52,704	\$1,168	\$10,240	\$43,632
Debt securities	23,925	59	90	23,894

The information on available-for-sale securities which were sold during the years ended 31st March, 2020 and 2019, is as follows:

<u>31st March, 2020</u>	<u>Millions of Japanese Yen</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale—Equity securities	¥153	¥107	—
Total	¥153	¥107	—

<u>31st March, 2019</u>			
Available-for-sale—Equity securities	¥ 87	¥ 65	—
Total	¥ 87	¥ 65	—

<u>31st March, 2020</u>	<u>Thousands of U.S. Dollars</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale—Equity securities	\$1,403	\$987	—
Total	\$1,403	\$987	—

The impairment losses on available-for-sale equity securities for the year ended 31st March, 2020, was ¥317 million (\$2,910 thousand).

#### 4. SHORT-TERM INVESTMENTS

Short-term investments at 31st March, 2020 and 2019, consisted of time deposits of ¥13,173 million (\$121,040 thousand) and ¥14,012 million, respectively.

## 5. INVENTORIES

Inventories at 31st March, 2020 and 2019, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Finished goods	¥ 4,095	¥ 5,401	\$ 37,630
Work in process	2,622	3,047	24,097
Raw materials and supplies	<u>6,400</u>	<u>8,200</u>	<u>58,803</u>
Total	<u>¥13,117</u>	<u>¥16,648</u>	<u>\$ 120,530</u>

## 6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of 31st March, 2020 and 2019. As a result, the Group recognized an impairment loss of ¥5,802 million (\$53,317 thousand) and ¥17,287 million for the years ended 31st March, 2020 and 2019, respectively, as further described below.

### *For 2020*

Description	Classification	Location	Millions of Japanese Yen	Thousands of U.S. Dollars
Facilities for machinery and tooling	Goodwill, machinery, etc.	Chosei County, etc., Japan	¥3,015	\$ 27,713
Facilities for machinery and tooling	Buildings, machinery, etc.	Kunshan City, China	1,220	11,208
Facilities for electronic devices	Land, construction in progress, etc.	Chosei County, etc., Japan	434	3,988
Facilities for machinery and tooling	Buildings, machinery, etc.	Shenzhen City, China	314	2,882
Head office, etc.	Construction in progress, buildings, etc.	Chosei County, etc., Japan	279	2,567
Facilities for machinery and tooling	Other intangible assets, etc.	Tokyo, Japan	248	2,279
Facilities for electronic devices	Machinery, structures, etc.	Kaohsiung City, Taiwan	168	1,540
Facilities for electronic devices	Buildings, machinery, etc.	Huntsville, USA	108	995
Facilities for electronic devices	Construction in progress	Laguna, Philippines	16	145
Total			<u>¥5,802</u>	<u>\$ 53,317</u>

Considering the current business environment, the business forecast and the recoverability of the relevant assets, the Group wrote down the carrying value of the facilities for head office, machinery and tooling, and electronic devices to their recoverable amounts.

With regard to the goodwill at Kabuku Inc. goodwill had been reported based on the assumption of excess earning power at the time the shares were acquired. However, the initially assumed performance is no longer expected in the foreseeable future and therefore the unamortized balance of goodwill of ¥885 million (\$8,136 thousand) has been recognized as impairment loss on goodwill. The recoverable amount of the goodwill is determined based on value in use, and the recoverable amount has been assessed as zero.

The recoverable amounts of the facilities were measured at their net sale value or value in use. The net sale value was calculated using the appraisal value by a real estate appraiser. The value in use was determined to be zero because no future cash flow is expected.

A breakdown of impairment loss for the fiscal year ended 31st March, 2020, is as follows:

<u>Classification</u>	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Buildings and structures	¥1,898	\$ 17,442
Machinery and equipment	1,248	11,469
Goodwill	885	8,136
Land	719	6,608
Others	<u>1,052</u>	<u>9,662</u>
Total	<u>¥5,802</u>	<u>\$53,317</u>

**For 2019**

<u>Description</u>	<u>Classification</u>	<u>Location</u>	<u>Millions of Japanese Yen</u>
Head office, etc.	Land, buildings, etc.	Chosei County, etc., Japan	¥ 3,905
Facilities for electronic devices	Land, buildings, etc.	Chosei County, etc., Japan	1,495
Facilities for machinery and tooling	Land, machinery, etc.	Chosei County, etc., Japan	1,171
Facilities for electronic devices	Tools, machinery, etc.	Kaohsiung City, Taiwan	3,686
Facilities for electronic devices	Machinery, vehicles, etc.	Huizhou City, China	20
Facilities for electronic devices	Buildings, machinery, etc.	Laguna, Philippines	2,424
Facilities for electronic devices	Tools, furniture and fixtures	Laguna, Philippines	
Dormant assets	Land, buildings, etc.	Chosei County, etc., Japan	4,568
Dormant assets	Machinery	Osaka City, Japan	<u>18</u>
Total			<u>¥17,287</u>

Considering the current business environment, the business forecast and the recoverability of the relevant assets, the Group wrote down the carrying value of the facilities for head office, machinery and tooling and electronic devices to their recoverable amounts.



The Group wrote down the carrying value of the dormant assets to their recoverable amounts because the Group had no plan to use them.

The recoverable amounts of the facilities were measured at their net sale value or value in use. The net sale value was calculated using the appraisal value by a real estate appraiser. The value in use was calculated by discount estimated future cash flows. The discount rate used was 8.7%.

A breakdown of impairment loss for the fiscal year ended 31st March, 2019, was as follows:

<u>Classification</u>	<u>Millions of Japanese Yen</u>
Land	¥ 7,759
Buildings and structures	4,286
Machinery and equipment	4,550
Others	<u>692</u>
Total	<u>¥17,287</u>

## 7. SHORT-TERM BANK LOANS

The annual interest rates applicable to the short-term bank loans ranged from 0.49% to 0.74% at 31st March, 2020 and 2019, respectively.

## 8. LONG-TERM DEBT AND ASSETS PLEDGED AS COLLATERAL

Long-term debt at 31st March, 2020 and 2019, consisted of the following:

	<u>Millions of Japanese Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Long-term loans of subsidiaries	¥ 45	¥49	\$ 410
Long-term lease obligation	609	49	5,596
Less current portion	<u>(191)</u>	<u>(20)</u>	<u>(1,753)</u>
Long-term debt, less current portion	<u>¥463</u>	<u>¥78</u>	<u>\$4,253</u>

Annual maturities of long-term debt as of 31st March, 2020, for the next five years and thereafter were as follows:

<u>Year Ending 31st March</u>	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
2021	¥191	\$1,753
2022	106	972
2023	71	656
2024	55	506
2025	41	377
2026 and thereafter	<u>190</u>	<u>1,742</u>
Total	<u>¥654</u>	<u>\$6,006</u>

The carrying amounts of assets pledged as collateral for accrued consumption taxes of ¥52 million (\$479 thousand), trade accounts payable of ¥164 million (\$1,508 thousand) and long-term loans of subsidiaries of ¥45 million (\$410 thousand) at 31st March, 2020, were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Land	¥ 939	\$ 8,630
Buildings and structures—net	708	6,501
Investment securities	<u>309</u>	<u>2,839</u>
Total	<u>¥1,956</u>	<u>\$17,970</u>

## 9. RETIREMENT AND PENSION PLANS

Under the employees retirement benefit plans of the Company covering substantially all of the employees of the Company and its domestic subsidiaries, employees terminating their employment are entitled, under most circumstances, to either lump-sum payments or annuity payments, determined by reference to the current basic rate of pay, length of service, conditions under which the termination occurs and certain other factors. Those employees terminating their employment after 20 or more years of service with the Company are entitled to either lump-sum payments or annuity payments, at their option, and employees with more than 2 years but less than 20 years of service are entitled only to receive lump-sum payments upon retirement.

Certain consolidated foreign subsidiaries also have funded or unfunded retirement benefit plans covering substantially all of their employees. With minor exceptions, based on the conditions of termination, employees are entitled to receive lump-sum payments upon termination of employment.

The Company and certain consolidated subsidiaries adopted a defined contribution pension plan as part of their employees' retirement benefit plan. Certain domestic subsidiaries use the Smaller Enterprise Retirement Allowance Mutual Aid Plan or Specific Retirement Allowance Mutual Aid Plan as their defined contribution pension plan.

- (1) The changes in defined benefit obligation for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Balance at beginning of year	¥32,828	¥33,828	\$ 301,643
Current service cost	383	377	3,519
Interest cost	255	275	2,342
Actuarial gains	(376)	(157)	(3,451)
Benefits paid	(1,562)	(1,463)	(14,350)
Others	<u>(157)</u>	<u>(32)</u>	<u>(1,444)</u>
Balance at end of year	<u>¥31,371</u>	<u>¥32,828</u>	<u>\$ 288,259</u>

- (2) The changes in plan assets for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Balance at beginning of year	¥32,324	¥32,337	\$ 297,015
Expected return on plan assets	810	834	7,439
Actuarial losses	(882)	(279)	(8,104)
Contributions from the employer	377	871	3,462
Benefits paid	(1,531)	(1,412)	(14,067)
Others	<u>(135)</u>	<u>(27)</u>	<u>(1,239)</u>
Balance at end of year	<u>¥30,963</u>	<u>¥32,324</u>	<u>\$ 284,506</u>

- (3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of 31st March, 2020 and 2019

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Funded defined benefit obligation	¥31,070	¥32,541	\$ 285,491
Plan assets	<u>(30,963)</u>	<u>(32,324)</u>	<u>(284,506)</u>
Total	107	217	985
Unfunded defined benefit obligation	<u>302</u>	<u>287</u>	<u>2,767</u>
Net liability arising from defined benefit obligation	<u>¥ 409</u>	<u>¥ 504</u>	<u>\$ 3,752</u>

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Liability for retirement benefits	¥878	¥1,023	\$8,066
Asset for retirement benefits	<u>(469)</u>	<u>(519)</u>	<u>(4,314)</u>
Net liability arising from defined benefit obligation	<u>¥409</u>	<u>¥ 504</u>	<u>\$3,752</u>

- (4) The components of net periodic benefit costs for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Service cost	¥ 383	¥377	\$ 3,519
Interest cost	255	275	2,341
Expected return on plan assets	(810)	(834)	(7,439)
Amortization of prior service cost	(759)	(759)	(6,976)
Recognized actuarial losses	<u>423</u>	<u>965</u>	<u>3,884</u>
Net periodic benefit costs	<u>¥ (508)</u>	<u>¥ 24</u>	<u>\$ (4,671)</u>

Note: In addition to the net periodic benefit cost stated above, extra retirement benefits of ¥73 million (\$675 thousand) and ¥45 million were recorded as operating expenses for the years ended 31st March, 2020 and 2019, respectively.

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Prior service cost	¥ (759)	¥ (759)	\$ (6,976)
Actuarial (gains) losses	<u>(117)</u>	<u>892</u>	<u>(1,075)</u>
Total	<u>¥ (876)</u>	<u>¥ 133</u>	<u>\$ (8,051)</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Unrecognized prior service cost	¥2,088	¥2,847	\$ 19,184
Unrecognized actuarial gains	<u>(1,882)</u>	<u>(1,718)</u>	<u>(17,297)</u>
Total	<u>¥ 206</u>	<u>¥1,129</u>	<u>\$ 1,887</u>

(7) Plan assets

a. *Components of plan assets*

Plan assets as of 31st March, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Debt investments	28%	27%
Equity investments	19	21
Others	<u>53</u>	<u>52</u>
Total	<u>100%</u>	<u>100%</u>

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (8) Assumptions used for the years ended 31st March, 2020 and 2019, were set forth as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	Mainly 0.6%	Mainly 0.6%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

## 10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### **a. Dividends**

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective 1st May, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### **b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus**

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

### **c. Treasury Stock and Treasury Stock Acquisition Rights**

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30% for each of the years ended 31st March, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2020 and 2019, are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Deferred tax assets:			
Inventories	¥ 578	¥ 308	\$ 5,314
Accrued bonuses to employees	252	256	2,314
Depreciation	288	308	2,647
Liability for retirement benefits	239	467	2,193
Allowance for doubtful accounts	277	278	2,547
Loss on impairment of long-lived assets	6,496	5,976	59,686
Unrealized gain on available-for-sale securities	197		1,813
Tax loss carryforwards	8,991	8,134	82,616
Other	305	450	2,804
Total deferred tax assets	<u>17,623</u>	<u>16,177</u>	<u>161,934</u>
Net of deferred tax liabilities in the same tax jurisdiction	<u>(58)</u>	<u>(119)</u>	<u>(536)</u>
Valuation allowance related to tax loss carryforwards	(8,960)	(8,070)	(82,335)
Valuation allowance related to total deductible temporary difference, etc.	<u>(8,210)</u>	<u>(7,675)</u>	<u>(75,437)</u>
Valuation allowance	<u>(17,170)</u>	<u>(15,745)</u>	<u>(157,772)</u>
Deferred tax assets—net	<u>395</u>	<u>313</u>	<u>3,626</u>
Deferred tax liabilities:			
Undistributed earnings of subsidiaries	24	43	223
Reserve for advanced depreciation of non-current assets	275	275	2,523
Unrealized gain on available-for-sale securities		259	
Other	<u>357</u>	<u>480</u>	<u>3,284</u>
Total deferred tax liabilities	<u>656</u>	<u>1,057</u>	<u>6,030</u>
Net of deferred tax assets in the same tax jurisdiction	<u>(58)</u>	<u>(119)</u>	<u>(536)</u>
Deferred tax liabilities—net	<u>598</u>	<u>938</u>	<u>5,494</u>
Net deferred tax liabilities	<u>¥ 203</u>	<u>¥ 625</u>	<u>\$ 1,868</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended 31st March, 2020, with the corresponding figures for 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Normal effective statutory tax rate	30 %	30 %
Expenses not deductible for tax purposes	(1)	(1)
Valuation allowance for deferred tax assets	(14)	(14)
Expiration of loss carryforwards	(12)	(16)
Foreign tax credit	(2)	(1)
Goodwill impairment loss	(3)	
Other—net	<u>(2)</u>	<u>—</u>
Actual effective tax rate	<u>(4)%</u>	<u>(2)%</u>

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of 31st March, 2020 and 2019, were as follows:

Millions of Japanese Yen							
	Within 1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 Years	Over 3 Years to 4 Years	Over 4 Years to 5 Years	Over 5 Years	Total
<u>31st March, 2020</u>							
Tax loss carryforward	¥1,062	¥1,262	¥495	¥451	¥1,360	¥4,361	¥8,991
Valuation allowance	(1,062)	(1,260)	(489)	(447)	(1,357)	(4,345)	(8,960)
Deferred tax assets		2	7	4	2	16	31

Millions of Japanese Yen							
	Within 1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 Years	Over 3 Years to 4 Years	Over 4 Years to 5 Years	Over 5 Years	Total
<u>31st March, 2019</u>							
Tax loss carryforward	¥1,142	¥1,062	¥1,263	¥489	¥452	¥3,726	¥8,134
Valuation allowance	(1,142)	(1,059)	(1,260)	(489)	(447)	(3,673)	(8,070)
Deferred tax assets		3	3		5	53	64

Thousands of U.S. Dollars							
	Within 1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 Years	Over 3 Years to 4 Years	Over 4 Years to 5 Years	Over 5 Years	Total
<u>31st March, 2020</u>							
Tax loss carryforward	\$9,759	\$11,599	\$4,551	\$4,148	\$12,492	\$40,067	\$82,616
Valuation allowance	(9,759)	(11,584)	(4,489)	(4,107)	(12,471)	(39,925)	(82,335)
Deferred tax assets		15	62	41	21	142	281

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,900 million (\$17,463 thousand) and ¥2,018 million for the years ended 31st March, 2020 and 2019, respectively.

### 13. RESTRUCTURING LOSS

Restructuring loss was the loss on the reorganization of our production base in China, and it mainly consisted of the financial compensation.

### 14. LEASES

#### *Finance Leases*

##### *As Lessee*

The Group leases certain computer equipment, machinery and other assets. Total lease payments under finance leases for the years ended 31st March, 2020 and 2019, were ¥136 million (\$1,252 thousand) and ¥60 million, respectively.

#### *Operating Leases*

The obligations under noncancelable operating leases for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥15	¥ 97	\$141
Due after one year	<u>13</u>	<u>36</u>	<u>124</u>
Total	<u>¥28</u>	<u>¥133</u>	<u>\$265</u>

### 15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### (1) *Group Policy for Financial Instruments*

The Group uses financial instruments, mainly safe and reliable short-term cash deposits, and marketable and investment securities which are believed to be beneficial for the business, for fund management. As Group financing policy, the Group principally uses internal funds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

#### (2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts. Marketable and investment securities, mainly trading securities, debt securities and stocks of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are offset against the balance of receivables denominated in the same foreign currency as noted above.

Derivatives mainly include foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 16 for more details about derivatives.



### (3) Risk Management for Financial Instruments

#### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to debt securities, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. With reference to derivatives, it is reasonable to assume that there is little credit risk to be recognized as the Group only deals with high credit rating financial institutions. Please see Note 16 for details about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of 31st March, 2020.

#### *Market risk management (foreign exchange risk and interest rate risk)*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged partially by foreign currency forward contracts.

Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

The basic principles of derivative transactions are approved by management meetings based on the internal guidelines which prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made by the corporate accounting department, and the transactions data is reported to the management meeting on a monthly basis.

### (4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

#### (a) Fair value of financial instruments

<u>31st March, 2020</u>	<u>Millions of Japanese Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥29,585	¥29,585	
Short-term investments	13,173	13,173	
Receivables	14,308	14,308	
Marketable and investment securities	<u>7,349</u>	<u>7,349</u>	—
Total	<u>¥64,415</u>	<u>¥64,415</u>	==
Payables	¥ 3,050	¥ 3,050	
Short-term bank loans	720	720	
Electronically recorded obligations	589	589	
Long-term debt	<u>463</u>	<u>463</u>	—
Total	<u>¥ 4,822</u>	<u>¥ 4,822</u>	==

<u>31st March, 2019</u>	Millions of Japanese Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 32,855	¥ 32,855	
Short-term investments	14,012	14,012	
Receivables	18,686	18,686	
Marketable and investment securities	<u>10,575</u>	<u>10,575</u>	<u>—</u>
Total	<u>¥ 76,128</u>	<u>¥ 76,128</u>	<u>—</u>
Payables	¥ 4,554	¥ 4,554	
Short-term bank loans	810	810	
Electronically recorded obligations	2,020	2,020	
Long-term debt	<u>78</u>	<u>79</u>	<u>¥1</u>
Total	<u>¥ 7,462</u>	<u>¥ 7,463</u>	<u>¥1</u>

<u>31st March, 2020</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 271,848	\$ 271,848	
Short-term investments	121,040	121,040	
Receivables	131,474	131,474	
Marketable and investment securities	<u>67,526</u>	<u>67,526</u>	<u>—</u>
Total	<u>\$ 591,888</u>	<u>\$ 591,888</u>	<u>—</u>
Payables	\$ 28,031	\$ 28,031	
Short-term bank loans	6,618	6,618	
Electronically recorded obligations	5,410	5,410	
Long-term debt	<u>4,253</u>	<u>4,253</u>	<u>—</u>
Total	<u>\$ 44,312</u>	<u>\$ 44,312</u>	<u>—</u>

Cash and Cash Equivalents, Short-Term Investments, Receivables, Payables, Electronically Recorded Obligations and Short-Term Bank Loans

The carrying values of cash and cash equivalents, short-term investments, receivables, payables, electronically recorded obligations and short-term bank loans approximate fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Long-Term Debt

The fair values are based on present value of principal and interest discounted at the current assumed rate for long-term loans payable.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥253	¥187	\$2,325
Investments in limited partnership	60	60	550

**(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities**

		Millions of Japanese Yen			
		Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>31st March, 2020</u>					
Cash and cash equivalents	¥29,585				
Receivables	14,308				
Marketable and investment securities:					
Government bonds			¥ 300		
Corporate bonds	1,000		1,300		
Other	15				¥45
Total	<u>¥44,908</u>	<u>¥1,600</u>			<u>¥45</u>
		Thousands of U.S. Dollars			
		Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>31st March, 2020</u>					
Cash and cash equivalents	\$ 271,848				
Receivables	131,474				
Marketable and investment securities:					
Government bonds			\$ 2,757		
Corporate bonds	9,189		11,945		
Other	137				\$413
Total	<u>\$ 412,648</u>	<u>\$ 14,702</u>			<u>\$413</u>

Please see Note 8 for annual maturities of long-term debt and Note 14 for the obligations under noncancelable operating leases.

**16. DERIVATIVES**

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group principally uses foreign currency forward contracts within the limits of the amounts of deposits, trade receivables and trade payables denominated in foreign currencies. The Group does not use any derivative contracts with terms longer than one year. Further, the Group does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the risk of loss resulting from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount. The execution and control of the derivatives are managed by the finance department. The performances and positions of the derivative transactions are monitored by the accounting department and reported to the Board of Directors so that those risk positions can be appropriately controlled.

***Derivative Transactions to Which Hedge Accounting Is Not Applied***

There is no balance of derivatives at 31st March, 2020.

***Derivative Transactions to Which Hedge Accounting Is Applied***

There is no balance of derivatives at 31st March, 2020.

**17. CONTINGENT LIABILITIES**

There is no balance of contingencies at 31st March, 2020.

**18. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS**

***For the Year Ended 31st March, 2019***

The breakdown of assets and liabilities at the time of acquisition of the subsidiary for the year ended 31st March, 2019, was not presented because the impact on the consolidated financial statements was immaterial.

**19. OTHER COMPREHENSIVE LOSS**

The components of other comprehensive loss for the years ended 31st March, 2020 and 2019, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (1,832)	¥ (2,634)	\$ (16,832)
Reclassification adjustments to profit or loss	208	(65)	1,909
Amount before income tax effect	(1,624)	(2,699)	(14,923)
Income tax effect	269	805	2,470
Total	<u>¥ (1,355)</u>	<u>¥ (1,894)</u>	<u>\$ (12,453)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (2,769)	¥ 32	\$ (25,445)
Reclassification adjustments to profit or loss		(109)	
Amount before income tax effect	(2,769)	(77)	(25,445)
Income tax effect		33	
Total	<u>¥ (2,769)</u>	<u>¥ (44)</u>	<u>\$ (25,445)</u>
Remeasurements of defined benefit plans:			
Adjustments arising during the year	¥ (474)	¥ (73)	\$ (4,355)
Reclassification adjustments to profit or loss	(375)	206	(3,443)
Amount before income tax effect	(849)	133	(7,798)
Income tax effect	14	(115)	124
Total	<u>¥ (835)</u>	<u>¥ 18</u>	<u>\$ (7,674)</u>
Total other comprehensive loss	<u>¥ (4,959)</u>	<u>¥ (1,920)</u>	<u>\$ (45,572)</u>

## 20. SUBSEQUENT EVENT

### ***Appropriations of Returned Earnings***

The following appropriation of retained earnings at 31st March, 2020, was approved at the Company's shareholders' meeting held on 26th June, 2020:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends, ¥14 (\$0.129) per share	¥593	\$5,457

## 21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### **(1) *Description of Reportable Segments***

The Group's reportable segments are those for which financial information is separately available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the electronic devices and machinery and tooling segments. The electronic devices segment consists of VFDs, VFD modules, OLEDs, touch panels, radio control equipment, engines for models and parts for robots. The machinery and tooling segment consists of press die set components, moldbase components, precision plates and equipment for automation.

### **(2) *Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment***

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

**(3) Information about Sales, Profit (Loss), Assets and Other Items**

	Millions of Japanese Yen				
	Reportable Segment			Reconcil- iations	Consol- idated
	Electronic Devices	Machinery and Tooling	Total		
<u>2020</u>					
Sales:					
Sales to external customers	¥27,059	¥30,151	¥57,210		¥57,210
Intersegment sales or transfers	<u>13</u>	<u>8</u>	<u>21</u>	¥ (21)	
Total	<u>¥27,072</u>	<u>¥30,159</u>	<u>¥57,231</u>	<u>¥ (21)</u>	<u>¥57,210</u>
Segment loss	¥ (3,669)	¥ (29)	¥ (3,698)		¥ (3,698)
Segment assets	48,568	49,470	98,038		98,038
Other:					
Depreciation	450	1,185	1,635		1,635
Increase in property, plant and equipment and intangible assets	1,174	1,014	2,188		2,188
Impairment losses of assets	726	4,797	5,523	¥279	5,802
	Millions of Japanese Yen				
	Reportable Segment			Reconcil- iations	Consol- idated
	Electronic Devices	Machinery and Tooling	Total		
<u>2019</u>					
Sales:					
Sales to external customers	¥33,691	¥33,393	¥ 67,084		¥ 67,084
Intersegment sales or transfers	<u>6</u>	<u>2</u>	<u>8</u>	¥ (8)	
Total	<u>¥33,697</u>	<u>¥33,395</u>	<u>¥ 67,092</u>	<u>¥ (8)</u>	<u>¥ 67,084</u>
Segment profit (loss)	¥ (790)	¥ 1,114	¥ 324		¥ 324
Segment assets	60,474	59,377	119,851		119,851
Other:					
Depreciation	1,883	1,454	3,337		3,337
Increase in property, plant and equipment and intangible assets	1,159	1,166	2,325		2,325
Impairment losses of assets	7,643	1,224	8,867	¥8,420	17,287

<u>2020</u>	Thousands of U.S. Dollars				
	Reportable Segment			Reconcil- iations	Consol- idated
	Electronic Devices	Machinery and Tooling	Total		
Sales:					
Sales to external customers	\$ 248,633	\$ 277,049	\$ 525,682		\$ 525,682
Intersegment sales or transfers	<u>123</u>	<u>67</u>	<u>190</u>	<u>\$ (190)</u>	<u></u>
Total	<u>\$ 248,756</u>	<u>\$ 277,116</u>	<u>\$ 525,872</u>	<u>\$ (190)</u>	<u>\$ 525,682</u>
Segment loss	\$ (33,717)	\$ (263)	\$ (33,980)	\$ (1)	\$ (33,981)
Segment assets	446,271	454,562	900,833		900,833
Other:					
Depreciation	4,132	10,892	15,024		15,024
Increase in property, plant and equipment and intangible assets	10,787	9,321	20,108		20,108
Impairment losses of assets	6,668	44,081	50,749	2,568	53,317

**(4) Information about Products and Services**

Information about products and services is omitted as the same information is disclosed within the segment information.

**(5) Information about Geographical Areas**

a. Sales

2020

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
¥23,776	¥7,490	¥1,530	¥24,414	¥57,210

2019

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
¥26,167	¥9,952	¥1,874	¥29,091	¥67,084

2020

Thousands of U.S. Dollars				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
\$ 218,468	\$ 68,823	\$ 14,059	\$ 224,332	\$ 525,682

Note: Sales are classified by country or region based on the location of customers.

b. *Property, Plant and Equipment*

2020

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
¥3,741	¥622	¥1	¥12,293	¥16,657

2019

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
¥6,110	¥814	¥2	¥14,772	¥21,698

2020

Thousands of U.S. Dollars				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
\$ 34,370	\$5,715	\$9	\$ 112,957	\$ 153,051

**(6) Information about Major Customers**

Information about major customers is omitted as no customer accounts for more than 10% of the net sales in the consolidated statement of operations.

\* \* \* \* \*



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Futaba Corporation:

### Opinion

We have audited the consolidated financial statements of Futaba Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31st March, 2020, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31st March, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

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

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

26th June, 2020

# Board of Directors

As of 26 June, 2020

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Representative Director and President	Motoaki Arima
Senior Managing Director	Toshihide Kimizuka
Directors	Hiroyuki Iwase
	Yasushi Nemoto
	Takemitsu Kunio
Directors, Audit and Supervisory Committee Members	Tadashi Ohmura
	Tatsuya Ikeda
	Hiroshi Shomura
	Akihiro Ishihara

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Corporation**

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