Futaba

Futaba Corporation

FINANCIAL STATEMENTS 2019

Year Ended 31st March, 2019

Highlights of the Year Year Ended 31st March, 2019

	Millions of Japanese Yen	
	2019	**2018**
Net Sales	67,084	69,354
Net Income (Loss) Attributable to Owners of the Parent	(16,016)	1,180
Net Income (Loss) per Share (Yen)	(377.56)	27.81
Cash Dividends	3,733	3,733

Corporate Data As of 31st March, 2019

Corporate Name	FUTABA CORPORATION	
Founded	1948	
Principal Office	629 Oshiba, Mobara, Chiba Prefecture 297-8588, Japan	
Common Stock	Authorized	196,099,900 shares
	Issued	43,886,739 shares
Capitalized	¥22,559 million	
Shareholders	11,355	
Employees	5,007	

Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
31st March, 2019

ASSETS	Millions of Japanese Yen 2019	Millions of Japanese Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 32,855	¥ 37,717	$ 296,015
Marketable securities (Notes 3 and 15)	1,314	909	11,835
Short-term investments (Note 4)	14,012	12,983	126,249
Receivables (Note 15):			
Trade notes	4,019	4,162	36,207
Trade accounts	14,448	14,376	130,178
Other	219	145	1,970
Allowance for doubtful receivables	(424)	(432)	(3,821)
Inventories (Note 5)	16,648	15,274	149,992
Prepaid expenses and other current assets	1,573	1,279	14,184
Total current assets	84,664	86,413	762,809
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 8)	9,580	17,411	86,314
Buildings and structures (Notes 6 and 8)	38,627	44,090	348,027
Machinery and equipment (Note 6)	56,011	65,439	504,653
Lease assets (Notes 6 and 14)	342	139	3,085
Construction in progress (Note 6)	153	1,251	1,375
Total	104,713	128,330	943,454
Accumulated depreciation	(83,015)	(87,998)	(747,956)
Net property, plant and equipment	21,698	40,332	195,498
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries	20	20	180
Investment securities (Notes 3, 8 and 15)	9,488	13,066	85,489
Goodwill (Note 12)	1,117	1,159	10,063
Intangibles (Note 6)	1,067	1,177	9,610
Asset for retirement benefits (Note 9)	519	155	4,680
Deferred tax assets (Note 11)	313	277	2,820
Other investments	965	938	8,689
Total investments and other assets	13,489	16,792	121,531
TOTAL	¥119,851	¥143,537	$1,079,838

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
31st March, 2019

LIABILITIES AND EQUITY	Millions of Japanese Yen 2019	Millions of Japanese Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Current portion of long-term lease obligations (Note 8)	¥ 20	¥ 23	$ 184
Payables (Notes 8 and 15):			
Trade notes	647	487	5,829
Trade accounts	3,141	3,248	28,299
Unconsolidated subsidiaries	21	13	185
Other	745	750	6,713
Short-term bank loans (Notes 7 and 15)	810	913	7,298
Electronically recorded obligations	2,020	2,330	18,204
Accrued expenses	3,314	3,652	29,850
Income taxes payable	225	478	2,030
Other current liabilities (Note 8)	490	536	4,419
Total current liabilities	11,433	12,430	103,011
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 15)	78	80	700
Liability for retirement benefits (Note 9)	1,023	1,646	9,218
Retirement allowances for directors	63	56	578
Deferred tax liabilities (Note 11)	938	1,670	8,447
Other	227	224	2,041
Total long-term liabilities	2,329	3,676	20,984
CONTINGENT LIABILITIES (Note 17)			
EQUITY (Note 10):			
Common stock—authorized, 196,099,900 shares; issued, 43,886,739 shares in 2019 and 2018	22,559	22,559	203,249
Capital surplus	21,561	21,595	194,258
Retained earnings	55,844	76,046	503,154
Treasury stock—at cost, 1,467,996 shares in 2019 and 1,467,128 shares in 2018	(2,737)	(2,735)	(24,659)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	615	2,527	5,537
Foreign currency translation adjustments	(3,077)	(3,177)	(27,726)
Remeasurements of defined benefit plans	1,014	923	9,134
Total	95,779	117,738	862,947
Noncontrolling interests	10,310	9,693	92,896
Total equity	106,089	127,431	955,843
TOTAL	¥ 119,851	¥ 143,537	$ 1,079,838

See notes to consolidated financial statements.

(Concluded)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Operations
Year Ended 31st March, 2019

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES	¥ 67,084	¥69,354	$ 604,411
COST OF SALES	53,558	55,011	482,542
Gross profit	13,526	14,343	121,869
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	13,202	13,617	118,953
Operating income	324	726	2,916
OTHER INCOME (EXPENSES):			
Interest and dividend income	633	499	5,701
Foreign exchange gain (loss)—net	405	(331)	3,651
Gain on sales of property, plant and equipment	608	2,091	5,477
Loss on sales of property, plant and equipment	(26)	(13)	(235)
Loss on disposals of property, plant and equipment	(50)	(59)	(447)
Impairment loss (Note 6)	(17,287)	(299)	(155,754)
Gain on sales of investment securities	65	152	586
Special retirement expenses		(31)	
Restructuring loss		(318)	
Other—net	67	(137)	610
Other income (expenses)—net	(15,585)	1,554	(140,411)
INCOME (LOSS) BEFORE INCOME TAXES	(15,261)	2,280	(137,495)
INCOME TAXES (Note 11):			
Current	291	701	2,622
Deferred	(38)	35	(335)
Total income taxes	253	736	2,287
NET INCOME (LOSS)	(15,514)	1,544	(139,782)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	502	364	4,518
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥(16,016)	¥ 1,180	$ (144,300)

	Japanese Yen		U.S. Dollars
AMOUNTS PER SHARE (Note 2.q):			
Net income (loss)	¥(377.56)	¥27.81	$(3.40)
Cash dividends applicable to the year	88.00	88.00	0.79

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended 31st March, 2019

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME (LOSS)	¥(15,514)	¥1,544	$(139,782)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized gain (loss) on available-for-sale securities	(1,894)	818	(17,060)
Foreign currency translation adjustments	(44)	(822)	(398)
Remeasurements of defined benefit plans	18	2,023	166
Total other comprehensive income (loss)	(1,920)	2,019	(17,292)
COMPREHENSIVE INCOME (LOSS)	¥(17,434)	¥3,563	$(157,074)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥(17,739)	¥3,219	$(159,822)
Noncontrolling interests	305	344	2,748

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2019

	Thousands	Millions of Japanese Yen				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 1ST APRIL, 2017	42,420	¥22,559	¥21,595	¥78,525	¥(2,733)	¥119,946
Change in scope of consolidation				74		74
Net income attributable to owners of the parent				1,180		1,180
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock	(1)				(2)	(2)
Disposal of treasury stock	1					
Net change in the year						
BALANCE, 31ST MARCH, 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)
Disposal of treasury stock						
Net change in the year						
BALANCE, 31ST MARCH, 2019	42,419	¥22,559	¥21,561	¥55,844	¥(2,737)	¥ 97,227

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2019

	Millions of Japanese Yen					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjust-ments	Remea-surements of Defined Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, 1ST APRIL, 2017	¥1,654	¥(2,414)	¥(1,011)	¥118,175	¥ 9,503	¥127,678
Change in scope of consolidation				74		74
Net income attributable to owners of the parent				1,180		1,180
Cash dividends				(3,733)		(3,733)
Purchase of treasury stock				(2)		(2)
Disposal of treasury stock						
Net change in the year	873	(763)	1,934	2,044	190	2,234
BALANCE, 31ST MARCH, 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)
Disposal of treasury stock						
Net change in the year	(1,912)	100	91	(1,721)	617	(1,104)
BALANCE, 31ST MARCH, 2019	¥ 615	¥(3,077)	¥ 1,014	¥ 95,779	¥10,310	¥106,089

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2019

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 31ST MARCH, 2018	$ 203,249	$ 194,565	$ 685,165	$ (24,644)	$ 1,058,335
Change in scope of consolidation		(307)	(4,078)		(4,385)
Net loss attributable to owners of the parent			(144,300)		(144,300)
Cash dividends			(33,633)		(33,633)
Purchase of treasury stock				(15)	(15)
Disposal of treasury stock					
Net change in the year					
BALANCE, 31ST MARCH, 2019	$ 203,249	$ 194,258	$ 503,154	$ (24,659)	$ 876,002

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjust-ments	Remea-surements of Defined Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, 31ST MARCH, 2018	$ 22,772	$ (28,625)	$ 8,320	$ 1,060,802	$ 87,324	$ 1,148,126
Change in scope of consolidation				(4,385)		(4,385)
Net loss attributable to owners of the parent				(144,300)		(144,300)
Cash dividends				(33,633)		(33,633)
Purchase of treasury stock				(15)		(15)
Disposal of treasury stock						
Net change in the year	(17,235)	899	814	(15,522)	5,572	(9,950)
BALANCE, 31ST MARCH, 2019	$ 5,537	$ (27,726)	$ 9,134	$ 862,947	$ 92,896	$ 955,843

See notes to consolidated financial statements.

(Concluded)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended 31st March, 2019

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥(15,261)	¥2,280	$ (137,495)
Adjustments for:			
Income taxes—paid	(903)	(701)	(8,139)
Income taxes—refund	10	4	94
Depreciation and amortization	3,337	3,476	30,070
Amortization of goodwill	172	80	1,552
Impairment loss	17,287	299	155,754
Increase in provision for doubtful receivables	57	220	510
(Increase) decrease in asset for retirement benefits	(248)	15	(2,234)
Decrease in liability for retirement benefits	(845)	(681)	(7,611)
Increase (decrease) in accrued bonuses	1	(41)	9
Foreign exchange (gain) loss	(70)	189	(634)
Gain on sales and disposal of property, plant and equipment	(532)	(2,019)	(4,794)
Gain on valuation of investment securities	(65)	(152)	(586)
Special retirement expenses		31	
Restructuring loss		318	
(Increase) decrease in trade receivables	197	(1,399)	1,779
Increase in inventories	(1,213)	(2,207)	(10,931)
Increase (decrease) in trade payables	(301)	391	(2,714)
Other—net	(409)	(257)	(3,692)
Total adjustments	16,475	(2,434)	148,433
Net cash provided by (used in) operating activities	1,214	(154)	10,938
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	774	2,743	6,974
Purchases of property, plant and equipment	(1,821)	(2,703)	(16,410)
Purchases of investment securities	(449)	(1,109)	(4,047)
Proceeds from sales and redemption of investment securities	494	247	4,452
(Increase) decrease in short-term investments and marketable securities—net	(398)	2,147	(3,590)
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 18)	(479)	(1,676)	(4,313)
Other—net	(274)	(330)	(2,468)
Net cash used in investing activities	(2,153)	(681)	(19,402)
FORWARD	¥ (939)	¥ (835)	$ (8,464)

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended 31st March, 2019

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
FORWARD	¥ (939)	¥ (835)	$ (8,464)
FINANCING ACTIVITIES:			
Increase in short-term loans payable		925	
Repayments of short-term bank loans	(91)		(818)
Repayments of long-term debt	(24)	(235)	(219)
Repurchases of treasury stock	(2)	(2)	(15)
Dividends paid	(3,733)	(3,733)	(33,633)
Other—net	(195)	(175)	(1,759)
Net cash used in financing activities	(4,045)	(3,220)	(36,444)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	122	(251)	1,100
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,862)	(4,306)	(43,808)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		181	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,717	41,842	339,823
CASH AND CASH EQUIVALENTS, END OF YEAR	¥32,855	¥37,717	$296,015

See notes to consolidated financial statements.

(Concluded)

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.

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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥110.99 to $1, the approximate rate of exchange at 31st March, 2019. 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, 2019, include the accounts of the Company and its 26 (26 in 2018) significant subsidiaries (together, the "Group"). SENTORARU DENSHI SEIGYO CO., LTD. has been included in the scope of consolidation from the current fiscal year as a result of acquisition of its shares. In addition, KISHIN PRECISION DIE AND MOLD MACHINERY (TIANJIN) CO., LTD. has been excluded in the scope of consolidation from the current fiscal year as a result of the liquidation.

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 International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) 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; and (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.

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 balance sheet.

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.

On 16th February, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. As a result, in the consolidated balance sheet of the previous fiscal year, deferred tax assets in current assets decreased by ¥113 million, deferred tax assets in investments and other assets increased by ¥108 million, deferred tax liabilities in current liabilities decreased by ¥33 million, and deferred tax liabilities in noncurrent liabilities increased by ¥27 million. In addition, due to the effect of offsetting deferred tax assets and deferred tax liabilities by the same taxable entity, total assets and total liabilities decreased by ¥6 million.

The note related to tax effect accounting additionally included those described in notes 8 (excluding total amount of valuation allowance) and 9 of "Accounting Standard for Tax Effect Accounting," which are required in Paragraph 3 to Paragraph 5 of ASBJ Statement No. 28. However, such additional information corresponding to the previous fiscal year is not disclosed, following the transitional treatments prescribed in Paragraph 7 of ASBJ Statement No. 28.

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 42,419,156 shares for 2019 and 42,420,141 shares for 2018.

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***—The financial information of the foreign subsidiaries included in the Group's consolidated financial statements is prepared in accordance with IFRS. Such subsidiaries have the following new accounting standards, that have been issued but not yet effective as at 31st March, 2019. The Group is currently evaluating the effects of adoption of these accounting standards.

Accounting Standard	Description	Effective Date
"Lease" (IFRS 16)	IFRS 16 introduces a single accounting model that lessees use to recognize assets and liabilities for all types of leases.	Year ending March 2020

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of 31st March, 2019 and 2018, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Government and corporate bonds	¥1,314	¥ 401	$11,835
Trust fund investments and other		508	
Total	¥1,314	¥ 909	$11,835
Non-current:			
Marketable equity securities	¥6,912	¥ 9,179	$62,275
Government and corporate bonds	2,516	3,824	22,673
Trust fund investments and other	60	63	541
Total	¥9,488	¥13,066	$85,489

The costs and aggregate fair values of marketable and investment securities at 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen			
31st March, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,807	¥1,094	¥156	¥6,745
Debt securities	3,815	15		3,830
31st March, 2018				
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,375	¥3,703	¥66	¥9,012
Debt securities	4,211	18	4	4,225

	Thousands of U.S. Dollars			
31st March, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	$52,321	$9,857	$1,405	$60,773
Debt securities	34,369	142	4	34,507

The information on available-for-sale securities sold during the year ended 31st March, 2019, is as follows:

	Millions of Japanese Yen		
31st March, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 87	¥ 65	
Total	¥ 87	¥ 65	
31st March, 2018			
Available-for-sale—Equity securities	¥239	¥151	
Total	¥239	¥151	

	Thousands of U.S. Dollars		
31st March, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	$786	$586	
Total	$786	$586	

4. SHORT-TERM INVESTMENTS

Short-term investments at 31st March, 2019 and 2018, consisted of time deposits of ¥14,012 million ($126,249 thousand) and ¥12,983 million, respectively.

5. INVENTORIES

Inventories at 31st March, 2019 and 2018, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished goods	¥ 5,401	¥ 4,762	$ 48,651
Work in process	3,047	2,709	27,456
Raw materials and supplies	8,200	7,803	73,885
Total	¥16,648	¥15,274	$ 149,992

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of 31st March, 2019 and 2018. As a result, the Group recognized an impairment loss of ¥17,287 million ($155,754 thousand) and ¥299 million for the years ended 31st March, 2019 and 2018, respectively, as further described below.

For 2019

Description	Classification	Location	Millions of Japanese Yen	Thousands of U.S. Dollars
Head office, etc.	Land, buildings, etc.	Chosei County, etc., Japan	¥ 3,905	$ 35,180
Facilities for electronic devices	Land, buildings, etc.	Chosei County, etc., Japan	1,495	13,472
Facilities for machinery and tooling	Land, machinery, etc.	Chosei County, etc., Japan	1,171	10,546
Facilities for electronic devices	Tools, machinery, etc.	Kaohsiung City, Taiwan	3,686	33,212
Facilities for electronic devices	Machinery, vehicles, etc.	Huizhou City, China	20	177
Facilities for electronic devices	Buildings, machinery, etc.	Laguna, Philippines	2,424	21,839
Facilities for electronic devices	Tools, furniture and fixtures	Laguna, Philippines		2
Dormant assets	Land, buildings, etc.	Chosei County, etc., Japan	4,568	41,160
Dormant assets	Machinery	Osaka City, Japan	18	166
Total			¥17,287	$ 155,754

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, is as follows:

Classification	Millions of Japanese Yen	Thousands of U.S. Dollars
Land	¥ 7,759	$ 69,903
Buildings and structures	4,286	38,615
Machinery and equipment	4,550	40,992
Others	692	6,244
Total	¥17,287	$ 155,754

For 2018

Description	Classification	Location	Millions of Japanese Yen
Facilities for electronic devices	Building, etc.	Chosei County, etc., Japan	¥ 91
Facilities for electronic devices	Machinery, etc.	Huizhou City, China	16
Dormant assets	Machinery, structures	Kaohsiung City, Taiwan	96
Dormant assets	Building, structures	Chosei County, Japan	96
Total			¥299

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 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.

A breakdown of impairment loss for the fiscal year ended 31st March, 2018, was as follows:

Classification	Millions of Japanese Yen
Buildings and structures	¥210
Machinery and equipment	82
Others	7
Total	¥299

7. SHORT-TERM BANK LOANS

The annual interest rates applicable to the short-term bank loans ranged from 0.49% to 0.74% and from 0.49% to 0.55% at 31st March, 2019 and 2018, respectively.

8. LONG-TERM DEBT AND ASSETS PLEDGED AS COLLATERAL

Long-term debt at 31st March, 2019 and 2018, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Long-term loans of subsidiaries	¥49	¥50	$441
Long-term lease obligation	49	53	443
Less current portion	(20)	(23)	(184)
Long-term debt, less current portion	¥78	¥80	$700

Annual maturities of long-term debt as of 31st March, 2019, for the next five years and thereafter were as follows:

Year Ending 31st March	Millions of Japanese Yen	Thousands of U.S. Dollars
2020	¥20	$ 184
2021	66	593
2022	5	43
2023	5	41
2024 and thereafter	3	24
Total	¥99	$ 885

The carrying amounts of assets pledged as collateral for accrued consumption taxes of ¥55 million ($493 thousand), trade accounts payable of ¥204 million ($1,837 thousand) and long-term loans of subsidiaries of ¥49 million ($441 thousand) at 31st March, 2019, were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Buildings and structures—net	¥1,745	$ 15,726
Land	1,083	9,759
Investment securities	312	2,813
Total	¥3,140	$ 28,298

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, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥33,828	¥36,231	$ 304,781
Current service cost	377	815	3,400
Interest cost	275	294	2,479
Actuarial gains	(157)	(737)	(1,414)
Benefits paid	(1,463)	(2,831)	(13,181)
Others	(32)	56	(292)
Balance at end of year	¥32,828	¥33,828	$ 295,773

(2) The changes in plan assets for the years ended 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥32,337	¥33,023	$ 291,348
Expected return on plan assets	834	836	7,514
Actuarial gains (losses)	(279)	491	(2,518)
Contributions from the employer	871	979	7,848
Benefits paid	(1,412)	(2,920)	(12,722)
Others	(27)	(72)	(235)
Balance at end of year	¥32,324	¥32,337	$ 291,235

(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, 2019 and 2018

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥32,541	¥33,551	$ 293,188
Plan assets	(32,324)	(32,337)	(291,235)
Total	217	1,214	1,953
Unfunded defined benefit obligation	287	277	2,585
Net liability arising from defined benefit obligation	¥ 504	¥ 1,491	$ 4,538

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥1,023	¥1,646	$9,218
Asset for retirement benefits	(519)	(155)	(4,680)
Net liability arising from defined benefit obligation	¥ 504	¥1,491	$4,538

(4) The components of net periodic benefit costs for the years ended 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥377	¥ 815	$3,400
Interest cost	275	294	2,479
Expected return on plan assets	(834)	(836)	(7,514)
Amortization of prior service cost	(759)	(759)	(6,840)
Recognized actuarial losses	965	1,541	8,688
Net periodic benefit costs	¥ 24	¥1,055	$ 213

Note: In addition to the net periodic benefit cost stated above, extra retirement benefits of ¥45 million ($406 thousand) and ¥58 million were recorded as operating expenses for the years ended 31st March, 2019 and 2018, respectively. Also, the Group recognized special retirement benefits of ¥575 million during the year ended 31st March, 2018, which are included in "special retirement expenses" and "restructuring loss" under other expenses in the consolidated statement of operations.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥(759)	¥ (759)	$(6,840)
Actuarial losses	892	2,783	8,042
Total	¥ 133	¥2,024	$ 1,202

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost	¥2,847	¥3,606	$25,650
Unrecognized actuarial gains	(1,718)	(2,683)	(15,480)
Total	¥1,129	¥ 923	$10,170

(7) Plan assets

a. *Components of plan assets*

Plan assets as of 31st March, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	27%	46%
Equity investments	21	23
Others	52	31
Total	100%	100%

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, 2019 and 2018, were set forth as follows:

	2019	2018
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, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2019 and 2018, are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Inventories	¥ 308	¥ 281	$ 2,772
Accrued bonuses to employees	256	247	2,305
Depreciation	308	304	2,779
Liability for retirement benefits	467	734	4,208
Allowance for doubtful accounts	278	115	2,507
Loss on impairment of long-lived assets	5,976	2,253	53,841
Tax loss carryforwards	8,134	10,014	73,284
Other	450	660	4,053
Total deferred tax assets	16,177	14,608	145,749
Net of deferred tax liabilities in the same tax jurisdiction	(119)	(107)	(1,073)
Valuation allowance related to tax loss carryforwards	(8,070)		(72,711)
Valuation allowance related to total deductible temporary difference, etc.	(7,675)		(69,145)
Valuation allowance	(15,745)	(14,224)	(141,856)
Deferred tax assets—net	313	277	2,820
Deferred tax liabilities:			
Undistributed earnings of subsidiaries	43	6	391
Reserve for advanced depreciation of non-current assets	275	275	2,473
Unrealized gain on available-for-sale securities	259	1,063	2,334
Other	480	433	4,322
Total deferred tax liabilities	1,057	1,777	9,520
Net of deferred tax assets in the same tax jurisdiction	(119)	(107)	(1,073)
Deferred tax liabilities—net	938	1,670	8,447
Net deferred tax liabilities	¥ 625	¥ 1,393	$ 5,627

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, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30 %	30%
Expenses not deductible for tax purposes	(1)	7
Deferred tax assets not recognized on unrealized profit		(1)
Valuation allowance for deferred tax assets	(14)	(64)
Different tax rates between the current term and the next term later		2
Different tax rates applied to foreign subsidiaries		(6)
Influence from the tax rate change		(7)
Expiration of loss carryforwards	(16)	61
Foreign tax credit	(1)	3
Inhabitant tax		2
Amortization of goodwill		1
Other—net		4
Actual effective tax rate	(2)%	32%

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

	Millions of Japanese Yen						
31st March, 2019	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
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						
31st March, 2019	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
Tax loss carryforward	$10,302	$9,566	$11,378	$4,402	$4,068	$33,568	$73,284
Valuation allowance	(10,302)	(9,538)	(11,350)	(4,402)	(4,023)	(33,096)	(72,711)
Deferred tax assets		28	28		45	472	573

12. BUSINESS COMBINATION

For the Year Ended 31st March, 2019

Information about the business combination occurred in the year ended 31st March, 2019, was not presented because the impact on the consolidated financial statements was immaterial.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,018 million ($18,178 thousand) and ¥2,009 million for the years ended 31st March, 2019 and 2018, respectively.

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, 2019 and 2018, were ¥60 million ($544 thousand) and ¥38 million, respectively.

Operating Leases

The obligations under noncancelable operating leases for the years ended 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 97	¥ 75	$ 872
Due after one year	36	93	329
Total	¥133	¥168	$1,201

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, 2019.

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*

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

	Millions of Japanese Yen		
31st March, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥37,717	¥37,717	
Short-term investments	12,983	12,983	
Receivables	18,684	18,684	
Marketable and investment securities	13,236	13,236	
Total	¥82,620	¥82,620	
Payables	¥ 4,498	¥ 4,498	
Short-term bank loans	913	913	
Electronically recorded obligations	2,330	2,330	
Long-term debt	80	83	¥3
Total	¥ 7,821	¥ 7,824	¥3

	Thousands of U.S. Dollars		
31st March, 2019	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 296,015	$ 296,015	
Short-term investments	126,249	126,249	
Receivables	168,355	168,355	
Marketable and investment securities	95,280	95,280	
Total	$ 685,899	$ 685,899	
Payables	$ 41,026	$ 41,026	
Short-term bank loans	7,298	7,298	
Electronically recorded obligations	18,204	18,204	
Long-term debt	700	713	$ 13
Total	$ 67,228	$ 67,241	$ 13

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
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥187	¥187	$1,682
Investments in limited partnership	60	572	541

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

	Millions of Japanese Yen			
31st March, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥32,855			
Receivables	18,686			
Marketable and investment securities:				
Government bonds			¥300	
Corporate bonds	1,312	¥2,200		
Other		15		¥45
Total	¥52,853	¥2,215	¥300	¥45

	Thousands of U.S. Dollars			
31st March, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$296,015			
Receivables	168,355			
Marketable and investment securities:				
Government bonds			$2,703	
Corporate bonds	11,822	$19,822		
Other		136		$405
Total	$476,192	$19,958	$2,703	$405

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, 2019.

Derivative Transactions to Which Hedge Accounting Is Applied

There is no balance of derivatives at 31st March, 2019.

17. CONTINGENT LIABILITIES

There is no balance of contingencies at 31st March, 2019.

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.

For the Year Ended 31st March, 2018

The breakdown of assets and liabilities at the time of acquisition of two subsidiaries, Kabuku Inc. and Wonjin Precision Co., Ltd., through acquisition of their shares, and their acquisition cost and expenditure on acquisition for the year ended 31st March, 2018, was as follows:

Kabuku Inc.

	Millions of Japanese Yen
Current assets	¥1,051
Non-current assets	295
Goodwill	1,181
Current liabilities	(65)
Long-term liabilities	(1,087)
Noncontrolling interests	(20)
Acquisition cost	1,355
Cash and cash equivalents	12
Net: purchase of shares of subsidiaries resulting in change in scope of consolidation	¥1,367

Wonjin Precision Co., Ltd.

	Millions of Japanese Yen
Current assets	¥589
Non-current assets	539
Goodwill	57
Current liabilities	(213)
Long-term liabilities	(379)
Acquisition cost	593
Cash and cash equivalents	(284)
Net: purchase of shares of subsidiaries resulting in change in scope of consolidation	¥309

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended 31st March, 2019 and 2018, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥(2,634)	¥1,329	$(23,727)
Reclassification adjustments to profit or loss	(65)	(152)	(586)
Amount before income tax effect	(2,699)	1,177	(24,313)
Income tax effect	805	(359)	7,253
Total	¥(1,894)	¥ 818	$(17,060)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 32	¥ (822)	$ 297
Reclassification adjustments to profit or loss	(109)		(993)
Amount before income tax effect	(77)	(822)	(696)
Income tax effect	33		298
Total	¥ (44)	¥ (822)	$ (398)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	¥ (73)	¥1,169	$ (658)
Reclassification adjustments to profit or loss	206	854	1,860
Amount before income tax effect	133	2,023	1,202
Income tax effect	(115)		(1,036)
Total	¥ 18	¥2,023	$ 166
Total other comprehensive income (loss)	¥(1,920)	¥2,019	$(17,292)

20. SUBSEQUENT EVENTS

a. Appropriations of Returned Earnings

The following appropriation of retained earnings at 31st March, 2019, was approved at the Company's shareholders' meeting held on 27th June, 2019:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends, ¥74 ($0.667) per share	¥3,139	$ 28,282

A special dividend of ¥60 ($0.541) is included in the dividends per share.

b. Cancellation of Treasury Stock

The Company resolved to cancel treasury shares pursuant to Article 178 of the Companies Act at the meeting of the Board of Directors held on 21st May, 2019:

Details of the Board resolution for cancellation of treasury stock

(1) Type of shares to be cancelled: Common stock of the Company

(2) Number of shares to be cancelled: 1,460,000 shares (This number represents 3.33% of total outstanding shares before cancellation.)

(3) Date of cancellation: 28th June, 2019

(4) Total number of issued shares after the cancellation: 42,426,739 shares

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***

2019	Millions of Japanese Yen				
	Reportable Segment				
	Electronic Devices	Machinery and Tooling	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	¥33,691	¥33,393	¥ 67,084		¥ 67,084
Intersegment sales or transfers	6	2	8	¥ (8)	
Total	¥33,697	¥33,395	¥ 67,092	¥ (8)	¥ 67,084
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

2018	Millions of Japanese Yen				
	Reportable Segment				
	Electronic Devices	Machinery and Tooling	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	¥36,963	¥32,391	¥ 69,354		¥ 69,354
Intersegment sales or transfers	9		9	¥(9)	
Total	¥36,972	¥32,391	¥ 69,363	¥(9)	¥ 69,354
Segment profit (loss)	¥ (399)	¥ 1,125	¥ 726		¥ 726
Segment assets	79,813	63,726	143,539	¥(2)	143,537
Other:					
Depreciation	2,045	1,431	3,476		3,476
Increase in property, plant and equipment and intangible assets	1,752	886	2,638		2,638
Impairment losses of assets	299		299		299

2019	Thousands of U.S. Dollars				
	Reportable Segment				
	Electronic Devices	Machinery and Tooling	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	$ 303,550	$ 300,861	$ 604,411		$ 604,411
Intersegment sales or transfers	58	18	76	$ (76)	
Total	$ 303,608	$ 300,879	$ 604,487	$ (76)	$ 604,411
Segment profit (loss)	$ (7,117)	$ 10,034	$ 2,917	$ (1)	$ 2,916
Segment assets	544,863	534,975	1,079,838		1,079,838
Other:					
Depreciation	16,973	13,097	30,070		30,070
Increase in property, plant and equipment and intangible assets	10,446	10,499	20,945		20,945
Impairment losses of assets	68,868	11,024	79,892	75,862	155,754

(**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

2019

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

2018

Millions of Japanese Yen				
Japan	America	Europe	Asia	Total
¥25,331	¥10,931	¥2,315	¥30,777	¥69,354

2019

Thousands of U.S. Dollars				
Japan	America	Europe	Asia	Total
$ 235,761	$ 89,666	$ 16,884	$ 262,100	$ 604,411

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

b. Property, Plant and Equipment

2019

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

2018

Millions of Japanese Yen				
Japan	America	Europe	Asia	Total
¥16,907	¥865	¥5	¥22,555	¥40,332

2019

Thousands of U.S. Dollars				
Japan	America	Europe	Asia	Total
$55,048	$7,335	$21	$133,094	$195,498

(**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.

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Futaba Corporation:

We have audited the accompanying consolidated balance sheet of Futaba Corporation and its consolidated subsidiaries as of 31st March, 2019, and the related consolidated statements of operations, comprehensive income, changes in equity, 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Futaba Corporation and its consolidated subsidiaries as of 31st March, 2019, and the consolidated results of their operations and their 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.

Deloitte Touche Tohmatsu LLC

27th June, 2019

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

As of 27 June, 2019

Representative Director and Chairman	Hiroshi Sakurada
Representative Director and President	Motoaki Arima
Directors	Toshihide Kimizuka
	Hideharu Kawasaki
	Takemitsu Kunio
Directors, Audit and Supervisory Committee Members	Tatsuya Ikeda
	Tadashi Ohmura
	Hiroshi Shomura
	Akihiro Ishihara

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