Futaba

Futaba Corporation

FINANCIAL STATEMENTS 2018

Year Ended 31st March, 2018

Highlights of the Year Year Ended 31st March, 2018

	Millions of Japanese Yen	
	2018	**2017**
Net Sales	69,354	64,157
Net Income (Loss) Attributable to Owners of the Parent	1,180	(2,372)
Net Income (Loss) per Share (Yen)	27.81	(55.86)
Cash Dividends	3,733	1,193

Corporate Data As of 31st March, 2018

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	9,070	
Employees	5,213	

Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
31st March, 2018

ASSETS	Millions of Japanese Yen 2018	Millions of Japanese Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 37,717	¥ 41,842	$ 355,016
Marketable securities (Notes 3 and 16)	909	124	8,552
Short-term investments (Note 4)	12,983	15,024	122,200
Receivables (Note 16):			
Trade notes	4,162	3,728	39,177
Trade accounts	14,377	13,624	135,323
Unconsolidated subsidiaries		7	
Other	145	230	1,362
Allowance for doubtful receivables	(432)	(394)	(4,069)
Inventories (Note 5)	15,274	13,142	143,770
Deferred tax assets (Note 11)	113	129	1,067
Prepaid expenses and other current assets	1,279	896	12,049
Total current assets	86,527	88,352	814,447
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 8)	17,411	17,433	163,882
Buildings and structures (Notes 6 and 8)	44,090	45,430	415,001
Machinery and equipment (Note 6)	65,439	68,608	615,951
Lease assets (Note 15)	139	206	1,309
Construction in progress (Note 6)	1,251	1,787	11,774
Total	128,330	133,464	1,207,917
Accumulated depreciation	(87,998)	(91,356)	(828,288)
Net property, plant and equipment	40,332	42,108	379,629
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries	20	112	188
Investment securities (Notes 3, 8 and 16)	13,066	11,788	122,984
Goodwill (Note 12)	1,159		10,912
Intangibles (Note 6)	1,177	984	11,078
Asset for retirement benefits (Note 9)	155	172	1,463
Deferred tax assets (Note 11)	169	167	1,593
Other investments	938	893	8,826
Total investments and other assets	16,684	14,116	157,044
TOTAL	¥143,543	¥144,576	$1,351,120

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Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
31st March, 2018

LIABILITIES AND EQUITY	Millions of Japanese Yen 2018	Millions of Japanese Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT LIABILITIES:			
Current portion of long-term lease obligations (Note 8)	¥ 23	¥ 34	$ 213
Payables (Notes 8 and 16):			
Trade notes	487	763	4,580
Trade accounts	3,248	3,204	30,572
Unconsolidated subsidiaries	13	39	126
Other	750	1,127	7,063
Short-term bank loans (Notes 7 and 16)	913		8,589
Electronically recorded obligations	2,330	1,558	21,929
Accrued expenses	3,652	4,263	34,375
Income taxes payable	478	510	4,502
Deferred tax liabilities (Note 11)	33	18	310
Other current liabilities (Note 8)	536	565	5,057
Total current liabilities	12,463	12,081	117,316
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	80	52	751
Liability for retirement benefits (Note 9)	1,646	3,380	15,496
Retirement allowances for directors	56	117	526
Deferred tax liabilities (Note 11)	1,643	1,087	15,465
Other	224	181	2,107
Total long-term liabilities	3,649	4,817	34,345
CONTINGENT LIABILITIES (Note 18)			
EQUITY (Note 10):			
Common stock—authorized, 196,099,900 shares; issued, 43,886,739 shares in 2018 and 2017	22,559	22,559	212,336
Capital surplus	21,595	21,595	203,264
Retained earnings	76,046	78,525	715,799
Treasury stock—at cost, 1,467,128 shares in 2018 and 1,466,349 shares in 2017	(2,735)	(2,733)	(25,746)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	2,527	1,654	23,790
Foreign currency translation adjustments	(3,177)	(2,414)	(29,904)
Remeasurements of defined benefit plans	923	(1,011)	8,692
Total	117,738	118,175	1,108,231
Noncontrolling interests	9,693	9,503	91,228
Total equity	127,431	127,678	1,199,459
TOTAL	¥143,543	¥144,576	$1,351,120

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Operations
Year Ended 31st March, 2018

	Millions of Japanese Yen 2018	Millions of Japanese Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
NET SALES	¥69,354	¥64,157	$652,802
COST OF SALES	55,011	51,859	517,794
Gross profit	14,343	12,298	135,008
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	13,617	12,682	128,173
Operating income (loss)	726	(384)	6,835
OTHER INCOME (EXPENSES):			
Interest and dividend income	499	458	4,700
Foreign exchange loss—net	(331)	(415)	(3,112)
Gain on sales of property, plant and equipment	2,091	21	19,680
Loss on sales of property, plant and equipment	(13)	(11)	(121)
Loss on disposals of property, plant and equipment	(59)	(30)	(555)
Impairment loss (Note 6)	(299)	(570)	(2,814)
Gain on sales of investment securities	152		1,429
Loss on valuation of investment securities		(65)	
Loss on disaster		(15)	
Special retirement expenses	(31)	(65)	(292)
Restructuring loss (Note 14)	(318)	(548)	(2,996)
Loss on valuation of membership		(18)	
Other—net	(137)	19	(1,296)
Other income (expenses)—net	1,554	(1,239)	14,623
INCOME (LOSS) BEFORE INCOME TAXES	2,280	(1,623)	21,458
INCOME TAXES (Note 11):			
Current	701	658	6,603
Deferred	35	50	325
Total income taxes	736	708	6,928
NET INCOME (LOSS)	1,544	(2,331)	14,530
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	364	41	3,427
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,180	¥ (2,372)	$ 11,103

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Operations
Year Ended 31st March, 2018

	Japanese Yen		U.S. Dollars
	2018	2017	2018
AMOUNTS PER SHARE (Note 2.q):			
Net income (loss)	¥27.81	¥(55.86)	$0.26
Cash dividends applicable to the year	88.00	88.00	0.83

See notes to consolidated financial statements.

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Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended 31st March, 2018

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME (LOSS)	¥1,544	¥(2,331)	$14,530
OTHER COMPREHENSIVE INCOME (Note 20):			
Unrealized gain on available-for-sale securities	818	760	7,700
Foreign currency translation adjustments	(822)	213	(7,738)
Remeasurements of defined benefit plans	2,023	1,890	19,048
Total other comprehensive income	2,019	2,863	19,010
COMPREHENSIVE INCOME	¥3,563	¥ 532	$33,540
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥3,219	¥397	$30,298
Noncontrolling interests	344	135	3,242

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2018

	Thousands	Millions of Japanese Yen				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 1ST APRIL, 2016	42,801	¥22,559	¥21,595	¥82,108	¥(2,080)	¥124,182
Change in scope of consolidation				(18)		(18)
Net loss attributable to owners of the parent				(2,372)		(2,372)
Cash dividends				(1,193)		(1,193)
Purchase of treasury stock	(381)				(653)	(653)
Disposal of treasury stock						
Net change in the year						
BALANCE, 31ST MARCH, 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

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2018

	Millions of Japanese Yen					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, 1ST APRIL, 2016	¥ 833	¥(2,484)	¥(2,855)	¥119,676	¥9,563	¥129,239
Change in scope of consolidation		(34)		(52)		(52)
Net loss attributable to owners of the parent				(2,372)		(2,372)
Cash dividends				(1,193)		(1,193)
Purchase of treasury stock				(653)		(653)
Disposal of treasury stock						
Net change in the year	821	104	1,844	2,769	(60)	2,709
BALANCE, 31ST MARCH, 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

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended 31st March, 2018

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, 31ST MARCH, 2017	$212,336	$203,264	$739,138	$(25,729)	$1,129,009
Change in scope of consolidation			695		695
Net income attributable to owners of the parent			11,103		11,103
Cash dividends			(35,137)		(35,137)
Purchase of treasury stock				(18)	(18)
Disposal of treasury stock				1	1
Net change in the year					
BALANCE, 31ST MARCH, 2018	$212,336	$203,264	$715,799	$(25,746)	$1,105,653

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, 31ST MARCH, 2017	$15,574	$(22,728)	$ (9,518)	$1,112,337	$89,451	$1,201,788
Change in scope of consolidation				695		695
Net income attributable to owners of the parent				11,103		11,103
Cash dividends				(35,137)		(35,137)
Purchase of treasury stock				(18)		(18)
Disposal of treasury stock				1		1
Net change in the year	8,216	(7,176)	18,210	19,250	1,777	21,027
BALANCE, 31ST MARCH, 2018	$23,790	$(29,904)	$ 8,692	$1,108,231	$91,228	$1,199,459

See notes to consolidated financial statements.

(Concluded)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended 31st March, 2018

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥2,280	¥(1,623)	$21,458
Adjustments for:			
Income taxes—paid	(701)	(664)	(6,597)
Income taxes—refund	4	45	35
Depreciation and amortization	3,476	3,279	32,716
Amortization of goodwill	80		750
Impairment loss	299	570	2,814
Increase in provision for doubtful receivables	220	131	2,071
Decrease in asset for retirement benefits	15	12	138
Decrease in liability for retirement benefits	(681)	(519)	(6,406)
Decrease in accrued bonuses	(41)	(4)	(386)
Foreign exchange loss	189	375	1,780
(Gain) loss on sales and disposal of property, plant and equipment	(2,019)	21	(19,004)
(Gain) loss on valuation of investment securities	(152)	65	(1,429)
Special retirement expenses	31	65	292
Restructuring loss	318	548	2,996
Loss on disaster		15	
Loss on valuation of membership		18	
(Increase) decrease in trade receivables	(1,399)	784	(13,165)
(Increase) decrease in inventories	(2,207)	671	(20,771)
Increase in trade payables	391	539	3,678
Other—net	(257)	479	(2,424)
Total adjustments	(2,434)	6,430	(22,912)
Net cash provided by (used in) operating activities	(154)	4,807	(1,454)
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	2,743	379	25,821
Purchases of property, plant and equipment	(2,703)	(4,591)	(25,441)
Purchases of investment securities	(1,109)	(600)	(10,435)
Proceeds from sales and redemption of investment securities	247	702	2,326
Increase in short-term investments and marketable securities—net	2,147	7,942	20,205
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 19)	(1,676)		(15,772)
Other—net	(330)	(186)	(3,111)
Net cash provided by (used in) investing activities	(681)	3,646	(6,407)
FORWARD	¥ (835)	¥ 8,453	$ (7,861)

(Continued)

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended 31st March, 2018

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
FORWARD	¥ (835)	¥ 8,453	$ (7,861)
FINANCING ACTIVITIES:			
Increase in short-term loans payable	925		8,707
Repayments of long-term debt	(235)	(37)	(2,213)
Repurchases of treasury stock	(2)	(653)	(18)
Dividends paid	(3,733)	(1,193)	(35,137)
Other—net	(175)	(161)	(1,648)
Net cash used in financing activities	(3,220)	(2,044)	(30,309)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(251)	(323)	(2,360)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,306)	6,086	(40,530)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	181	292	1,706
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,842	35,464	393,840
CASH AND CASH EQUIVALENTS, END OF YEAR	¥37,717	¥41,842	$355,016

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106.24 to $1, the approximate rate of exchange at 31st March, 2018. 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, 2018, include the accounts of the Company and its 26 (23 in 2017) significant subsidiaries (together, the "Group"). Kabuku Inc. and Wonjin Precision Co., Ltd. have been included in the scope of consolidation from the current fiscal year as a result of acquisition of their shares. FUTABA Electronics (Beijing) Co., Ltd. has been included in the scope of consolidation due to an increase in materiality from the current fiscal year.

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 domestic subsidiaries is computed by the straight-line method, while the declining-balance method or the straight-line method is applied to buildings of consolidated foreign subsidiaries.

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 income. 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.

The Tax Cuts and Jobs Act, which reduces the federal corporate income tax rate from 34% to 21% in the United States effective 1st January, 2018, was enacted on 22nd December, 2017. In line with this, the deferred tax assets and liabilities of U.S. subsidiary were calculated in accordance with the revised statutory tax rate. As a result, the impact of this change on the consolidated financial statements for the fiscal year ended 31st March, 2018, was immaterial.

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 income 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 42,420,141 shares for 2018 and 42,461,243 shares for 2017.

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, 2018. 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, 2018 and 2017, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current:			
Government and corporate bonds	¥ 401	¥ 124	$ 3,774
Trust fund investments and other	508		4,778
Total	¥ 909	¥ 124	$ 8,552
Non-current:			
Marketable equity securities	¥ 9,179	¥ 8,078	$ 86,395
Government and corporate bonds	3,824	3,641	35,992
Trust fund investments and other	63	69	597
Total	¥13,066	¥11,788	$122,984

The costs and aggregate fair values of marketable and investment securities at 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen			
31st March, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,375	¥3,703	¥66	¥9,012
Debt securities	4,211	18	4	4,225
31st March, 2017				
Securities classified as—				
Available-for-sale:				
Equity securities	¥5,513	¥2,533	¥133	¥7,913
Debt securities	3,754	27	16	3,765

	Thousands of U.S. Dollars			
31st March, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	$50,596	$34,852	$624	$84,824
Debt securities	39,632	175	41	39,766

The information on available-for-sale securities sold during the year ended 31st March, 2018, is as follows:

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

	Thousands of U.S. Dollars		
31st March, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	$2,253	$1,429	
Total	$2,253	$1,429	

There was no impairment loss on available-for-sale equity securities for the year ended 31st March, 2018, and there was ¥49 million of impairment loss for the year ended 31st March, 2017.

4. SHORT-TERM INVESTMENTS

Short-term investments at 31st March, 2018 and 2017, consisted of time deposits of ¥12,983 million ($122,200 thousand) and ¥15,024 million, respectively.

5. INVENTORIES

Inventories at 31st March, 2018 and 2017, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished goods	¥ 4,762	¥ 3,815	$ 44,823
Work in process	2,709	2,643	25,498
Raw materials and supplies	7,803	6,684	73,449
Total	¥15,274	¥13,142	$143,770

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of 31st March, 2018 and 2017. As a result, the Group recognized an impairment loss of ¥299 million ($2,814 thousand) and ¥570 million for the years ended 31st March, 2018 and 2017, respectively, as further described below.

For 2018

Description	Classification	Location	Millions of Japanese Yen	Thousands of U.S. Dollars
Facilities for electronic devices	Building, etc.	Chosei County, etc., Japan	¥ 91	$ 859
Facilities for electronic devices	Machinery, etc.	Huizhou City, China	16	153
Dormant assets	Machinery, structures	Kaohsiung City, Taiwan	96	902
Dormant assets	Building, structures	Chosei County, Japan	96	900
Total			¥299	$2,814

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, is as follows:

Classification	Millions of Japanese Yen	Thousands of U.S. Dollars
Buildings and structures	¥210	$1,973
Machinery and equipment	82	774
Others	7	67
Total	¥299	$2,814

For 2017

Description	Classification	Location	Millions of Japanese Yen
Facilities for machinery and tooling	Machinery, building, etc.	Hwaseong City, Gyeonggi-do, Korea	¥496
Facilities for electronic devices	Machinery, etc.	Huizhou City, China	29
Facilities for electronic devices	Machinery, etc.	Chosei County, etc., Japan	24
Dormant assets	Machinery	Chosei County, Japan	17
Dormant assets	Machinery, structures, etc.	Kaohsiung City, Taiwan	4
Total			¥570

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, 2017, was as follows:

Classification	Millions of Japanese Yen
Machinery and equipment	¥451
Buildings and structures	78
Land	28
Others	13
Total	¥570

7. SHORT-TERM BANK LOANS

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

8. LONG-TERM DEBT AND ASSETS PLEDGED AS COLLATERAL

Long-term debt at 31st March, 2018 and 2017, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Long-term loans of subsidiaries	¥50		$470
Long-term lease obligation	53	¥86	494
Less current portion	(23)	(34)	(213)
Long-term debt, less current portion	¥80	¥52	$751

Annual maturities of long-term debt as of 31st March, 2018, for the next five years and thereafter were as follows:

Year Ending 31st March	Millions of Japanese Yen	Thousands of U.S. Dollars
2019	¥ 23	$213
2020	18	169
2021	62	579
2022		3
2023 and thereafter		
Total	¥103	$964

The carrying amounts of assets pledged as collateral for accrued consumption taxes of ¥45 million ($425 thousand), trade accounts payable of ¥175 million ($1,644 thousand) and long-term loans of subsidiaries of ¥50 million ($470 thousand) at 31st March, 2018, were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Land	¥1,052	$ 9,901
Buildings and structures—net	860	8,096
Investment securities	312	2,933
Total	¥2,224	$20,930

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, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥36,231	¥36,435	$341,030
Current service cost	815	834	7,668
Interest cost	294	282	2,768
Actuarial gains	(737)	(222)	(6,934)
Benefits paid	(2,831)	(1,225)	(26,650)
Others	56	127	526
Balance at end of year	¥33,828	¥36,231	$318,408

(2) The changes in plan assets for the years ended 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥33,023	¥31,687	$310,836
Expected return on plan assets	836	796	7,873
Actuarial gains	491	888	4,623
Contributions from the employer	979	810	9,213
Benefits paid	(2,920)	(1,202)	(27,488)
Others	(72)	44	(682)
Balance at end of year	¥32,337	¥33,023	$304,375

(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, 2018 and 2017

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥33,551	¥35,969	$315,801
Plan assets	(32,337)	(33,023)	(304,375)
Total	1,214	2,946	11,426
Unfunded defined benefit obligation	277	262	2,607
Net liability arising from defined benefit obligation	¥ 1,491	¥ 3,208	$ 14,033

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥1,646	¥3,380	$15,496
Asset for retirement benefits	(155)	(172)	(1,463)
Net liability arising from defined benefit obligation	¥1,491	¥3,208	$14,033

(4) The components of net periodic benefit costs for the years ended 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 815	¥ 834	$ 7,668
Interest cost	294	282	2,768
Expected return on plan assets	(836)	(796)	(7,873)
Amortization of prior service cost	(759)	(759)	(7,146)
Recognized actuarial losses	1,541	1,586	14,511
Net periodic benefit costs	¥1,055	¥1,147	$ 9,928

Note: In addition to the net periodic benefit cost stated above, extra retirement benefits of ¥58 million ($546 thousand) and ¥61 million were recorded as operating expenses for the years ended 31st March, 2018 and 2017, respectively. Also, the Group recognized special retirement benefits of ¥349 million ($3,288 thousand) and ¥575 million during the years ended 31st March, 2018 and 2017, respectively, 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, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥ (759)	¥ (759)	$ (7,146)
Actuarial losses	2,783	2,649	26,194
Total	¥2,024	¥1,890	$19,048

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥3,606	¥ 4,365	$33,943
Unrecognized actuarial gains	(2,683)	(5,376)	(25,251)
Total	¥ 923	¥(1,011)	$ 8,692

(7) Plan assets

a. *Components of plan assets*

Plan assets as of 31st March, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	46%	30%
Equity investments	23	32
Others	31	38
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, 2018 and 2017, were set forth as follows:

	2018	2017
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, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2018 and 2017, are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Inventories	¥ 281	¥ 268	$ 2,648
Accrued bonuses to employees	247	259	2,325
Depreciation	304	301	2,861
Liability for retirement benefits	734	845	6,909
Allowance for doubtful accounts	115	305	1,081
Loss on impairment of long-lived assets	2,253	2,526	21,208
Tax loss carryforwards	10,014	10,862	94,260
Other	660	724	6,204
Total deferred tax assets	14,608	16,090	137,496
Valuation allowance	(14,224)	(15,631)	(133,886)
Net of deferred tax liabilities in the same tax jurisdiction	(101)	(163)	(950)
Deferred tax assets—net	283	296	2,660
Deferred tax liabilities:			
Undistributed earnings of subsidiaries	6	18	55
Reserve for advanced depreciation of non-current assets	275	275	2,584
Unrealized gain on available-for-sale securities	1,063	705	10,008
Other	433	270	4,078
Total deferred tax liabilities	1,777	1,268	16,725
Net of deferred tax assets in the same tax jurisdiction	(101)	(163)	(950)
Deferred tax liabilities—net	1,676	1,105	15,775
Net deferred tax liabilities	¥ 1,393	¥ 809	$ 13,115

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, 2018, with the corresponding figures for 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	30%	30 %
Expenses not deductible for tax purposes	7	(11)
Deferred tax assets not recognized on unrealized profit	(1)	(4)
Valuation allowance for deferred tax assets	(64)	(56)
Different tax rates between the current term and the next term later	2	3
Different tax rates applied to foreign subsidiaries	(6)	4
Influence from the tax rate change	(7)	
Expiration of loss carryforwards	61	1
Foreign tax credit	3	(6)
Inhabitant tax	2	(2)
Other—net	5	(3)
Actual effective tax rate	32%	(44)%

At 31st March, 2018, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥35,602 million ($335,112 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending 31st March	Millions of Japanese Yen	Thousands of U.S. Dollars
2019	¥ 8,376	$ 78,836
2020	4,395	41,373
2021	4,255	40,050
2022	4,558	42,900
2023	1,944	18,297
2024 and thereafter	12,074	113,656
Total	¥35,602	$335,112

12. BUSINESS COMBINATIONS

For the Year Ended 31st March, 2018

Significant business combinations occurred in the year ended 31st March, 2018, were as follows:

(Business Combination by Acquisition)

Kabuku Inc.

a. Outline of the business combination

(1) Name of acquired company and its business outline

Name of the acquired company: Kabuku Inc.
Business outline: On-demand manufacturing service

(2) Major reason for the business combination

To create new value, adding software to its conventional hardware manufacturing, the Company acquired 90% ownership of Kabuku Inc., developing a digital production platform to realize new manufacturing in the era of IoT.

(3) Date of business combination

8th September, 2017

(4) Legal form of business combination

Share acquisition in consideration for cash

(5) Name of the company after the combination

Kabuku Inc.

(6) Ratio of voting rights acquired

90%

(7) Basis for determining the acquirer

Share acquisition in consideration for cash

b. The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired company for the six months from 1st October, 2017 to 31st March, 2018, were included in the consolidated statement of income for the year ended 31st March, 2018.

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Japanese Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥1,355	$12,754
Acquisition cost	¥1,355	$12,754

d. Major acquisition-related costs

Advisory fees and commissions to the lawyers and financial institutions ¥12 million ($116 thousand)

e. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred

¥1,181 million ($11,113 thousand)

(2) Reasons for the goodwill incurred

Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(3) Method and period of amortization

Goodwill is amortized on a straight-line basis over eight years.

f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Current assets	¥1,051	$ 9,894
Non-current assets	295	2,771
Total assets acquired	1,346	12,665
Current liabilities	65	616
Long-term liabilities	1,087	10,225
Total liabilities assumed	1,152	10,841
Net assets acquired	¥ 194	$ 1,824

g. Pro forma information (unaudited)

If this business combination had been completed as of 1st April, 2017, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended 31st March, 2018, would be as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Sales	¥181	$1,710

Wonjin Precision Co., Ltd.

a. Outline of the business combination

(1) Name of acquired company and its business outline

Name of the acquired company: Wonjin Precision Co., Ltd.
Business outline: Manufacturing mold-base components

(2) Major reason for the business combination

The Company determined that its Korean consolidated subsidiaries could create synergistic effects with Wonjin Precision Co., Ltd. with its advanced technology and name recognition in Korean market of the machinery and tooling segment of the Korean market. KISHIN Corporation (60.89% ownership ratio), one of the consolidated subsidiaries in Korea, acquired 100% ownership of Wonjin Precision Co., Ltd.

(3) Date of business combination

31st August, 2017

(4) Legal form of business combination

Share acquisition in consideration for cash

(5) Name of the company after the combination

Wonjin Precision Co., Ltd.

(6) Ratio of voting rights acquired

100%

(7) Basis for determining the acquirer

Share acquisition in consideration for cash

b. The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired company for the six months from 1st October, 2017 to 31st March, 2018, were included in the consolidated statement of income for the year ended 31st March, 2018.

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Japanese Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥593	$5,585
Acquisition cost	¥593	$5,585

d. Major acquisition-related costs

Advisory fees and commissions to the lawyers and financial institutions	¥4 million ($38 thousand)

e. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred

¥57 million ($542 thousand)

(2) Reasons for the goodwill incurred

Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(3) Method and period of amortization

Goodwill is amortized on a straight-line basis over five years.

f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Current assets	¥ 589	$ 5,548
Non-current assets	539	5,069
Total assets acquired	1,128	10,617
Current liabilities	213	2,003
Long-term liabilities	379	3,571
Total liabilities assumed	592	5,574
Net assets acquired	¥ 536	$ 5,043

g. Pro forma information (unaudited)

Information about operating results on and after the acquisition date is 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 ¥2,009 million ($18,912 thousand) and ¥2,051 million for the years ended 31st March, 2018 and 2017, respectively.

14. RESTRUCTURING LOSS

Restructuring loss was the loss on the consolidation of production bases of VFD, and it mainly consisted of the special retirement benefits.

15. 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, 2018 and 2017, were ¥38 million ($357 thousand) and ¥38 million, respectively.

Operating Leases

The obligations under noncancelable operating leases for the years ended 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥ 75	¥100	$ 707
Due after one year	93	86	875
Total	¥168	¥186	$1,582

16. 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 17 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 17 for details about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of 31st March, 2018.

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, 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
31st March, 2017			
Cash and cash equivalents	¥41,842	¥41,842	
Short-term investments	15,024	15,024	
Receivables	17,589	17,589	
Marketable and investment securities	11,678	11,678	—
Total	¥86,133	¥86,133	—
Payables	¥ 5,133	¥ 5,133	
Electronically recorded obligations	1,558	1,558	—
Total	¥ 6,691	¥ 6,691	—

	Thousands of U.S. Dollars		
31st March, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$355,016	$355,016	
Short-term investments	122,200	122,200	
Receivables	175,862	175,862	
Marketable and investment securities	124,590	124,590	—
Total	$777,668	$777,668	—
Payables	$ 42,341	$ 42,341	
Short-term bank loans	8,589	8,589	
Electronically recorded obligations	21,929	21,929	
Long-term debt	751	776	$25
Total	$ 73,610	$ 73,635	$25

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
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥187	¥184	$1,759
Investments in limited partnership	572	70	5,375

Note: The impairment losses on unlisted stocks for the year ended 31st March, 2017, were ¥15 million.

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

	Millions of Japanese Yen			
31st March, 2018	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	¥37,717			
Receivables	18,684			
Marketable and investment securities:				
Government bonds			¥300	
Corporate bonds	400	¥3,509		
Other		18		¥45
Total	¥56,801	¥3,527	¥300	¥45

	Thousands of U.S. Dollars			
31st March, 2018	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	$355,016			
Receivables	175,862			
Marketable and investment securities:				
Government bonds			$2,824	
Corporate bonds	3,765	$33,028		
Other		174		$424
Total	$534,643	$33,202	$2,824	$424

Please see Note 8 for annual maturities of long-term debt and Note 15 for the obligations under noncancelable operating leases.

17. 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, 2018.

Derivative Transactions to Which Hedge Accounting Is Applied

There is no balance of derivatives at 31st March, 2018.

18. CONTINGENT LIABILITIES

There is no balance of contingencies at 31st March, 2018.

19. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

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 is as follows:

Kabuku Inc.

	Millions of Japanese Yen	Thousands of U.S. Dollars
Current assets	¥1,051	$ 9,894
Non-current assets	295	2,771
Goodwill	1,181	11,113
Current liabilities	(65)	(616)
Long-term liabilities	(1,087)	(10,225)
Noncontrolling interests	(20)	(183)
Acquisition cost	1,355	12,754
Cash and cash equivalents	12	114
Net: purchase of shares of subsidiaries resulting in change in scope of consolidation	¥1,367	$12,868

Wonjin Precision Co., Ltd.

	Millions of Japanese Yen	Thousands of U.S. Dollars
Current assets	¥589	$5,548
Non-current assets	539	5,069
Goodwill	57	542
Current liabilities	(213)	(2,003)
Long-term liabilities	(379)	(3,571)
Acquisition cost	593	5,585
Cash and cash equivalents	(284)	(2,681)
Net: purchase of shares of subsidiaries resulting in change in scope of consolidation	¥309	$2,904

20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended 31st March, 2018 and 2017, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥1,329	¥1,050	$12,506
Reclassification adjustments to profit or loss	(152)	49	(1,429)
Amount before income tax effect	1,177	1,099	11,077
Income tax effect	(359)	(339)	(3,377)
Total	¥ 818	¥ 760	$ 7,700
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (822)	¥ 213	$ (7,738)
Total	¥ (822)	¥ 213	$ (7,738)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	¥1,169	¥1,070	$11,005
Reclassification adjustments to profit or loss	854	820	8,043
Amount before income tax effect	2,023	1,890	19,048
Income tax effect	0	0	0
Total	¥2,023	¥1,890	$19,048
Total other comprehensive income	¥2,019	¥2,863	$19,010

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at 31st March, 2018, was approved at the Company's shareholders' meeting held on 28th June, 2018:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends, ¥74 ($0.697) per share	¥3,139	$29,547

A special dividend of ¥60 ($0.565) is included in the dividends per share.

22. 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. The segment information for the year ended 31st March, 2018, is also disclosed using the new operating segments. 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. Effective 1st April, 2017, the Group changed its operating segments from the electronic components, electronic systems, and machinery and tooling segments to the electronic devices and machinery and tooling segments to create synergistic effects and new integrated products by consolidating technical and sales departments. The segment information for the year ended 31st March, 2017, is also disclosed using the new operating segments.

(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				
2018	Electronic Devices	Machinery and Tooling	Total	Reconciliations	Consolidated
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	63,732	143,545	¥(2)	143,543
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

	Millions of Japanese Yen				
	Reportable Segment				
2017	Electronic Devices	Machinery and Tooling	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	¥33,679	¥30,478	¥ 64,157		¥ 64,157
Intersegment sales or transfers	7		7	¥(7)	
Total	¥33,686	¥30,478	¥ 64,164	¥(7)	¥ 64,157
Segment profit (loss)	¥ (1,391)	¥ 1,007	¥ (384)		¥ (384)
Segment assets	83,877	60,699	144,576		144,576
Other:					
Depreciation	1,658	1,621	3,279		3,279
Increase in property, plant and equipment and intangible assets	3,697	1,894	5,591		5,591
Impairment losses of assets	73	497	570		570

	Thousands of U.S. Dollars				
	Reportable Segment				
2018	Electronic Devices	Machinery and Tooling	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	$347,922	$304,880	$ 652,802		$ 652,802
Intersegment sales or transfers	87		87	$(87)	
Total	$348,009	$304,880	$ 652,889	$(87)	$ 652,802
Segment profit (loss)	$ (3,753)	$ 10,588	$ 6,835		$ 6,835
Segment assets	751,250	599,886	1,351,136	$(16)	1,351,120
Other:					
Depreciation	19,249	13,467	32,716		32,716
Increase in property, plant and equipment and intangible assets	16,495	8,338	24,833		24,833
Impairment losses of assets	2,814		2,814		2,814

(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

2018

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

2017

Millions of Japanese Yen				
Japan	America	Europe	Asia	Total
¥23,440	¥11,707	¥2,406	¥26,604	¥64,157

2018

Thousands of U.S. Dollars				
Japan	America	Europe	Asia	Total
$238,436	$102,886	$21,788	$289,692	$652,802

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

b. Property, Plant and Equipment

2018

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

2017

Millions of Japanese Yen				
Japan	America	Europe	Asia	Total
¥17,409	¥1,111	¥6	¥23,582	¥42,108

2018

Thousands of U.S. Dollars				
Japan	America	Europe	Asia	Total
$159,141	$8,145	$43	$212,300	$379,629

(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.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

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, 2018, 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, 2018, 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

28th June, 2018

Board of Directors

As of 28 June, 2018

Representative Director and Chairman	Hiroshi Sakurada
Representative Director and President	Kazunobu Takahashi
Directors	Motoaki Arima
	Toshihide Kimizuka
	Hideharu Kawasaki
	Hiroshi Shomura
Directors, Audit and Supervisory Committee Members	Tatsuya Ikeda
	Kazuaki Kondo
	Masayoshi Ito

Futaba Corporation
629 Oshiba, Mobara, Chiba Prefecture 297-8588, Japan
URL http://www.futaba.co.jp/