FURUNO

# Consolidated Financial Statements 2020

As of and for the Year Ended February 29, 2020,
and Independent Auditor's Report

FURUNO ELECTRIC CO., LTD.

Deloitte.

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Furuno Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Furuno Electric Co., Ltd. (the "Company") and its consolidated subsidiaries as of February 29, 2020, and the related consolidated statements of income, 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 Furuno Electric Co., Ltd. and its consolidated subsidiaries as of February 29, 2020, 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

May 28, 2020

Member of
Deloitte Touche Tohmatsu Limited

# Consolidated Balance Sheet

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
February 29, 2020

| ASSETS | Millions of Yen 2020 | Millions of Yen 2019 | Thousands of U.S. Dollars (Note 1) 2020 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents (Note 12) | **¥11,675** | ¥11,232 | **$106,689** |
| Short-term investments (Notes 3 and 12) | **467** | 773 | **4,267** |
| Notes receivable—trade (Note 12) | **1,251** | 1,751 | **11,431** |
| Accounts receivable—trade (Note 12) | **14,741** | 15,302 | **134,707** |
| Electronically recorded receivables—operating (Note 12) | **1,598** | 891 | **14,602** |
| Allowance for doubtful receivables (Note 12) | **(395)** | (497) | **(3,609)** |
| Inventories (Note 5) | **25,067** | 28,174 | **229,068** |
| Other current assets | **2,070** | 3,052 | **18,916** |
| Total current assets | **56,477** | 60,679 | **516,101** |
| **PROPERTY, PLANT AND EQUIPMENT—NET** (Notes 6 and 7): | | | |
| Land | **3,582** | 3,440 | **32,733** |
| Buildings and structures | **13,490** | 13,424 | **123,275** |
| Machinery and equipment | **4,342** | 4,228 | **39,678** |
| Furniture and fixtures | **11,058** | 10,716 | **101,050** |
| Right-of-use assets | **1,120** | | **10,234** |
| Construction in progress | **219** | 141 | **2,001** |
| Total | **33,814** | 31,950 | **309,001** |
| Accumulated depreciation | **(23,661)** | (22,857) | **(216,220)** |
| Property, plant and equipment—net | **10,152** | 9,093 | **92,771** |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Notes 4 and 12) | **1,587** | 1,809 | **14,502** |
| Investments in unconsolidated subsidiaries and associated companies (Note 12) | **1,003** | 974 | **9,165** |
| Goodwill | **481** | 523 | **4,395** |
| Asset for retirement benefits (Note 8) | **922** | 565 | **8,425** |
| Insurance funds | **529** | 666 | **4,834** |
| Software (Note 6) | **3,664** | 3,843 | **33,482** |
| Deferred tax assets (Note 10) | **245** | 203 | **2,238** |
| Other assets (Note 6) | **1,068** | 862 | **9,759** |
| Total investments and other assets | **9,502** | 9,450 | **86,831** |
| TOTAL | **¥76,133** | ¥79,223 | **$695,723** |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| **CURRENT LIABILITIES:** | | | |
| Short-term bank loans (Notes 7 and 12) | ¥ 206 | ¥ 2,002 | $ 1,882 |
| Current portion of long-term debt (Notes 7 and 12) | 3,000 | 3,480 | 27,414 |
| Notes payable—trade (Note 12) | 201 | 218 | 1,836 |
| Accounts payable—trade (Note 12) | 2,332 | 3,420 | 21,310 |
| Electronically recorded obligations—operating (Note 12) | 6,493 | 7,886 | 59,334 |
| Income taxes payable | 428 | 364 | 3,911 |
| Accrued employees' bonuses | 1,657 | 1,762 | 15,142 |
| Accrued product warranty costs | 1,108 | 1,000 | 10,125 |
| Other current liabilities (Note 7) | 7,001 | 6,001 | 63,976 |
| Total current liabilities | 22,429 | 26,138 | 204,962 |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt (Notes 7 and 12) | 6,700 | 7,500 | 61,226 |
| Liability for retirement benefits (Note 8)—Employees | 2,872 | 2,821 | 26,245 |
| Long-term accounts payable | 154 | 154 | 1,407 |
| Deferred tax liabilities (Note 10) | 484 | 456 | 4,422 |
| Other long-term liabilities (Note 7) | 1,246 | 614 | 11,386 |
| Total long-term liabilities | 11,459 | 11,545 | 104,715 |
| **COMMITMENTS AND CONTINGENT LIABILITIES** (Notes 13 and 14) | | | |
| **EQUITY** (Note 9)**:** | | | |
| Common stock—authorized, | | | |
| 120,000 thousand shares; issued, | | | |
| 31,894 thousand shares for both 2020 and 2019 | 7,534 | 7,534 | 68,847 |
| Capital surplus | 10,074 | 10,074 | 92,058 |
| Retained earnings | 27,598 | 26,345 | 252,197 |
| Treasury stock—at cost, | (203) | (202) | (1,855) |
| 383 thousand shares in 2020 and 2019 | | | |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 310 | 501 | 2,832 |
| Deferred loss on derivatives under hedge accounting | | (5) | |
| Foreign currency translation adjustments | (2,687) | (2,102) | (24,554) |
| Defined retirement benefit plans | (702) | (953) | (6,415) |
| Total | 41,925 | 41,191 | 383,121 |
| **Noncontrolling interests** | 319 | 347 | 2,915 |
| Total equity | 42,244 | 41,539 | 386,036 |
| TOTAL | ¥76,133 | ¥79,223 | $695,723 |

# Consolidated Statement of Income

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 29, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| **NET SALES** | **¥83,066** | ¥82,108 | **$759,078** |
| **COST OF SALES** | **54,541** | 50,495 | **498,409** |
| Gross profit | **28,524** | 31,612 | **260,659** |
| | | | |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** (Note 11) | **26,113** | 26,840 | **238,627** |
| Operating income | **2,411** | 4,771 | **22,032** |
| | | | |
| **OTHER INCOME (EXPENSES):** | | | |
| Interest and dividend income | **194** | 96 | **1,772** |
| Interest expense | **(100)** | (108) | **(913)** |
| Equity in earnings of an associate accounted for by the equity method | **50** | 84 | **456** |
| Foreign exchange loss | **(128)** | (62) | **(1,169)** |
| Subsidy income | **32** | 82 | **292** |
| Gain on sales of property, plant and equipment | **65** | 16 | **593** |
| Gain on sales of investment securities | **6** | 0 | **54** |
| Loss on sales of property, plant and equipment | **(5)** | (0) | **(45)** |
| Loss on disposal of property, plant and equipment | **(29)** | (8) | **(265)** |
| Loss on impairment of long-lived assets (Note 6) | **(65)** | (336) | **(593)** |
| Surrender value of insurance | **59** | 62 | **539** |
| Compensation expense | **(40)** | | **(365)** |
| Consignment research income | **68** | 10 | **621** |
| Insurance claim income | | 139 | |
| Gain on liquidation of a subsidiary | | 37 | |
| Loss on disaster | | (92) | |
| Other—net | **181** | 183 | **1,654** |
| Other income—net | **288** | 105 | **2,631** |
| INCOME BEFORE INCOME TAXES | **2,699** | 4,877 | **24,664** |
| | | | |
| **INCOME TAXES** (Note 10)**:** | | | |
| Current | **620** | 644 | **5,665** |
| Deferred | **22** | 172 | **201** |
| Total income taxes | **642** | 816 | **5,866** |
| | | | |
| **NET INCOME** | **2,057** | 4,060 | **18,797** |
| **NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | **15** | 34 | **137** |
| | | | |
| **NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT** | **¥ 2,041** | ¥ 4,026 | **$ 18,651** |

| **PER SHARE OF COMMON STOCK** (Note 16)**:** | Yen | | U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Basic net income | **¥ 64.78** | ¥127.77 | **$ 0.59** |
| Cash dividends applicable to the year | **20.00** | 25.00 | **0.18** |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 29, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| **NET INCOME** | **¥2,057** | ¥4,060 | **$18,797** |
| **OTHER COMPREHENSIVE LOSS** (Note 15)**:** | | | |
| Unrealized loss on available-for-sale securities | **(190)** | (187) | **(1,736)** |
| Deferred gain (loss) on derivatives under hedge accounting | **5** | (7) | **45** |
| Foreign currency translation adjustments | **(554)** | (879) | **(5,062)** |
| Defined retirement benefit plans | **250** | 255 | **2,284** |
| Share of other comprehensive loss of an associate accounted for by the equity method | **(31)** | (4) | **(283)** |
| Total other comprehensive loss | **(519)** | (823) | **(4,742)** |
| **COMPREHENSIVE INCOME** | **¥1,537** | ¥3,237 | **$14,045** |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | |
| Owners of the parent | **¥1,521** | ¥3,202 | **$13,899** |
| Noncontrolling interests | **15** | 34 | **137** |

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 29, 2020

| | Thousands | Millions of Yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated Other Comprehensive Income | | | | | | |
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| **BALANCE, MARCH 1, 2018** | 31,511 | ¥7,534 | ¥10,074 | ¥22,536 | ¥(202) | ¥689 | ¥2 | ¥(1,224) | ¥(1,209) | ¥38,201 | ¥358 | ¥38,559 |
| Changes in scope of consolidation | | | | 286 | | | | | | 286 | | 286 |
| Net income attributable to owners of the parent | | | | 4,026 | | | | | | 4,026 | | 4,026 |
| Cash dividends, ¥16.0 per share | | | | (504) | | | | | | (504) | | (504) |
| Purchase of treasury stock | (0) | | | | (0) | | | | | (0) | | (0) |
| Net change in the year | | | | | | (187) | (7) | (878) | 255 | (817) | (10) | (828) |
| **BALANCE, FEBRUARY 28, 2019** | 31,511 | 7,534 | 10,074 | 26,345 | (202) | 501 | (5) | (2,102) | (953) | 41,191 | 347 | 41,539 |
| Net income attributable to owners of the parent | | | | 2,041 | | | | | | 2,041 | | 2,041 |
| Cash dividends, ¥25.0 per share | | | | (787) | | | | | | (787) | | (787) |
| Purchase of treasury stock | (0) | | | | (0) | | | | | (0) | | (0) |
| Net change in the year | | | | | | (190) | 5 | (585) | 250 | (519) | (28) | (548) |
| **BALANCE, FEBRUARY 29, 2020** | **31,511** | **¥7,534** | **¥10,074** | **¥27,598** | **¥(203)** | **¥310** | | **¥(2,687)** | **¥(702)** | **¥41,925** | **¥319** | **¥42,244** |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income | | | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| **BALANCE, FEBRUARY 28, 2019** | $68,847 | $92,058 | $240,747 | $(1,845) | $4,578 | $(45) | $(19,208) | $(8,708) | $376,414 | $3,170 | $379,594 |
| Net income attributable to owners of the parent | | | 18,651 | | | | | | 18,651 | | 18,651 |
| Cash dividends, $0.22 per share | | | (7,191) | | | | | | (7,191) | | (7,191) |
| Purchase of treasury stock | | | | (0) | | | | | (0) | | (0) |
| Net change in the year | | | | | (1,736) | 45 | (5,345) | 2,284 | (4,742) | (255) | (5,007) |
| **BALANCE, FEBRUARY 29, 2020** | **$68,847** | **$92,058** | **$252,197** | **$(1,855)** | **$2,832** | | **$(24,554)** | **$(6,415)** | **$383,121** | **$2,915** | **$386,036** |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 29, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| **OPERATING ACTIVITIES:** | | | |
| Income before income taxes | ¥ 2,699 | ¥ 4,877 | $ 24,664 |
| Adjustments for: | | | |
| Income taxes—paid | (552) | (699) | (5,044) |
| Depreciation and amortization | 3,246 | 3,093 | 29,662 |
| Gain on sales of investment securities | (6) | (0) | (54) |
| Loss on impairment of long-lived assets | 65 | 336 | 593 |
| Gain on liquidation of a subsidiary | | (37) | |
| Loss on disaster | | 92 | |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in trade receivables | 180 | (276) | 1,644 |
| Decrease (increase) in inventories | 2,841 | (3,103) | 25,961 |
| (Increase) decrease in asset for retirement benefits | (62) | 119 | (566) |
| (Decrease) increase in trade payables | (2,398) | 200 | (21,913) |
| Increase (decrease) in accrued product warranty costs | 111 | (187) | 1,014 |
| Increase in liability for retirement benefits | 10 | 29 | 91 |
| Increase (decrease) in consumption taxes receivable | 1,115 | (197) | 10,189 |
| Other—net | 790 | 653 | 7,219 |
| Total adjustments | 5,341 | 25 | 48,807 |
| Net cash provided by operating activities | 8,041 | 4,903 | 73,480 |
| **INVESTING ACTIVITIES:** | | | |
| Proceeds from sales of property, plant and equipment | 115 | 54 | 1,050 |
| Purchases of property, plant and equipment | (1,887) | (1,271) | (17,243) |
| Purchases of intangible assets | (1,396) | (1,115) | (12,757) |
| Purchase of shares of subsidiaries and associates | (78) | (230) | (712) |
| Decrease (increase) in other assets | 71 | (348) | 648 |
| Net cash used in investing activities | (3,175) | (2,912) | (29,013) |
| **FINANCING ACTIVITIES:** | | | |
| Decrease in short-term bank loans—net | (1,795) | (563) | (16,403) |
| Proceeds from long-term debt | 3,200 | | 29,242 |
| Repayments of long-term debt | (4,480) | (159) | (40,939) |
| Dividends paid | (787) | (504) | (7,191) |
| Other | (331) | (24) | (3,024) |
| Net cash used in financing activities | (4,194) | (1,251) | (38,325) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (226) | (341) | (2,065) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 443 | 397 | 4,048 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 11,232 | 10,834 | 102,640 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥11,675 | ¥11,232 | $106,689 |

See notes to consolidated financial statements.

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Furuno Electric Co., Ltd. (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 ¥109.43 to $1, the approximate rate of exchange at February 29, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

As permitted under the Financial Instruments and Exchange Act of Japan, figures less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of February 29, 2020 include the accounts of the Company and its 32 significant (31 in 2019) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in an associated company are accounted for by the equity method.

Investments in 5 (5 in 2019) unconsolidated subsidiaries and 2 (2 in 2019) associated companies 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.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary company at the date of acquisition. Goodwill is reported in the balance sheet and is amortized using the straight-line method over reasonably estimated periods (mainly 18 years) in which economic benefits are expected to be realized.

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.

The fiscal year-end dates of 26 consolidated subsidiaries are different from the consolidated balance sheet date of February 28 or 29. The fiscal year-end dates of FURUNO U.S.A., Inc. and FURUNO PANAMA, S.A. are November 30 and 24 other subsidiaries' fiscal year-end dates are December 31.

**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 research and development; (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. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted 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 research and development; 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.

d. **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. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. 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.

e. **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

f. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

g. **Inventories**—Inventories are stated at the lower of cost, principally determined by the average method, or net selling value.

h. **Investment Securities**—The Company and its domestic consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities with market prices are carried at fair values prevailing at the balance sheet date, with net unrealized gains and losses, net of related taxes, reported in a separate component of equity. The cost of securities sold is mainly calculated using the moving-average method.

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.

i. **Property, Plant and Equipment**—Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is computed principally by the declining-balance method, while the straight-line method is applied to building improvements and structures acquired on or after April 1, 2016.

j. **Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance 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.

k. **Product Warranty Costs**—The Group establishes a liability for estimated product warranty costs at the time of sale. Estimates for accrued product warranty costs are primarily based on historical experience.

l. **Retirement and Pension Plans**—The Company and certain consolidated subsidiaries have lump-sum severance indemnity plans, defined contribution pension plans and contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law.

The Company accounts for liabilities for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period of employees commencing from the following year after incurrence. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period of employees.

Certain consolidated subsidiaries adopt a simplified method under which the retirement benefit amount required to be paid if all the employees retired on the balance sheet date is considered as the projected benefit obligations in computing liabilities for retirement benefits and net periodic benefit costs.

m. **Asset Retirement Obligations**—In March 2008, the ASBJ published the new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**n. Research and Development Costs**—Research and development costs are charged to income as incurred.

**o. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

**p. 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 statements of income to the extent that they are not hedged by forward exchange contracts.

**q. 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 were shown as "Foreign currency translation adjustments" and also allocated to "Noncontrolling interests" in a separate component of equity. Revenue and expense accounts of foreign consolidated subsidiaries are translated into yen at the average exchange rate.

**r. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage exposures to fluctuations in interest rates. Interest rate swaps are utilized to reduce the interest rate risks of long-term debt. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements 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 on derivatives are deferred until maturity of the hedged transactions in principle.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

**s. 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.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

**t. Accounting Change**—Foreign consolidated subsidiaries which apply IFRS have adopted IFRS 16 "Leases" from this fiscal year. In adopting IFRS 16, they have adopted the method of recognizing accumulated effects of applying this standard on the date of initial adoption, which is permitted as a transition measure.

Accordingly, regarding leases as a lessee which were previously classified as operating leases pursuant to International Accounting Standards ("IAS") 17, right-of-use assets and lease obligations are recognized on the date of initial adoption.

As a result, "Right-of-use assets" and "Accumulated depreciation" under PROPERTY, PLANT AND EQUIPMENT—NET increased by ¥1,120 million ($10,234 thousand) and ¥285 million ($2,604 thousand), respectively and "Other current liabilities" under CURRENT LIABILITIES and "Other long-term liabilities" under LONG-TERM LIABILITIES increased by

¥211 million ($1,928 thousand) and ¥610 million ($5,574 thousand), respectively, in the consolidated balance sheet as of February 29, 2020.

The effects of applying this accounting standard on the consolidated statement of income and per share information for the year ended February 29, 2020 are immaterial.

Operating cash flows increased by ¥299 million ($2,732 thousand) and financing cash flows decreased by the same amount in the consolidated statement of cash flows for the year ended February 29, 2020.

**u. New Accounting Pronouncements:**

**Accounting Standard for Revenue Recognition**—On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after March 1, 2022, and is in the process of measuring the effects of applying the new accounting standard and guidance in future applicable periods.

**Leases**—The Financial Accounting Standards Board ("FASB") issued ASU 2016-02 "Leases," requiring the lessee to recognize all lease assets and liabilities on the balance sheet in principle. Certain overseas subsidiaries that apply accounting principles generally accepted in United States of America ("U.S. GAAP") expect to apply this accounting standard for annual periods beginning on or after December 15, 2021. The Company is in the process of measuring the effects of applying the accounting standard in future applicable periods.

**v. Changes in Presentation**

**Partial Amendments to Accounting Standard for Tax Effect Accounting**—On February 16, 2018, ASBJ issued the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, the "Partial Amendments") and the Company has applied it from the beginning of the year ended February 29, 2020. Accordingly, deferred tax assets has been presented under investments and other assets and deferred tax liabilities has been presented under long-term liabilities. In addition, the related changes were made to Note 10 "INCOME TAXES."

As a result of the amendments, "Deferred tax assets" of ¥609 million ($5,565 thousand) under CURRENT ASSETS and "Deferred tax liabilities" of ¥448 million ($4,093 thousand) under LONG-TERM LIABILITIES in the consolidated balance sheet as of February 28, 2019 have been included in "Deferred tax assets" of ¥203 million ($1,855 thousand) under INVESTMENTS AND OTHER ASSETS and "Deferred tax liabilities" under LONG-TERM LIABILITIES are stated at ¥456 million ($4,167 thousand).

In addition, additional information is disclosed in Note 10 "INCOME TAXES" regarding the information described in Note 8 (excluding total amount of valuation allowance), and Note 9 of the interpretation of the "Accounting Standard for Tax Effect Accounting," which is required in paragraphs 3 to 5 of the "Partial Amendments." However, the additional information corresponding to the year ended February 28, 2019 is not disclosed, following the transitional treatment prescribed in paragraph 7 of the "Partial Amendments."

## 3. SHORT-TERM INVESTMENTS

Short-term investments as of February 29, 2020 and February 28, 2019, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Time deposits other than cash equivalents | **¥467** | ¥773 | **$4,267** |

## 4. INVESTMENT SECURITIES

Investment securities as of February 29, 2020 and February 28, 2019, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Non-current: | | | |
| Marketable equity securities | **¥1,305** | ¥1,553 | **$11,925** |
| Government and corporate bonds | **101** | 102 | **922** |
| Other | **180** | 153 | **1,644** |
| Total | **¥1,587** | ¥1,809 | **$14,502** |

The costs and aggregate fair values of investment securities at February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| **February 29, 2020** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **¥919** | **¥425** | **¥38** | **¥1,305** |
| Debt securities | **65** | **35** | | **101** |
| Other | **43** | **21** | | **64** |
| | | | | |
| **February 28, 2019** | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥936 | ¥617 | ¥0 | ¥1,553 |
| Debt securities | 65 | 37 | | 102 |
| Other | 43 | 23 | 0 | 66 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| **February 29, 2020** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | **$8,398** | **$3,883** | **$347** | **$11,925** |
| Debt securities | **593** | **319** | | **922** |
| Other | **392** | **191** | | **584** |

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2020 and February 28, 2019, were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2020** | 2019 | **2020** |
| Available-for-sale: | | | |
| Equity securities | **¥115** | ¥86 | **$1,050** |

## 5. INVENTORIES

Inventories at February 29, 2020 and February 28, 2019, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Merchandise and finished products | **¥15,408** | ¥17,214 | **$140,802** |
| Work in process | **3,576** | 4,301 | **32,678** |
| Raw materials and supplies | **6,082** | 6,658 | **55,578** |
| Total | **¥25,067** | ¥28,174 | **$229,068** |

## 6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 29, 2020 and February 28, 2019 and, as a result, recognized impairment losses of ¥65 million ($593 thousand) and ¥336 million, respectively, as other expenses. These impairment losses primarily related to the long-lived assets of the Marine Business and the Industrial Business for the years ended February 29, 2020 and February 28, 2019 due to continuing operating losses in the divisions. Recoverable amounts of these assets were measured at net selling prices determined by the estimated sales prices of the respective assets or the assessed value of long-lived assets for property tax purposes.

## 7. SHORT-TERM BANK LOANS, LONG-TERM DEBT AND LEASE OBLIGATIONS

Short-term bank loans at February 29, 2020 and February 28, 2019, consisted of notes to banks and bank overdrafts. The weighted-average interest rates applicable to the short-term bank loans were 0.58% and 0.41% at February 29, 2020 and February 28, 2019, respectively.

Long-term debt at February 29, 2020 and February 28, 2019, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Loans from banks and insurance companies, due serially to 2028 with weighted-average interest rates from 0.49% to 0.77% (2020) and from 0.67% to 0.75% (2019) | **¥9,700** | ¥10,980 | **$88,641** |
| Less current portion | **(3,000)** | (3,480) | **(27,414)** |
| Long-term debt, less current portion | **¥6,700** | ¥ 7,500 | **$61,226** |

Lease obligations due serially to November 2067 with an average interest rate of 1.95% are included in “Other long-term liabilities,” excluding current portion which is included in “Other current liabilities.”

Annual maturities of long-term debt and lease obligations at February 29, 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars | |
|---|---|---|---|---|
| **Year Ending February 28 or 29** | Long-term Debt | Lease Obligations | Long-term Debt | Lease Obligations |
| 2021 | ¥3,000 | ¥211 | $27,414 | $1,928 |
| 2022 | 500 | 123 | 4,569 | 1,124 |
| 2023 | 1,300 | 220 | 11,879 | 2,010 |
| 2024 | 200 | 71 | 1,827 | 648 |
| 2025 | 3,200 | 65 | 29,242 | 593 |
| 2026 and thereafter | 1,500 | 130 | 13,707 | 1,187 |
| Total | ¥9,700 | ¥821 | $88,641 | $7,502 |

The carrying amounts of assets pledged as collateral for short-term bank loans of nil at February 29, 2020 and February 28, 2019 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Land and buildings, net of accumulated depreciation | **¥106** | ¥106 | **$968** |

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

## 8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to receive additional payments if the termination is by voluntary retirement at earlier ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain overseas consolidated subsidiaries have defined retirement benefit plans or defined retirement contribution plans.

Certain consolidated subsidiaries adopt the simplified method in determining retirement benefit obligations.

1. Defined benefit plans (including plans to which the simplified method is applied)
   (1) The changes in defined benefit obligations for the years ended February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Balance at beginning of year | **¥15,930** | ¥16,441 | **$145,572** |
| Current service cost | **534** | 529 | **4,879** |
| Interest cost | **157** | 162 | **1,434** |
| Actuarial gains | **(37)** | (7) | **(338)** |
| Benefits paid | **(1,125)** | (1,244) | **(10,280)** |
| Others | **45** | 48 | **411** |
| Balance at end of year | **¥15,505** | ¥15,930 | **$141,688** |

(2) The changes in plan assets for the years ended February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Balance at beginning of year | **¥13,674** | ¥14,077 | **$124,956** |
| Expected return on plan assets | **284** | 292 | **2,595** |
| Actuarial gains | **166** | 5 | **1,516** |
| Contributions from the employer | **299** | 301 | **2,732** |
| Benefits paid | **(870)** | (1,002) | **(7,950)** |
| Balance at end of year | **¥13,554** | ¥13,674 | **$123,860** |

(3) Reconciliations between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Funded defined benefit obligation | **¥12,632** | ¥13,109 | **$115,434** |
| Plan assets | **(13,554)** | (13,674) | **(123,860)** |
| Total | **(922)** | (565) | **(8,425)** |
| Unfunded defined benefit obligation | **2,872** | 2,821 | **26,245** |
| Net liability arising from defined benefit obligation | **¥ 1,950** | ¥ 2,255 | **$ 17,819** |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Liability for retirement benefits | **¥2,872** | ¥2,821 | **$26,245** |
| Asset for retirement benefits | **(922)** | (565) | **(8,425)** |
| Net liability arising from defined benefit obligation | **¥1,950** | ¥2,255 | **$17,819** |

(4) The components of net periodic benefit costs for the years ended February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Service cost | **¥534** | ¥529 | **$4,879** |
| Interest cost | **157** | 162 | **1,434** |
| Expected return on plan assets | **(284)** | (292) | **(2,595)** |
| Amortization of actuarial differences | **101** | 282 | **922** |
| Amortization of prior service cost | **(54)** | (40) | **(493)** |
| Periodic benefit cost calculated by the simplified method | **45** | 48 | **411** |
| Others | **34** | 33 | **310** |
| Net periodic benefit costs | **¥535** | ¥724 | **$4,888** |

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Prior service cost | **¥ (54)** | ¥ (40) | **$ (493)** |
| Actuarial differences | **305** | 295 | **2,787** |
| Total | **¥250** | ¥255 | **$2,284** |

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Unrecognized prior service cost | **¥(102)** | ¥ (157) | **$ (932)** |
| Unrecognized actuarial differences | **805** | 1,110 | **7,356** |
| Total | **¥ 702** | ¥ 953 | **$6,415** |

(7) Plan assets

a. Components of plan assets

Plan assets as of February 29, 2020 and February 28, 2019, consisted of the following:

| | **2020** | 2019 |
|---|---|---|
| Debt investments | **40%** | 39% |
| Equity investments | **20** | 20 |
| Cash and cash equivalents | **0** | 1 |
| General account assets of life insurance | **36** | 36 |
| Others | **4** | 4 |
| 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 by 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 February 29, 2020 and February 28, 2019, were set forth as follows:

| | **2020** | 2019 |
|---|---|---|
| Discount rate | **1.0%** | 1.0% |
| Expected rate of return on plan assets | **2.1%** | 2.1% |
| Expected rate of salary increase | **2.8%** | 2.8% |

2. Defined contribution plans

The amount of required contribution to the defined contribution plans of the Company and consolidated subsidiaries for the years ended February 29, 2020 and February 28, 2019 was ¥279 million ($2,549 thousand) and ¥276 million, respectively.

## 9. 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. However, the Company does not meet all the above criteria.

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 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 also provides that companies can purchase both treasury stock acquisition rights and treasury stock.

## 10. 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 30.6% and 30.8% for the years ended February 29, 2020 and February 28, 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 29, 2020 and February 28, 2019, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Deferred tax assets: | | | |
| Unrealized profit | **¥ 1,100** | ¥ 1,207 | **$ 10,052** |
| Liability for retirement benefits | **1,042** | 1,121 | **9,522** |
| Loss on impairment of long-lived assets | **153** | 185 | **1,398** |
| Inventories | **754** | 793 | **6,890** |
| Investment securities | **217** | 223 | **1,983** |
| Accrued bonuses | **383** | 417 | **3,499** |
| Accrued product warranty costs | **323** | 284 | **2,951** |
| Tax loss carryforwards (Note 2) | **1,947** | 2,133 | **17,792** |
| Other | **657** | 656 | **6,003** |
| | **6,579** | 7,023 | **60,120** |
| Less valuation allowance for tax loss carryforwards (Note 2) | **(1,937)** | | **(17,700)** |
| Less valuation allowance for temporary differences | **(3,979)** | | **(36,361)** |
| Total valuation allowance (Note 1) | **(5,916)** | (6,367) | **(54,061)** |
| Deferred tax assets | **663** | 656 | **6,058** |
| Deferred tax liabilities: | | | |
| Accelerated depreciation in overseas subsidiaries | **62** | 71 | **566** |
| Unrealized gain on available-for-sale securities | **133** | 175 | **1,215** |
| Undistributed earnings of overseas subsidiaries | **221** | 211 | **2,019** |
| Asset for retirement benefits | **449** | 434 | **4,103** |
| Other | **36** | 15 | **328** |
| Deferred tax liabilities | **903** | 908 | **8,251** |
| Net deferred tax liabilities | **¥ (239)** | ¥ (252) | **$ (2,184)** |

Notes:

1. Valuation allowance decreased by ¥451 million ($4,121 thousand) mainly because valuation allowance relating to tax loss carryforwards of the Company decreased by ¥256 million ($2,339 thousand).

2. The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of February 29, 2020 were as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| **February 29, 2020** | One Year or Less | After One Year through Two Years | After Two Years through Three Years | After Three Years through Four Years | After Four Years through Five Years | After Five Years | Total |
| Deferred tax assets relating to tax loss carryforwards *a | ¥ 259 | ¥ 107 | ¥ 471 | ¥ 9 | ¥ 921 | ¥ 178 | ¥ 1,947 |
| Less valuation allowance for tax loss carryforwards | (249) | (107) | (471) | (9) | (921) | (178) | (1,937) |
| Net deferred tax assets relating to tax loss carryforwards | 10 | | | | | | 10 *b |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| **February 29, 2020** | One Year or Less | After One Year through Two Years | After Two Years through Three Years | After Three Years through Four Years | After Four Years through Five Years | After Five Years | Total |
| Deferred tax assets relating to tax loss carryforwards *a | $ 2,366 | $ 977 | $ 4,304 | $ 82 | $ 8,416 | $ 1,626 | $ 17,792 |
| Less valuation allowance for tax loss carryforwards | (2,275) | (977) | (4,304) | (82) | (8,416) | (1,626) | (17,700) |
| Net deferred tax assets relating to tax loss carryforwards | 91 | | | | | | 91 *b |

*a Deferred tax assets relating to tax loss carryforwards are computed by multiplying the normal effective statutory tax rate.

*b Net deferred tax assets recorded at ¥10 million ($91 thousand) are recognized for tax loss carryforwards of ¥1,947 million ($17,792 thousand) (computed by multiplying the normal effective statutory tax rate). This deferred tax assets are recognized for tax loss carryforwards mainly recorded by FURUNO SYSTEMS CO., LTD., and valuation allowance is not recognized since they are considered to be recoverable as future taxable income is expected.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 29, 2020 and February 28, 2019, is as follows:

| | **2020** | 2019 |
|---|---|---|
| Normal effective statutory tax rate | **30.6%** | 30.8% |
| Expenses not deductible for income tax purposes | **2.1** | 1.3 |
| Per capita inhabitant tax | **1.0** | 0.6 |
| Lower income tax rates applicable to income in certain foreign countries | **(5.4)** | 1.2 |
| Nontaxable dividends and other income | **(1.1)** | (0.1) |
| Undistributed earnings of overseas subsidiaries | **0.4** | (0.2) |
| Adjustment to deferred tax assets due to a change in tax rate | **0.3** | 1.8 |
| Valuation allowance for deferred tax assets | **(7.4)** | (20.5) |
| Other—net | **3.3** | 1.8 |
| Actual effective tax rate | **23.8%** | 16.7% |

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,266 million ($38,983 thousand) and ¥4,707 million for the years ended February 29, 2020 and February 28, 2019, respectively.

## 12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments
The Group raises necessary funds to support its principal business plans to produce and sell marine electronic equipment and industrial electronic equipment. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described below.

(2) Nature and extent of risks arising from financial instruments
Trade receivables, such as notes receivable and accounts receivable, are exposed to customer credit risk.

Foreign currency denominated trade receivables arising from global activities are exposed to the market risk of fluctuations in foreign currency exchange rates.

Investment securities, mainly equity instruments of customers and suppliers of the Group held for business or capital alliance purposes, are exposed to the risk of market price fluctuation.

Payment terms of trade payables, such as notes payable and accounts payable, are less than one year. Certain trade payables arising from import of raw materials, which are denominated in foreign currencies, are exposed to the market risk of fluctuations in foreign currency exchange rates.

Maturities of bank loans, mainly for the purpose of financing necessary working funds, are less than seven years after the balance sheet date. Certain bank loans are exposed to the market risk of fluctuations in variable interest rates. Those risks are mitigated by using derivatives such as interest rate swaps.

Derivatives mainly consist of interest rate swaps which are used to avoid or mitigate the market risks from changes in interest rates. For hedging instruments and hedged items concerning hedge accounting and hedging policies and hedge effectiveness, please see Note 2.r “Derivatives and Hedging Activities” under “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

(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 Company manages its credit risk from trade receivables by monitoring payment terms and balances of major customers and identifying the default risk of counterparties at an early stage in accordance with the credit control policy. The consolidated subsidiaries have similar control policies pursuant to the Company’s credit control policy. Derivatives are entered into with only high-credit rating financial institutions and, accordingly, credit risk arising from default of the counterparties is kept at a minimum. The maximum credit risk exposure of financial assets as of the consolidated balance sheet date is represented by their carrying values exposed to credit risk.

*Market Risk Management (foreign exchange risk and interest rate risk)*
The Group hedges foreign currency trade receivables and payables against market risk from fluctuations in foreign currency exchange rates identified by currency and by month using principally forward foreign currency contracts. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, the Group utilizes interest rate swaps to mitigate the risk from changes in interest rates associated with bank loans.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis and continuously reviewing the holding status by taking into consideration the relationship with the counterparties.

Derivative transactions are executed and controlled based on internal guidelines, which prescribe the transaction limits and procedures of the finance department of each company, and the positions are identified on a regular basis. In addition, the responsible division of the Company is informed of the status of transactions by each Group company on a regular basis to control and confirm the positions.

*Liquidity Risk Management*

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates.

The Group manages its liquidity risk by preparing and updating the financial plans of the Accounting Department based on the reports from each division.

(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, other rational valuation techniques are used instead. Please see Note 13 for fair value information for derivatives.

(a) Fair value of financial instruments

| | Millions of Yen | | |
|---|---|---|---|
| **February 29, 2020** | Carrying Amount | Fair Value | Unrealized Gain |
| Cash and cash equivalents | ¥11,675 | ¥11,675 | |
| Short-term investments | 467 | 467 | |
| Notes receivable—trade | 1,251 | | |
| Accounts receivable—trade | 14,741 | | |
| Electronically recorded receivables—operating | 1,598 | | |
| Allowance for doubtful receivables | (395) | | |
| Total receivables—trade | 17,196 | 17,196 | |
| Investment securities: | | | |
| Available-for-sale securities | 1,472 | 1,472 | |
| Total assets | ¥30,811 | ¥30,811 | |
| | | | |
| Short-term bank loans | ¥ 206 | ¥ 206 | |
| | | | |
| Notes payable—trade | ¥ 201 | ¥ 201 | |
| Accounts payable—trade | 2,332 | 2,332 | |
| Electronically recorded obligations—operating | 6,493 | 6,493 | |
| Total payables—trade | 9,027 | 9,027 | |
| Long-term debt, including current portion | 9,700 | 9,778 | ¥78 |
| Total liabilities | ¥18,934 | ¥19,012 | ¥78 |
| Derivatives (*1) | ¥ (12) | ¥(12) | |

| | Millions of Yen | | |
|---|---|---|---|
| **February 28, 2019** | Carrying Amount | Fair Value | Unrealized Gain |
| Cash and cash equivalents | ¥11,232 | ¥11,232 | |
| Short-term investments | 773 | 773 | |
| Notes receivable—trade | 1,751 | | |
| Accounts receivable—trade | 15,302 | | |
| Electronically recorded receivables—operating | 891 | | |
| Allowance for doubtful receivables | (497) | | |
| Total receivables—trade | 17,447 | 17,447 | |
| Investment securities: | | | |
| Available-for-sale securities | 1,723 | 1,723 | |
| Total assets | ¥31,176 | ¥31,176 | |
| Short-term bank loans | ¥ 2,002 | ¥ 2,002 | |
| Notes payable—trade | ¥ 218 | ¥ 218 | |
| Accounts payable—trade | 3,420 | 3,420 | |
| Electronically recorded obligations—operating | 7,886 | 7,886 | |
| Total payables—trade | 11,526 | 11,526 | |
| Long-term debt, including current portion | 10,980 | 11,043 | ¥63 |
| Total liabilities | ¥24,508 | ¥24,571 | ¥63 |
| Derivatives (*1) | ¥ 20 | ¥ 20 | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| **February 29, 2020** | Carrying Amount | Fair Value | Unrealized Gain |
| Cash and cash equivalents | **$106,689** | **$106,689** | |
| Short-term investments | **4,267** | **4,267** | |
| Notes receivable—trade | **11,431** | | |
| Accounts receivable—trade | **134,707** | | |
| Electronically recorded receivables—operating | **14,602** | | |
| Allowance for doubtful receivables | **(3,609)** | | |
| Total receivables—trade | **157,141** | **157,141** | |
| Investment securities: | | | |
| Available-for-sale securities | **13,451** | **13,451** | |
| Total assets | **$281,558** | **$281,558** | |
| Short-term bank loans | **$ 1,882** | **$ 1,882** | |
| Notes payable—trade | **$ 1,836** | **$ 1,836** | |
| Accounts payable—trade | **21,310** | **21,310** | |
| Electronically recorded obligations—operating | **59,334** | **59,334** | |
| Total payables—trade | **82,491** | **82,491** | |
| Long-term debt, including current portion | **88,641** | **89,353** | **$712** |
| Total liabilities | **$173,023** | **$173,736** | **$712** |
| Derivatives (*1) | **$ (109)** | **$ (109)** | |

*1 Net receivables or payables arising from derivative transactions to which hedge accounting is not applied and deferral hedge accounting is applied are presented in a net amount and net payables are presented in parentheses.

**Assets:**

Cash and cash equivalents, short-term investments and notes receivable, accounts receivable—trade and electronically recorded receivables—operating

The fair values of these items are determined using their carrying amounts, since the fair values approximate their carrying amounts as these amounts are settled in a short period of time.

Investment securities

The fair values of investment securities are measured at the quoted market prices of the stock exchange for equity securities, and at the quoted market prices of the exchanges or the quoted prices obtained from financial institutions for debt securities.

**Liabilities:**

Notes payable and accounts payable – trade, electronically recorded obligations – operating and short-term bank loans

The fair values of these items are determined using their carrying amounts, since the fair values approximate their carrying amounts as these amounts are settled in a short period of time.

Long-term debt, including current portion

The fair values of long-term debt are measured at the discounted present value of aggregated amounts of principal and interest payables using the interest rate that would be applied to similar transactions newly arranged.

The fair values of long-term debt with floating interest rates hedged using interest rate swaps qualifying for hedge accounting are measured at the discounted present value of aggregated amounts of principal and interest payables which are accounted for together with the swaps using the reasonably estimated interest rate that would be applied to similar transactions to be newly arranged or at the values presented by the financial institutions.

Derivatives

Please see Note 13 “DERIVATIVES.”

The fair values of interest rate swaps which are accounted for together with the long-term debt as the hedged item are included in the fair values of the relevant long-term debt, if they qualify for hedge accounting.

(b) Financial instruments whose fair value cannot be reliably determined

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| **February 28 or 29** | **2020** | 2019 | **2020** |
| Unlisted equity securities | **¥1,119** | ¥1,060 | **$10,225** |

(5) Maturity analysis for financial assets and securities with contractual maturities

| | Millions of Yen | | | |
|---|---|---|---|---|
| **February 29, 2020** | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and cash equivalents | **¥11,675** | | | |
| Short-term investments | **467** | | | |
| Notes receivable—trade | **1,251** | | | |
| Accounts receivable—trade | **14,741** | | | |
| Electronically recorded receivables—operating | **1,598** | | | |
| Investment securities: | | | | |
| Available-for-sale securities with contractual maturities: Debt securities—other | | | **¥100** | |
| Total | **¥29,734** | | **¥100** | |

| February 29, 2020 | Thousands of U.S. Dollars<br>Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|---|---|---|---|---|
| Cash and cash equivalents | $106,689 | | | |
| Short-term investments | 4,267 | | | |
| Notes receivable—trade | 11,431 | | | |
| Accounts receivable—trade | 134,707 | | | |
| Electronically recorded receivables—operating | 14,602 | | | |
| Investment securities: | | | | |
| Available-for-sale securities with contractual maturities: Debt securities—other | | | $913 | |
| Total | $271,717 | | $913 | |

Please see Note 7 for annual maturities of long-term debt.

## 13. 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 also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

### Derivative transactions to which hedge accounting is not applied at February 29, 2020 and February 28, 2019

### (1) Currency-related derivatives

| | Millions of Yen | | | |
|---|---|---|---|---|
| **February 29, 2020** | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain (Loss) |
| Foreign currency forward contracts: | | | | |
| Selling EUR | ¥353 | | ¥(13) | ¥(13) |
| Buying USD | 10 | | 0 | 0 |
| GBP | 532 | | (0) | (0) |
| EUR | 353 | | 0 | 0 |
| | | | | |
| **February 28, 2019** | | | | |
| Foreign currency forward contracts: | | | | |
| Selling EUR | ¥408 | | ¥ 15 | ¥ 15 |
| Buying GBP | 544 | | 11 | 11 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| **February 29, 2020** | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain (Loss) |
| Foreign currency forward contracts: | | | | |
| Selling EUR | $3,225 | | $(118) | $(118) |
| Buying USD | 91 | | 0 | 0 |
| GBP | 4,861 | | (0) | (0) |
| EUR | 3,225 | | 0 | 0 |

(Note) The fair values are determined using the forward exchange rates.

### (2) Hybrid financial instruments

There were no hybrid financial instruments at February 29, 2020.

| | Millions of Yen | | | |
|---|---|---|---|---|
| **February 28, 2019** | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Loss |
| Debt including embedded derivatives: | | | | |
| Long-term debt, cancelable before maturity | ¥1,000 | ¥1,000 | ¥(1) | ¥(1) |

(Note 1) The fair values are determined using the prices obtained from financial institutions.
(Note 2) The fair value of debt, including embedded derivatives, is determined by accounting for embedded derivatives of hybrid financial instruments separately.
(Note 3) The contract amount presents the principal of the debt, including embedded derivatives and does not present the market risk volume exposed to derivative transactions.

### Derivative transactions to which hedge accounting is applied at February 29, 2020 and February 28, 2019

### (1) Interest-related derivatives

| | | Millions of Yen | | |
|---|---|---|---|---|
| **February 29, 2020** | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: Receivable floating rate/Payable fixed rate | **Long-term debt** | **¥3,500** | **¥2,500** | **Note 2** |

| | | Millions of Yen | | |
|---|---|---|---|---|
| **February 28, 2019** | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: Receivable floating rate/Payable fixed rate | Long-term debt | ¥2,600 | ¥2,200 | Note 2 |
| Receivable floating rate/Payable fixed rate | Current portion of long-term debt | ¥2,000 | | ¥(7) |

| | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|
| **February 29, 2020** | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: Receivable floating rate/Payable fixed rate | **Long-term debt** | **$31,983** | **$22,845** | **Note 2** |

(Note 1) The fair values are determined using the prices obtained from the financial institutions.
(Note 2) The fair values of interest rate swaps, which are accounted for together with the long-term debt as the hedged item, are included in the fair values of the relevant long-term debt, if they qualify for hedge accounting.

## 14. CONTINGENT LIABILITIES

At February 29, 2020, the Group had the following contingent liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Guarantees of bank loans of its customers | ¥8 | $73 |

## 15. OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss for the years ended February 29, 2020 and February 28, 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2020** | 2019 | **2020** |
| Unrealized loss on available-for-sale securities: | | | |
| Losses arising during the year | **¥(229)** | ¥ (252) | **$(2,092)** |
| Reclassification adjustments to profit or loss | **(3)** | (0) | **(27)** |
| Amount before income tax effect | **(233)** | (252) | **(2,129)** |
| Income tax effect | **42** | 64 | **383** |
| Total | **¥(190)** | ¥ (187) | **$(1,736)** |
| Deferred gain (loss) on derivatives under hedge accounting: | | | |
| Gains (losses) arising during the year | **¥ 1** | ¥ (18) | **$ 9** |
| Reclassification adjustments to profit or loss | **5** | 8 | **45** |
| Amount before income tax effect | **7** | (9) | **63** |
| Income tax effect | **(2)** | 2 | **(18)** |
| Total | **¥ 5** | ¥ (7) | **$ 45** |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | **¥(554)** | ¥(1,006) | **$(5,062)** |
| Reclassification adjustments to profit or loss | | 127 | |
| Amount before income tax effect | **(554)** | (879) | **(5,062)** |
| Income tax effect | | | |
| Total | **¥(554)** | ¥ (879) | **$(5,062)** |
| Defined retirement benefit plans: | | | |
| Adjustments arising during the year | **¥ 204** | ¥ 13 | **$ 1,864** |
| Reclassification adjustments to profit or loss | **46** | 242 | **420** |
| Amount before income tax effect | **250** | 255 | **2,284** |
| Income tax effect | | | |
| Total | **¥ 250** | ¥ 255 | **$ 2,284** |
| Share of other comprehensive income in an associate accounted for by the equity method— | | | |
| Losses arising during the year | **¥ (31)** | ¥ (4) | **$ (283)** |
| Total | **¥ (31)** | ¥ (4) | **$ (283)** |
| Total other comprehensive loss | **¥(519)** | ¥ (823) | **$(4,742)** |

## 16. NET INCOME PER SHARE

The financial data for the computation of basic net income per share for the years ended February 29, 2020 and February 28, 2019, is as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| | Net Income Attributable to Owners of the Parent | Weighted—Average Shares | EPS | |
| **Year ended February 29, 2020:** | | | | |
| Basic earnings per share (EPS) | | | | |
| Net income available to common shareholders | ¥2,041 | 31,511 | ¥64.78 | $0.59 |
| | | | | |
| **Year ended February 28, 2019:** | | | | |
| Basic earnings per share (EPS) | | | | |
| Net income available to common shareholders | ¥4,026 | 31,511 | ¥127.77 | |

Diluted EPS is not disclosed because the Company did not issue dilutive securities for the years ended February 29, 2020 and February 28, 2019.

## 17. SUBSEQUENT EVENTS

**Appropriations of Retained Earnings**

The following appropriation of retained earnings at February 29, 2020, was approved at the Company's shareholders' meeting held on May 28, 2020:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥10 ($0.09) per share | ¥315 | $2,878 |

## 18. 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 separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

   The principal business of the Group is manufacturing and sales of marine equipment, industrial electronics equipment, wireless LAN system and handy terminals. The Company consists of divisions separated by product and service, and each division designs comprehensive strategies for its products and services and develops relevant business activities. Each subsidiary develops business activities from a management perspective within the Group. Accordingly, the Group consists of business segments by product and service, which are the "Marine" business, the "Industrial" business, and the "Wireless LAN/Handy Terminal" business, as the reportable segments.

   The major products in the "Marine" business are navigation equipment, fishing equipment and radio communication equipment, etc. The major products in the "Industrial" business are medical equipment, ITS equipment, GPS equipment, and avionics electronic equipment, etc. The major products in the "Wireless LAN/Handy Terminal" business are wireless LAN system and handy terminals, etc.

2. Methods of measurement for the amounts of sales, profit, assets, liabilities 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."
   Segment profit corresponds to the figure based on "operating income" in the consolidated statement of income.
   Intersegment sales or transfers are based on the arm's-length price.

3. Information about sales, profit, assets, liabilities and other items:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
| Sales: | | | | | | | | |
| Sales to external customers | ¥67,250 | ¥11,589 | ¥3,821 | ¥82,661 | ¥ 405 | ¥83,066 | | ¥83,066 |
| Intersegment sales or transfers | | 23 | 122 | 146 | 531 | 677 | ¥ (677) | |
| Total | ¥67,250 | ¥11,612 | ¥3,944 | ¥82,807 | ¥ 936 | ¥83,743 | ¥ (677) | ¥83,066 |
| Segment profit (loss) | ¥ 1,958 | ¥ (284) | ¥ 662 | ¥ 2,336 | ¥ 75 | ¥ 2,411 | ¥0 | ¥ 2,411 |
| Segment assets | 47,319 | 9,368 | 2,267 | 58,955 | 1,066 | 60,022 | 16,111 | 76,133 |
| Other: | | | | | | | | |
| Depreciation | 2,687 | 104 | 128 | 2,920 | 35 | 2,955 | 290 | 3,246 |
| Equity in earnings of an associate accounted for by the equity method | 50 | | | 50 | | 50 | | 50 |
| Investment of an associate accounted for by the equity method | 219 | | | 219 | | 219 | | 219 |
| Increase in property, plant and equipment and intangible assets | 2,278 | 288 | 176 | 2,743 | 21 | 2,764 | 480 | 3,245 |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
| Sales: | | | | | | | | |
| Sales to external customers | ¥66,558 | ¥11,843 | ¥3,336 | ¥81,739 | ¥ 369 | ¥82,108 | | ¥82,108 |
| Intersegment sales or transfers | 0 | 42 | 94 | 137 | 484 | 622 | ¥ (622) | |
| Total | ¥66,558 | ¥11,886 | ¥3,431 | ¥81,876 | ¥ 854 | ¥82,730 | ¥ (622) | ¥82,108 |
| Segment profit | ¥ 3,923 | ¥ 335 | ¥ 442 | ¥ 4,702 | ¥ 64 | ¥ 4,767 | ¥4 | ¥ 4,771 |
| Segment assets | 47,525 | 10,459 | 1,671 | 59,656 | 1,132 | 60,788 | 18,435 | 79,223 |
| Other: | | | | | | | | |
| Depreciation | 2,534 | 174 | 107 | 2,816 | 39 | 2,856 | 236 | 3,093 |
| Equity in earnings of an associate accounted for by the equity method | 84 | | | 84 | | 84 | | 84 |
| Investment of an associate accounted for by the equity method | 219 | | | 219 | | 219 | | 219 |
| Increase in property, plant and equipment and intangible assets | 2,063 | 219 | 183 | 2,466 | 5 | 2,472 | 123 | 2,595 |

| | Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other (Note 1) | Total | Reconciliations (Note 2) | Consolidated (Note 3) |
| Sales: | | | | | | | | |
| Sales to external customers | $614,548 | $105,903 | $34,917 | $755,377 | $3,700 | $759,078 | | $759,078 |
| Intersegment sales or transfers | | 210 | 1,114 | 1,334 | 4,852 | 6,186 | $(6,186) | |
| Total | $614,548 | $106,113 | $36,041 | $756,712 | $8,553 | $765,265 | $(6,186) | $759,078 |
| Segment profit (loss) | $ 17,892 | $ (2,595) | $ 6,049 | $ 21,346 | $ 685 | $ 22,032 | $ 0 | $ 22,032 |
| Segment assets | 432,413 | 85,607 | 20,716 | 538,746 | 9,741 | 548,496 | 147,226 | 695,723 |
| Other: | | | | | | | | |
| Depreciation | 24,554 | 950 | 1,169 | 26,683 | 319 | 27,003 | 2,650 | 29,662 |
| Equity in earnings of an associate accounted for by the equity method | 456 | | | 456 | | 456 | | 456 |
| Investment of an associate accounted for by the equity method | 2,001 | | | 2,001 | | 2,001 | | 2,001 |
| Increase in property, plant and equipment and intangible assets | 20,816 | 2,631 | 1,608 | 25,066 | 191 | 25,258 | 4,386 | 29,653 |

Notes:

1. "Other" is a business segment which is not included in reportable segments and includes the electromagnetic environmental testing business and other businesses.
2. The nature of "Reconciliations" is as follows:
   (1) "Reconciliations" of "Segment profit (loss)" includes general and administrative expenses of the head office administration departments which do not belong to any reportable segment.
   (2) "Reconciliations" of "Segment assets" includes assets of the head office administration departments, which do not belong to any reportable segment, mainly consisting of common use assets, investments and other assets.

(3) "Reconciliations" of "Increase in property, plant and equipment and intangible assets" includes capital investments, which do not belong to any reportable segment.

3. Segment profit (loss) is reconciled with operating income in the consolidated statement of income.

## Other Related Information:

1. Information by product and service
   Information by product and service is omitted since similar information is disclosed in the segment information.
2. Information by geographic region
   (1) Sales

| Millions of Yen | | | | | |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| **¥33,584** | **¥8,092** | **¥19,407** | **¥19,296** | **¥2,686** | **¥83,066** |

| Millions of Yen | | | | | |
|---|---|---|---|---|---|
| 2019 | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| ¥32,408 | ¥8,348 | ¥20,047 | ¥18,354 | ¥2,949 | ¥82,108 |

| Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| **$306,899** | **$73,946** | **$177,346** | **$176,331** | **$24,545** | **$759,078** |

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

(2) Property, plant and equipment

| Millions of Yen | | | | | |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| **¥7,196** | **¥530** | **¥1,660** | **¥766** | | **¥10,152** |

| Millions of Yen | | | | | |
|---|---|---|---|---|---|
| 2019 | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| ¥6,954 | ¥520 | ¥930 | ¥687 | | ¥9,093 |

| Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Japan | Americas | Europe | Asia | Other Regions | Total |
| **$65,758** | **$4,843** | **$15,169** | **$6,999** | | **$92,771** |

3. Information by major customer
   Information by customer is omitted, since there is no customer to whom net sales accounts for more than 10% of total net sales recorded in the consolidated statement of income.

## 4. Information about loss on impairment of long-lived assets

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Loss on impairment | **¥29** | **¥35** | | **¥65** | | **¥65** | | **¥65** |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Loss on impairment | ¥7 | ¥328 | | ¥336 | | ¥336 | | ¥336 |

| | Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Loss on impairment | **$265** | **$319** | | **$593** | | **$593** | | **$593** |

## 5. Information about amortization and unamortized balance of goodwill

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Amortization | **¥ 36** | **¥31** | | **¥ 68** | | **¥ 68** | | **¥ 68** |
| Unamortized balance | **424** | **57** | | **481** | | **481** | | **481** |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Amortization | ¥ 34 | ¥31 | | ¥ 65 | | ¥ 65 | | ¥ 65 |
| Unamortized balance | 435 | 88 | | 523 | | 523 | | 523 |

| | Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Marine | Industrial | Wireless LAN/ Handy Terminal | Total | Other | Total | Reconciliations | Consolidated |
| Amortization | **$ 328** | **$283** | | **$ 621** | | **$ 621** | | **$ 621** |
| Unamortized balance | **3,874** | **520** | | **4,395** | | **4,395** | | **4,395** |

As of February 29, 2020

### *Consolidated Subsidiaries*

| Country | Company Name | Main Business | Equity Ownership (%) |
|---|---|---|---|
| Japan | KYORITSU RADIO SERVICE CO., LTD. | Clearing of communication charges | 100 |
| | FURUNO KYUSHU HANBAI CO., LTD. | Sales and services of marine electronic equipment | 100 |
| | FURUNO KANSAI HANBAI CO., LTD. | Sales and services of marine electronic equipment | 100 |
| | FURUNO SYSTEMS CO., LTD. | Sales of industrial electronic products | 100 |
| | FURUNO LIFEBEST CO., LTD. | Insurance agent and leasing of marine electronic equipment | 100 |
| | LABOTECH INTERNATIONAL CO., LTD. | EMC and environmental test laboratory | 100 |
| U.S.A. | FURUNO U.S.A., INC. | Sales and services of marine electronic equipment | 100 |
| U.K. | FURUNO (UK) LTD. | Sales and services of marine electronic equipment | 100 |
| | FURUNO LEASING LTD. | Leasing and sales of marine electronic equipment | 100 |
| Germany | FURUNO DEUTSCHLAND GmbH | Sales and services of marine electronic equipment | 100 |
| Holland | FURUNO EUROPE B. V. | Logistic services for Europe | 100 |
| Denmark | FURUNO DANMARK A/S | Sales and services of marine electronic equipment | 100 |
| Sweden | FURUNO SVERIGE AB | Sales and services of marine electronic equipment | 100 |
| Poland | FURUNO POLSKA Sp. zo. o. | Sales and services of marine electronic equipment | 100 |
| Russia | FURUNO EURUS LLC | Sales and services of marine electronic equipment | 100 |
| France | FURUNO FRANCE S.A.S. | Sales and services of marine electronic equipment | 100 |
| Italy | FURUNO ITALIA S.R.L. | Sales and services of marine electronic equipment | 100 |
| Spain | FURUNO ELECTRIC HOLDING ESPAÑA, S.A. | Holding of shares | 100 |
| | FURUNO ESPAÑA, S.A. | Sales and services of marine electronic equipment | 70 |
| Norway | FURUNO NORGE A/S | Sales and services of marine electronic equipment | 100 |
| Greece | FURUNO HELLAS S.A. | Sales and services of marine electronic equipment | 100 |
| Cyprus | FURUNO (CYPRUS) LTD | Sales and services of marine electronic equipment | 100 |
| Finland | FURUNO FINLAND OY | Sales and services of marine electronic equipment | 100 |
| China | FURUNO HONG KONG CO., LTD. | Manufacturing of marine electronic equipment | 100 |
| | FURUNO CHINA CO., LIMITED | Sales and services of marine electronic equipment | 100 |
| | FURUNO SHANGHAI CO., LTD. | Sales and services of marine electronic equipment | 100 |
| Singapore | FURUNO SINGAPORE PTE LTD | Sales and services of marine electronic equipment | 100 |
| Panama | FURUNO PANAMA, S.A. | Sales and services of marine electronic equipment | 100 |
| Indonesia | PT.FURUNO ELECTRIC INDONESIA | Sales and services of marine electronic equipment | 100 |
| Korea | FURUNO KOREA CO., LTD. | Sales and services of marine electronic equipment | 100 |
| Malaysia | FURUNO ELECTRIC (MALAYSIA) SDN. BHD. | Sales and services of marine electronic equipment | 100 |

### *Unconsolidated Subsidiaries*

| Country | Company Name | Main Business | Equity Ownership (%) |
|---|---|---|---|
| Japan | FURUNO SOFTECH CO., LTD. | Software development and service | 100 |
| | NOVELUCK CO., LTD. | Software development and service | 60 |
| China | FURUNO SOFTECH (DALIAN) CO., LTD. | Software development and service | 80 |
| | FUNOTEC (DALIAN) CO., LTD. | Sales, services and manufacturing of medical equipment | 100 |
| | COSCO SHIPPING FURUNO Navigation Technology (Shanghai) Co., Ltd. | Sales and services of marine electronic equipment | 40 |
| | FURUNO DONGGUAN CO., LTD. | Manufacturing of marine electronic equipment | 100 |
| New Zealand | ELECTRONIC NAVIGATION LTD. | Sales and services of marine electronic equipment | 60 |

### *Equity method Subsidiaries*

| Country | Company Name | Main Business | Equity Ownership (%) |
|---|---|---|---|
| France | SIGNET S.A.S | Sales and software development | 49.28 |

## Five-Year Summary

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended the last day of February

| | Millions of Yen | | | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | **2020** | **2020** |
| **For the year:** | | | | | | |
| Net sales: | ¥89,720 | ¥78,674 | ¥79,050 | ¥82,108 | **¥83,066** | **$759,078** |
| Operating income | 2,911 | 1,534 | 1,992 | 4,771 | **2,411** | **22,032** |
| Income before income taxes and minority interests | 3,348 | 1,467 | 2,001 | 4,877 | **2,699** | **24,664** |
| Net income (loss) | 2,624 | 1,262 | 1,236 | 4,026 | **2,041** | **18,651** |
| Per share of common stock (Notes 2) (yen and U.S. dollars): | | | | | | |
| Basic net income (loss) | 83.27 | 40.06 | 39.25 | 127.77 | **64.78** | **0.59** |
| Cash dividends applicable to the year | 10.00 | 8.00 | 10.00 | 25.00 | **20.00** | |
| Weighted average number of shares outstanding (thousands) | 31,513 | 31,512 | 31,512 | 31,511 | **31,511** | |
| Research and development cost | 4,786 | 4,253 | 4,470 | 4,707 | **4,266** | **38,983** |
| Capital expenditure | 1,794 | 1,613 | 1,295 | 1,271 | **1,887** | **17,243** |
| Depreciation and amortization | 2,721 | 2,924 | 3,225 | 3,093 | **3,246** | **29,662** |
| Net cash provided by operating activities | 1,258 | 6,417 | 5,142 | 4,903 | **8,041** | **73,480** |
| Net cash used in investing activities | (2,612) | (4,152) | (3,404) | (2,912) | **(3,175)** | **(29,013)** |
| Net cash provided by (used in) financing activities | (2,811) | (2,201) | (1,542) | (1,251) | **(4,194)** | **(38,325)** |
| **At year-end:** | | | | | | |
| Total assets | ¥78,464 | ¥75,724 | ¥76,773 | ¥79,672 | **¥76,133** | **$695,723** |
| Interest-bearing debt | 16,736 | 14,881 | 13,706 | 12,982 | **9,906** | **90,523** |
| Shareholders' equity | 36,182 | 35,981 | 38,201 | 41,191 | **41,925** | **383,121** |
| Number of employees | 2,905 | 2,894 | 2,920 | 2,957 | **2,926** | |
| **Overseas sales:** | | | | | | |
| North America | ¥ 8,567 | ¥ 7,547 | ¥ 7,873 | ¥ 8,348 | **¥ 8,092** | **$ 73,946** |
| Europe | 19,628 | 16,886 | 19,105 | 20,047 | **19,407** | **177,346** |
| Asia | 24,647 | 17,438 | 17,645 | 18,354 | **19,296** | **176,331** |
| Other | 3,933 | 3,247 | 3,167 | 2,949 | **2,686** | **24,545** |
| Total | 56,777 | 45,118 | 47,791 | 49,699 | **49,482** | **452,179** |
| **Key ratio (%):** | | | | | | |
| Return on sales | 2.92% | 1.60% | 1.56% | 4.90% | **2.46%** | |
| Return on assets | 4.10 | 1.90 | 2.40 | 6.50 | **3.50** | |
| Return on equity | 7.18 | 3.50 | 3.33 | 10.14 | **4.91** | |
| Debt equity ratio | 46.26 | 41.36 | 35.88 | 31.52 | **23.63** | |
| Equity ratio | 46.10 | 47.50 | 49.80 | 51.70 | **55.10** | |

Note: 1. U.S. dollar amounts have been converted from Japanese yen, for convenience only, at the rate of ¥109.43=U.S. $1, the approximate rate of exchange prevailing at February 29, 2020.
2. See Note 2.s and Note 16 of the Notes to the Consolidated Financial Statements.

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