innovative spirit

FUJI robots lead the way

2020 ANNUAL REPORT

Financial Summary

Fiscal year ended March 31, 2020

FUJI CORPORATION

CONTENTS

Five-Year Summary

FUJI CORPORATION and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2016	2017	2018	2019	2020	2020
For the Year						
Orders	¥ 82,651	¥ 94,024	¥ 123,540	¥ 124,254	¥ 146,816	$ 1,346,936
Net sales	86,642	86,397	120,032	129,105	140,968	1,293,284
Domestic	15,337	11,877	19,515	15,360	14,779	135,587
Overseas	71,305	74,520	100,517	113,745	126,189	1,157,697
Operating profit	11,902	9,794	22,827	23,107	19,572	179,560
Profit before income taxes	11,012	9,948	24,148	23,448	20,713	190,028
Net profit attributable to owners of parent	7,237	7,055	17,524	16,855	14,964	137,284
Capital expenditures	5,641	6,175	6,765	11,223	8,642	79,284
Depreciation	4,934	5,158	5,282	6,067	6,825	62,615
Research and development expenses	6,613	6,789	8,349	7,993	8,804	80,771
Cash flows from operating activities	8,086	17,380	16,220	4,186	22,560	206,973
Cash flows from investing activities	(6,308)	(10,160)	(9,170)	(28,458)	(5,101)	(46,798)
Free cash flows	1,778	7,220	7,050	(24,272)	17,459	160,175
Cash flows from financing activities	4,273	(10,916)	(3,165)	(4,111)	(3,994)	(36,642)
At Year-End						
Total assets	¥ 156,958	¥ 158,407	¥ 183,038	¥ 194,367	¥ 198,504	$ 1,821,138
Net assets	132,069	130,948	151,413	161,624	167,939	1,540,725
Cash and cash equivalents at end of year	59,357	55,359	58,924	30,853	43,907	402,817
Number of employees (Persons)	2,108	2,117	2,229	2,449	2,493	
Per Share Data (yen and U.S. dollars)						
Net profit						
Basic	¥ 74.13	¥ 76.19	¥ 195.04	¥ 184.52	¥ 163.81	$ 1.50
Diluted	74.03	70.90	181.87	174.98	155.22	1.42
Net assets	1,372.18	1,461.63	1,655.29	1,767.30	1,834.76	16.83
Cash dividends	28.00	30.00	40.00	50.00	50.00	0.46
Ratios (%)						
Overseas sales ratio	82.3	86.3	83.7	88.1	89.5	
Operating profit ratio	13.7	11.3	19.0	17.9	13.9	
Net profit ratio	8.4	8.2	14.6	13.1	10.6	
R&D expense ratio to net sales	7.6	7.9	7.0	6.2	6.2	
Return on assets	4.7	4.5	10.3	8.9	7.6	
Return on equity	5.4	5.4	12.4	10.8	9.1	
Equity ratio	84.0	82.5	82.6	83.1	84.4	

Notes: 1) U.S. dollar amounts are converted from Japanese yen, for convenience only, at the rate of ¥109 to U.S.$1.00.
2) Due to the application of “Partial Amendments to Accounting Standards for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended March 31, 2019, the principal financial data presented for the fiscal year ended March 31, 2018, are restated figures after the retrospective application of the Accounting Standards, etc.

Analysis of Operating Results

Overview

In the fiscal year ended March 31, 2020, the Japanese economy seemed to be at a standstill on the background of weakness in exports. From the beginning of 2020, economic activities have slowed down due to the effect of the worldwide spread of a novel coronavirus (COVID-19) infection. As a result, companies observed a cautious stance on capital investments with concerns over deterioration in corporate performance. In the global economy, factors such as the effect of the spread of COVID-19 infection, in addition to the intensification of the US-China trade conflict, caused further development of a sense of economic slowdown and weak growth of capital investments in the manufacturing industry.

In this environment, under the corporate slogan of “Excite and Inspire,” the Company and its subsidiaries (hereinafter referred to as the “Group”) have taken on the challenge of reforming based on a growth strategy of capturing the times and pioneering the future using robotics technology. The Company is developing even further refined unique products based on the automation technology the Company has cultivated with its leading robotic mounters as well as machine tools, and has announced the high-end model NXTR, a machine equipped with the world’s first automatic component supply system designed to fully automate electronic component mounting processes. In addition, by strengthening the domestic and international sales and technical support systems from expanding the cooperation within the Group and by promoting total solutions and improving customer satisfaction, the Group has continued their efforts to develop their market share. Furthermore, the Company has sought to improve profitability through efforts to streamline the production environments for advanced efficiency by applying IoT methods.

In India, where the market for robotic mounters is expanding year by year, aiming to improve customer satisfaction by strengthening the support for local dealers and to promote further expansion of sales, the Company established FUJI INDIA CORPORATION PRIVATE LIMITED on December 19, 2019. On February 13, 2020, the Company established FUJI LINEAR CORPORATION as a subsidiary that manufactures linear motors whose demand is expected to grow in the future.

Net sales

Net sales increased by ¥11,863 million (9.2%) from the previous fiscal year to ¥140,968 million. This was mainly due to sales growth in existing Robotic Solutions businesses, and impact from Fasford Technology Co., Ltd. (hereinafter, “FFT”) being included in the scope of consolidation with September 30, 2018 as the deemed acquisition date.

Overseas sales increased by ¥12,444 million (10.9%) from the previous fiscal year to ¥126,189 million. This was due to significant growth in capital investments in telecommunication equipment including smartphone devices and infrastructure for the 5G next-generation communication protocol in markets such as China, Taiwan and Vietnam. The percentage of overseas sales to total net sales was 89.5% (China: 45.7%, Other Asian countries: 23.2%, Europe: 9.8%, United States: 6.4%, Others: 4.4%), representing an increase of 1.4 percentage points from the previous fiscal year. Domestic sales decreased by ¥581 million (3.8%) from the previous fiscal year to ¥14,779 million, as industrial equipment and automotive-related products trended weak in both the Robotic Solutions segment and the Machine Tools segment.

Operating profit

Operating profit decreased by ¥3,535 million (15.3%) from the previous fiscal year to ¥19,572 million, due mainly to a drop in sales price on the ground of intensified pricing competition and other factors.

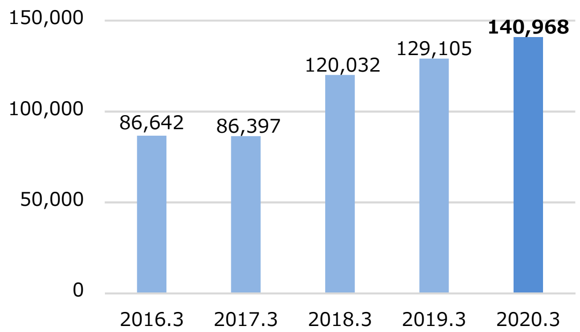
Net profit attributable to owners of parent

In terms of other income (expenses), income (net) increased by ¥800 million from the previous fiscal year to ¥1,141 million as a result of recording gain on sales of investment securities. Profit before income taxes decreased by ¥2,735 million (11.7%) from the previous fiscal year to ¥20,713 million.

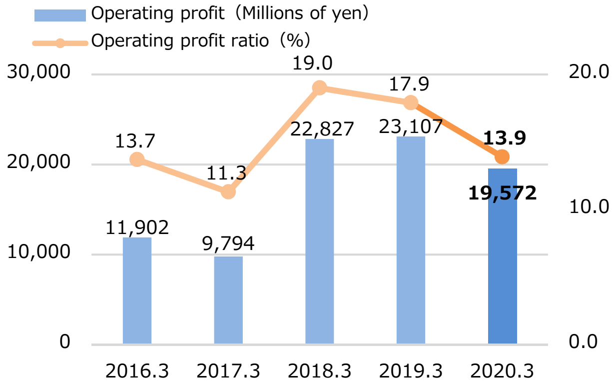
Net profit attributable to owners of parent decreased by ¥1,891 million (11.2%) from the previous fiscal year, to ¥14,964 million.

As a result of the above, net profit per share was ¥163.81, down ¥20.71 from the ¥184.52 recorded in the previous fiscal year. Return on equity (ROE) was 9.1%, down 1.7 percentage points from the previous fiscal year.

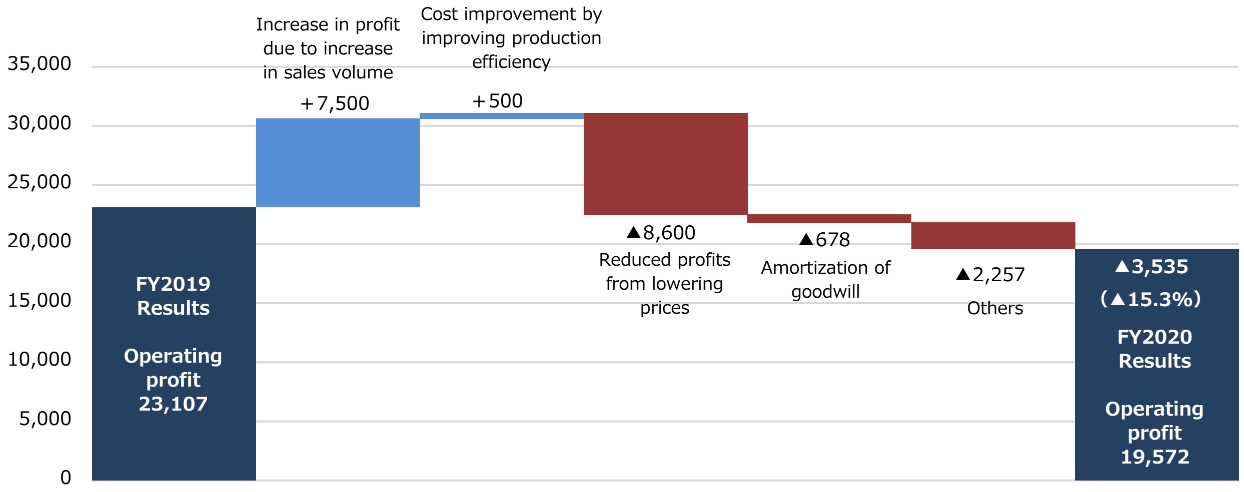
Net sales (Millions of yen)



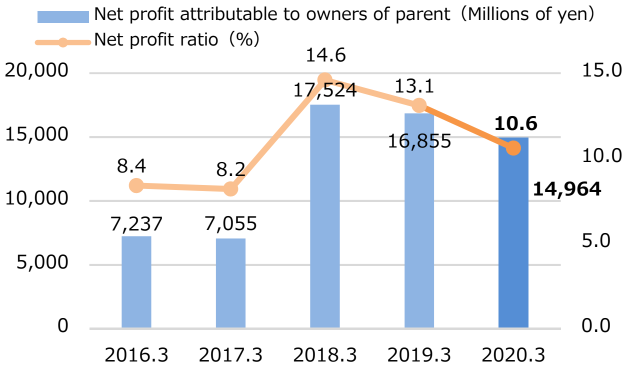
Operating profit／Operating profit ratio



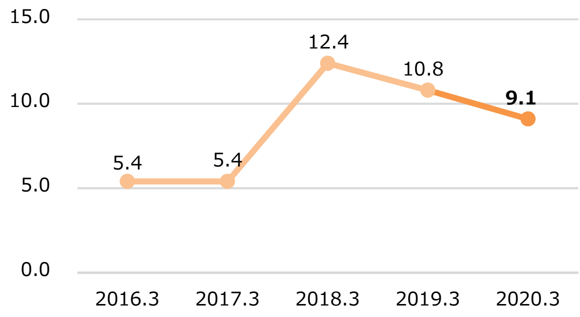
Operating profit increase／decrease analysis (Millions of yen)



Net profit attributable to owners of parent ／Net profit ratio



Return on equity (ROE) (%)



Business Results by Segment

Robotic Solutions

Net sales increased by ¥16,227 million (14.5%) from the previous fiscal year, to ¥127,763 million. This was mainly due to continued solid sales for smartphones and for facilities and equipment for the 5G next-generation communication protocol for China and other regions of Asia. On the other hand, capital investments in the United States and Europe turned to be weak due to concerns about the spread of COVID-19 in addition to the ongoing uncertainties regarding the economic outlook.

As for business activities, aiming to win new customers and provide services that improve customer satisfaction in an effort to increase its market share, the Group has focused on quality improvement in its software and key units, as well as market cultivation based on cooperation of the sales and technology divisions and promotion of solution-based sales approaches. The performance of our newly consolidated subsidiary FFT also contributed to the increase in sales.

Meanwhile, operating profit decreased by ¥1,663 million (6.6%) from the previous fiscal year to ¥23,354 million, mainly due to increasingly fierce price competition.

Segment assets increased by ¥6,192 million (5.0%) from the previous fiscal year to ¥130,145 million. This was mainly due to an increase in notes and accounts receivable, net of allowance for doubtful accounts resulting from sales growth in China and other regions of Asia. Other factors that contributed to the increase include an increase in inventories resulting from increases in production volume and sales and an increase in fixed assets resulting from the construction of a new corporate building at our subsidiary FFT.

The current fiscal year is the second year of our medium-term management plan, and the Group is making steady progress toward the final goal of 30% market share under the slogan of “FUJI Brand 30.” In the next fiscal year, the Group will realize the full market launch of the high-end model NXTR, which enables further automation while inheriting the module concept of NXT III. In addition, the Group will also accelerate the concept of FUJI Smart Factory that incorporates IoT capabilities into customer production lines based on Nexim, its key software. With these efforts, the Group will endeavor to meet the goal of maintaining a market share of 30% or higher.

Machine Tools

Net sales decreased by ¥4,821 million (30.8%) from the previous fiscal year to ¥10,840 million. This was due to a large decrease in sales mainly in the North American and Chinese markets and severe conditions resulting from the effect of the spread of COVID-19, in addition to sluggish market conditions due to the intensification of the US-China trade conflict.

Operating loss was ¥637 million (operating profit for the previous fiscal year was ¥1,662 million).

Segment assets decreased by ¥4,541 million (22.4%) from the previous fiscal year to ¥15,689 million, mainly due to a decrease in notes and accounts receivable, net of allowance for doubtful accounts resulting from sales decrease.

With regard to the medium-term management targets, the segment experienced a large decrease in sales mainly in the North American and Chinese markets due to the effect of the spread of COVID-19, in addition to sluggish market conditions due to the intensification of the US-China trade conflict, and the Company could not achieve the initial targets. However, by setting the development of new markets and new customers as the main goal and through the effective utilization of mutual resources across the three functions of sales, technology, and production and the three bases of the Company’s Toyota Plant, Kunshan Fuji Machine Mfg. Co., Ltd. in China, and Fuji Machine America Corporation, the Group will endeavor to transform the management structure into a more profitable one.

Others

Net sales of the Others segment, which includes the manufacture of control equipment and electronic equipment as well as image processing development, increased by ¥457 million (24.0%) from the previous fiscal year to ¥2,365 million. The Group recorded an operating loss of ¥1 million (operating loss for the previous fiscal year was ¥89 million).

Net sales by segment (Millions of yen)

	2016.3	2017.3	2018.3	2019.3	2020.3
Robotic Solutions	70,787	74,105	104,003	111,536	**127,763**
Machine Tools	14,623	10,997	13,798	15,661	**10,840**
Others	1,232	1,295	2,231	1,908	**2,365**
Total	86,642	86,397	120,032	129,105	**140,968**

Operating profit by segment (Millions of yen)

	2016.3	2017.3	2018.3	2019.3	2020.3
Robotic Solutions	14,527	14,546	25,185	25,017	**23,354**
Machine Tools	614	-713	1,017	1,662	**-637**
Others	-356	-473	-237	-89	**-1**
Corporate and eliminations	-2,883	-3,566	-3,138	-3,483	**-3,144**
Total	11,902	9,794	22,827	23,107	**19,572**

Research and Development Expenses and Capital Expenditures

Research and development expenses

The Group focuses its efforts on the research and development of state-of-the-art automated equipment and systems to meet the needs of the world's most advanced customers, in order to develop next-generation products at the forefront of digital revolution.

Total research and development expenses increased by ¥811 million (10.1%) from the previous fiscal year, to ¥8,804 million.

Major research and development activities included further reinforcement of the functions of robotic mounters, including the mainstay NXT Series in the Robotic Solutions segment. In the fiscal year under review, aiming for full automation of the electronic component mounting process, the Group focused on the development of the high-end model NXTR equipped with the world's first automatic component supply system.

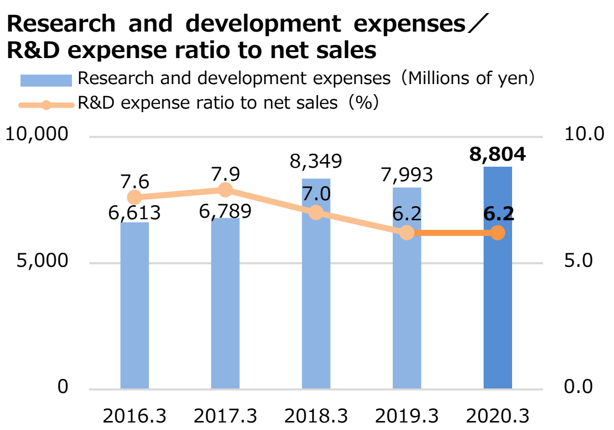
Capital expenditures

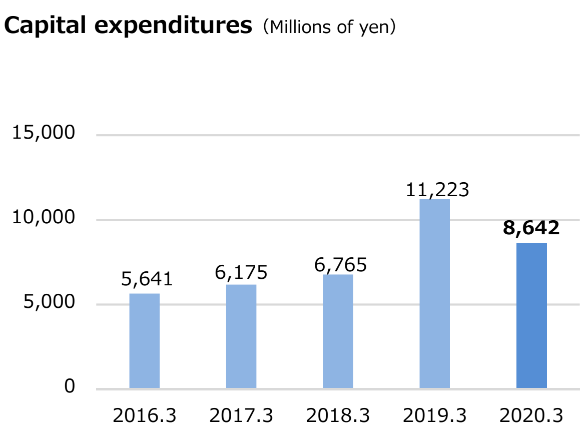
The Group makes ongoing capital investments in production, development, and sales facilities for such purposes as production capacity enhancement, rationalization of facilities, development of next-generation products that lead digital revolution, and the reinforcement of sales network.

Total capital expenditures decreased by ¥2,581 million (23.0%) from the previous fiscal year to ¥8,642 million. Capital expenditures by segment were ¥7,441 million for the Robotic Solutions segment and ¥843 million for the Machine Tools segment.

The details of major capital investments are as follows.

Company name Plant name	Location	Name of segment	Details of facilities	Amount invested (Millions of yen)
The Company's headquarters and headquarters factory	Chiryu, Aichi, Japan	Robotic Solutions	Software for market sale	3,332
The Company's Toyota Plant	Toyota, Aichi, Japan	Robotic Solutions Machine Tools	Upgrades to machining equipment	903
Fasford Technology Co., Ltd.	Minami Alps, Yamanashi, Japan	Robotic Solutions	Construction of new corporate building	902





Financial Position and Cash Flows

Analysis of financial position

(Assets)

The current assets as of March 31, 2020 increased by ¥8,241 million from the end of the previous fiscal year, to ¥126,770 million. This was mainly due to an increase of ¥13,054 million in cash and cash equivalents, despite a decrease of ¥6,425 million in short-term investments. Investments and other assets and property, plant and equipment decreased by ¥4,104 million from the end of the previous fiscal year, to ¥71,734 million. This is mainly because a decline in the stock market and other factors caused investment securities to decrease by ¥4,646 million.

As a result, total assets increased by ¥4,137 million from the end of the previous fiscal year, to ¥198,504 million.

(Liabilities)

The current liabilities as of March 31, 2020 increased by ¥5,676 million from the end of the previous fiscal year, to ¥28,840 million. This is mainly because current portion of bonds payable increased by ¥7,227 million due to transfer from bonds payable while income taxes payable decreased by ¥1,437 million.

Non-current liabilities were ¥1,725 million, a decrease of ¥7,854 million compared with the end of the previous fiscal year. This was mainly due to transfer from bonds payable to current portion of bonds payable.

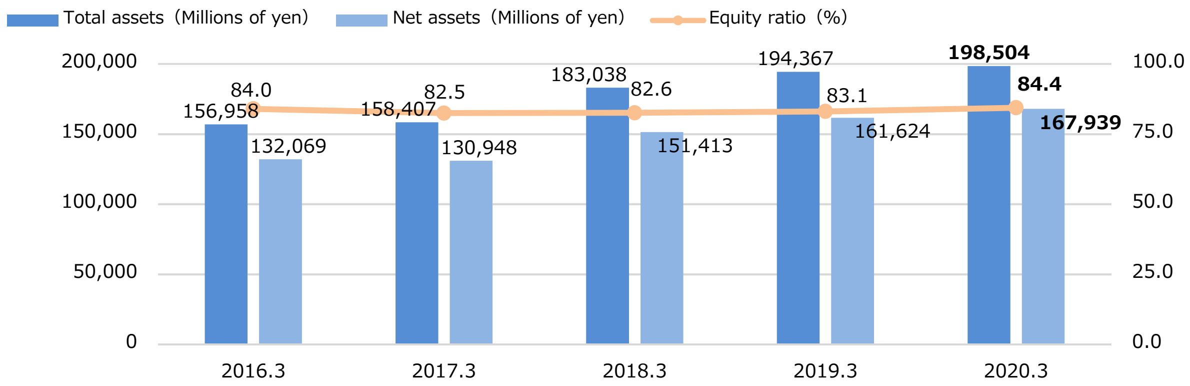
As a result, total liabilities decreased by ¥2,178 million from the end of the previous fiscal year, to ¥30,565 million.

(Net assets)

Total net assets as of March 31, 2020 increased by ¥6,315 million from the end of the previous fiscal year, to ¥167,939 million. This was mainly because retained earnings increased by ¥14,964 million due to profit attributable to owners of parent while there were decreases of ¥4,111 million in retained earnings due to payment of dividends and ¥3,684 million in valuation difference on available-for-sale securities due to the impact of a decline in the stock market on investment securities.

As a result, equity ratio as of March 31, 2020 was 84.4% (compared to 83.1% at the end of the previous fiscal year). Net assets per share was ¥1,834.76 (compared to ¥1,767.30 at the end of the previous fiscal year).

Total assets／Net assets／Equity ratio



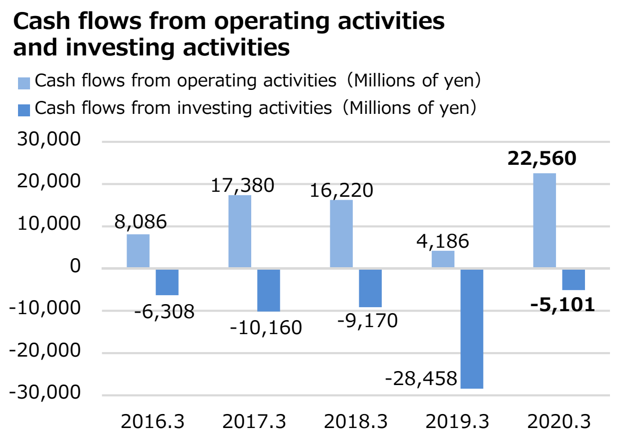
Analysis of cash flows

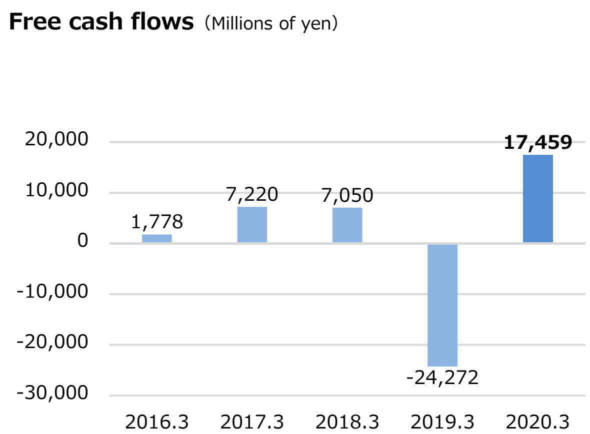
Net cash provided by operating activities was ¥22,560 million (¥4,186 million in the previous fiscal year). This was mainly due to positive factors such as profit before income taxes of ¥20,713 million and depreciation of ¥6,825 million outnumbering negative factors such as income taxes paid of ¥7,054 million.

Net cash used in investing activities was ¥5,101 million (¥28,458 million in the previous fiscal year). This was mainly due to purchase of property, plant and equipment and intangible assets of ¥11,912 million.

Net cash used in financing activities was ¥3,994 million (¥4,111 million in the previous fiscal year). This was mainly due to dividends paid of ¥4,109 million.

As a result of the above, the balance of cash and cash equivalents as of March 31, 2020 increased by ¥13,054 million (42.3%) from the end of the previous fiscal year to ¥43,907 million.





Capital resources and fund liquidity

The Group's main working capital needs include funds to purchase raw materials and parts to manufacture products, manufacturing costs, and operating expenses such as selling, general and administrative expenses. In addition, the Group's basic policy is to meet these working capital, capital for strategic investments and capital investment needs by allocating retained earnings, and it will maintain a certain level of retained earnings in order to make strategic investments and capital investments in peripheral and new businesses aiming for future growth. Meanwhile, the Group will consider procuring funds through borrowings as necessary.

To ensure flexibility and security against capital demands and mitigating financial risks, the Company has concluded specified commitment line contracts of ¥12,000 million in total with the main financial institutions.

Going forward, major capital investment plans include upgrades to machining equipment at the Company's Toyota Plant, which will be financed using retained earnings.

Basic Policy for Profit Distribution

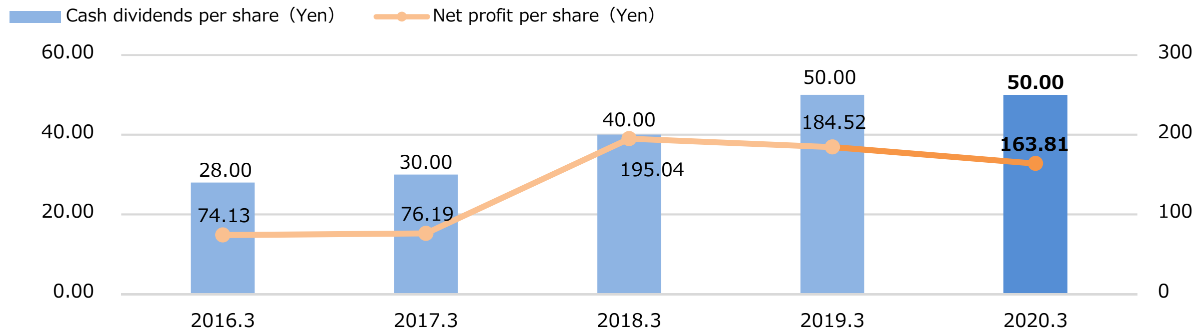
With regard to the Company's basic policy for profit distribution, we strive to maintain stable dividends, paying attention to capital demands for future business development as well as considering the continuous return of profits to shareholders as one of the most important management measures.

In addition, retained earnings are used for proactive investments for further growth and expansion, such as developing next-generation products and building a production structure anticipating the digital revolution, as well as to improve and strengthen the Company's business structure.

The Company will also pay attention to holding a large cash position to prepare for unforeseeable situations because there are concerns about risk of credit crunch in the financial market if the spread of COVID-19 infection causes economic activities to stagnate across the world for a protracted time.

Year-end dividends were ¥30.00 per share, based on the basic policy for profit distribution, and together with interim dividends of ¥20.00 per share, the Company decided to pay out total annual dividends of ¥50.00 per share.

Cash dividends and Net profit per share



Business and Other Risks

The management of the Group recognizes the following risks as the main risks that would likely have a large impact on the financial position, operating results, and cash flows of the Group's consolidated companies. However, it should be noted that they do not comprehensively cover all risks associated with the Group and the Group may be subject in the future to the effect of risks that cannot be foreseen or are not considered to be important at present. The description of the probability and the timing that such risks will materialize and the impact of those risks when they materialize on the Group's operating results, etc., are omitted as it is difficult to foresee them in a reasonable manner.

(1) Impact of changes in the market environment

The Group has placed sales offices in each region of the world and is engaged in global business expansion. Therefore, changes in demand for the Group's core products including robotic mounters and machine tools are influenced by political situations and economies of countries as well as capital investment trends of customers.

The Robotic Solutions business, which is the Group's main business, sells products related to communication devices including smartphones as well as products for other fields such as computers, servers, and automotive. As such, the demand for its products is significantly affected by changes in sales trends of electronic equipment and capital investment trends of customers due to business fluctuations. In the Machine Tools business, the demand for machine tools is significantly affected by capital investment trends in the automotive industry, who is the primary customer.

These two businesses are facing an increasingly challenging market environment due to uncertainty in the economic outlook. While working to enhance FUJI brand products and expand markets, the Group will strive to strengthen its earnings structure. However, if there is a drastic change in demand beyond the Group's expectations in the future, it may impact financial results.

(2) Impact of intensifying competition

The Group is exposed to competition in the markets in which it operates regarding various elements including price and function and continues to face a challenging situation. As competition with competitors will be intensified further going forward, it is an urgent need for the Group to develop attractive products that meet customer needs, strengthen services and distribution networks, and promote solution-based sales, taking advantage of IoT and AI technologies. In addition, while the Group is focused on improving profitability through pursuing cost reduction and other measures, there are cases in which the Group may be in a situation where it is difficult to decide upon a profitable price because of pricing competition with competitors and customers' requirements to lower equipment procurement costs to accommodate drops in market values of their products such as electronic equipment and automotive products. There may be an impact on financial results in cases where drops in sales volume and selling prices greatly exceed the Group's expectations and continue for an extended period.

(3) Impact of fluctuating exchange rates

A large proportion of the Group's net sales is from overseas, in accordance with proactive expansion of the Group's manufacturing customers overseas, particularly the manufacturing base centralized to Asian regions such as China. Export transactions are conducted on a yen-denominated basis, in principle, in order to avoid foreign exchange risk. However, there are cases in which fluctuations in exchange rates may lower the Group's cost competitiveness in comparison to competitors overseas, which may impact financial results. Also, the general rule for export transactions with overseas sales subsidiaries (United States, Germany) is that those transactions are based in foreign currency and thus it is possible that sudden changes in exchange rates may impact financial results.

(4) Impact of technology development

The Group is continuously in a state of proactive development investment and technology development based on an understanding of customer requirements. The Group is currently working to improve the performance of existing products, particularly robotic mounters and machine tools, which we regard as the pillars of our business. At the same time, it is pushing forward with business development in new fields, such as multijoint robots for industrial use, nursing care robots, atmospheric pressure plasma units, delivery lockers, and linear motors. The Group is also working to create innovative new businesses based on robot technology by actively using FUJI Innovation Lab., which is located in Silicon Valley in the U.S. However, there is a risk that financial results could be impacted if the developed products cannot be sold as planned because of elevated customer requirements or the obsolescence of technology developed by the Group caused by rapid technological innovations in the market.

The Group has acquired quality management system standard ISO9001 and we are diligently strengthening our quality assurance system and service support system to contribute to customer satisfaction. However, the Group's products use leading-edge technology, also often using development technology from new fields, and thus unexpected problems can occur, which may impact financial results.

(5) Impact of material procurement

Increased market value of the main materials which are used to build the Group's machines such as metals, castings, and electrical materials may impact financial results. There is also a possibility of supply being stopped because of a shortage in supply caused by a rapid increase and concentration of demand or because of a disaster or accident at the supplier. The Group will strive to take appropriate measures, such as adopting a procurement policy of purchasing from multiple suppliers to ensure a stable procurement. However, if we are unable to obtain some of the necessary materials for a long term, it could destabilize production, which may impact financial results.

(6) Impact of large-scale disasters

The Group operates manufacturing, sales, and service bases globally. Therefore, should there be a disaster which exceeds expectations or if there is a pandemic of an infectious disease, this may impact financial results. In particular, Aichi Prefecture, Japan, where the majority of the Group's production is concentrated, is an area which promotes disaster prevention measures against Nankai Trough earthquakes. If a large scale earthquake occurs in this area, production and delivery activities could stop because of damage to production equipment or suspension of logistics, which may impact financial results. The Group has measures in place to minimize the damage caused by a disaster including the formulation of business continuity plan, earthquake resistance measures, and emergency drills to minimize the risk.

The outbreak of COVID-19, which occurred in early 2020, has spread all over the world. The Group has implemented measures to prevent the spread of infection, including thorough health management, staggered working hours, and working from home. However, we are unable to make any prediction at this point about the scale of the possible further spread of infection and how soon the pandemic will end. If production and sales activities stop or the supply chain is disrupted due to the pandemic, it may impact financial results.

(7) Impact of intellectual property

The Group seeks to protect the products it develops and produces by acquiring patent rights and through trademarks, but there is a possibility that it cannot fully prevent third parties from manufacturing and selling similar products which wrongfully utilize intellectual property held by the Group. The Group is also always careful not to infringe on the intellectual property rights of a third party when developing products. However, there is a possibility that intellectual property may be infringed upon, resulting in a third party instituting legal proceedings against us, which may impact business activities.

(8) Impact of legal restrictions

The Group accepts the various legal restrictions and environmental laws which apply in the countries and territories in which the Group performs business activities, including the permissions needed relating to business investment, export restrictions, and tariffs. We are striving to have continuous compliance. However, it is possible that the Group may be subject to legal proceedings from the regulatory authority, which may impact business activities.

(9) Impact of information security

The Group has constructed an information management system and employs thorough security measures and instruction for employees. However, if an impediment which could not have been predicted such as a computer virus, unauthorized access, or cyberattack occurs, it is possible that the Group's trust level could be lowered and customers could require compensation for damages owing to the suspension of production and other business activities, and information leaks. Such occurrences may impact financial results.

(10) Impact of goodwill impairment

In August 2018, the Group acquired the shares of Fasford Technology Co., Ltd. (hereinafter, "FFT") to enhance its comprehensive proposal capabilities as a manufacturer of industrial robots and semiconductor manufacturing equipment, and recognized a goodwill of ¥12,845 million at the end of the fiscal year under review. If the profitability of FFT declines or synergy is not realized as initially expected for reasons such as changes in the business environment, the Company may recognize an impairment loss on goodwill, which may impact the financial results or financial condition of the Group.

(11) Impact of impairment of fixed assets

The Group holds property, plant and equipment and intangible assets. If significant deterioration of the business environment causes declines in profitability or if the recoverable amount of an asset falls below book value, recording of impairment loss may impact the financial results or financial condition of the Group.

(12) Impact of price fluctuations in securities

The Group holds investment securities for the purpose of building and strengthening commercial relationships that are instrumental to business expansion and development, as well as gaining stability and efficiency. Any significant decline in the market value of these securities may impact the financial results or financial condition of the Group.

Consolidated Balance Sheets

FUJI CORPORATION and Consolidated Subsidiaries
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 43,907	¥ 30,853	$ 402,817
Short-term investments (Notes 3 and 6)	189	6,614	1,734
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	41,833	40,975	383,789
Inventories (Note 5)	39,836	39,722	365,468
Other current assets	1,005	365	9,220
Total current assets	126,770	118,529	1,163,028
Investments and other assets:			
Investment securities (Notes 3 and 6)	19,384	24,030	177,835
Intangible assets (Note 8)	24,990	25,492	229,266
Deferred tax assets (Note 16)	1,552	770	14,239
Other assets	387	417	3,550
Total investments and other assets	46,313	50,709	424,890
Property, plant and equipment:			
Land	5,172	5,107	47,449
Buildings and structures	30,257	25,233	277,587
Machinery, equipment and vehicles	16,896	14,874	155,009
Tools, furniture and fixtures	8,839	8,266	81,092
Construction in progress	91	5,466	835
Total property, plant and equipment	61,255	58,946	561,972
Less accumulated depreciation	(35,834)	(33,817)	(328,752)
Total net property, plant and equipment (Note 18)	25,421	25,129	233,220
Total assets (Note 18)	¥ 198,504	¥ 194,367	$ 1,821,138

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2020
Liabilities and Net assets			
Current liabilities:			
Notes and accounts payable (Notes 3 and 9)	¥ 10,034	¥ 11,283	$ 92,055
Current portion of bonds payable	7,227	-	66,303
Accrued expenses	4,649	4,891	42,651
Income taxes payable	1,981	3,418	18,174
Provision for product warranties	1,073	1,074	9,844
Other current liabilities	3,876	2,498	35,560
Total current liabilities	28,840	23,164	264,587
Non-current liabilities:			
Bonds payable (Notes 3 and 10)	-	7,235	-
Net retirement benefit liability (Note 11)	338	577	3,101
Deferred tax liabilities (Note 16)	1,331	1,721	12,211
Other non-current liabilities	56	46	514
Total non-current liabilities	1,725	9,579	15,826
Total liabilities	30,565	32,743	280,413
Net assets (Note 14):			
Shareholders' equity:			
Common stock: 390,000,000 shares authorized and 97,823,748 shares issued	5,879	5,879	53,936
Capital surplus	5,925	5,925	54,358
Retained earnings	157,781	146,928	1,447,532
Less treasury shares: 6,479,108 shares in 2020 and 6,478,764 shares in 2019	(7,782)	(7,781)	(71,395)
Total shareholders' equity	161,803	150,951	1,484,431
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	5,184	8,868	47,560
Deferred gains on hedges	16	12	147
Foreign currency translation adjustment	961	1,721	8,817
Remeasurements of defined benefit plans (Note 11)	(369)	(118)	(3,386)
Total accumulated other comprehensive income	5,792	10,483	53,138
Non-controlling interests	344	190	3,156
Total net assets	167,939	161,624	1,540,725
Total liabilities and net assets	¥ 198,504	¥ 194,367	$ 1,821,138

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

FUJI CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating revenue:			
Net sales (Note 18)	¥ 140,968	¥ 129,105	$ 1,293,284
Operating costs and expenses:			
Costs of sales	89,606	76,468	822,073
Selling, general and administrative expenses	31,790	29,530	291,651
	121,396	105,998	1,113,724
Operating profit (Note 18)	19,572	23,107	179,560
Other income (expenses):			
Interest and dividend income	722	721	6,624
Interest expenses	(3)	(7)	(27)
Foreign exchange losses	(297)	(63)	(2,725)
Loss on sales and disposals of property, plant and equipment and intangible assets	(136)	(143)	(1,248)
Impairment loss on fixed assets (Note 15)	-	(97)	-
Gain on sales of investment securities (Note 6)	729	233	6,688
Other, net	126	(303)	1,156
	1,141	341	10,468
Profit before income taxes	20,713	23,448	190,028
Income taxes (Note 16):			
Current	5,445	6,890	49,954
Deferred	273	(313)	2,505
Total income taxes	5,718	6,577	52,459
Net profit	14,995	16,871	137,569
Less net profit attributable to non-controlling interests	31	16	285
Net profit attributable to owners of parent	¥ 14,964	¥ 16,855	$ 137,284
	Yen		U.S. dollars
Per share:			
Net profit			
Basic	¥ 163.81	¥ 184.52	$ 1.50
Diluted	155.22	174.98	1.42
Cash dividends (Note 14)	50.00	50.00	0.46

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

FUJI CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net profit	¥ 14,995	¥ 16,871	$ 137,569
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	(3,684)	(2,820)	(33,798)
Deferred gains on hedges	4	12	37
Foreign currency translation adjustment	(770)	344	(7,065)
Remeasurements of defined benefit plans, net of tax	(251)	(83)	(2,303)
Total other comprehensive income	(4,701)	(2,547)	(43,129)
Comprehensive income	¥ 10,294	¥ 14,324	$ 94,440
Comprehensive income attributable to:			
Owners of parent	¥ 10,272	¥ 14,343	$ 94,238
Non-controlling interests	22	(19)	202
Total comprehensive income	¥ 10,294	¥ 14,324	$ 94,440

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2020 and 2019

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock issued	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for- sale securities	Deferred gains on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Non-controlling interests	Total net assets
		Millions of yen											
Balance at April 1, 2018	97,823,748	¥ 5,879	¥ 5,925	134,184	(7,780)	138,208	11,688	¥ -	¥ 1,343	(35)	12,996	209	151,413
Net profit for the year attributable to owners of parent	-	-	-	16,855	-	16,855	-	-	-	-	-	-	16,855
Dividends of surplus	-	-	-	(4,111)	-	(4,111)	-	-	-	-	-	-	(4,111)
Purchases of treasury shares	-	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(2,820)	12	378	(83)	(2,513)	(19)	(2,532)
Balance at March 31, 2019	97,823,748	5,879	5,925	146,928	(7,781)	150,951	8,868	12	1,721	(118)	10,483	190	161,624
Net profit for the year attributable to owners of parent	-	-	-	14,964	-	14,964	-	-	-	-	-	-	14,964
Dividends of surplus	-	-	-	(4,111)	-	(4,111)	-	-	-	-	-	-	(4,111)
Purchases of treasury shares	-	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(3,684)	4	(760)	(251)	(4,691)	154	(4,537)
Balance at March 31, 2020	97,823,748	¥ 5,879	¥ 5,925	¥ 157,781	¥ (7,782)	¥ 161,803	¥ 5,184	¥ 16	¥ 961	¥ (369)	¥ 5,792	¥ 344	¥ 167,939

	Shareholders' equity					Accumulated other comprehensive income						
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Non-controlling interests	Total net assets
	Thousands of U.S. dollars (Note 1)											
Balance at March 31, 2019	$ 53,936	$ 54,358	$ 1,347,963	$ (71,385)	$ 1,384,872	$ 81,358	$ 110	$ 15,789	$ (1,083)	$ 96,174	$ 1,743	$ 1,482,789
Net profit for the year attributable to owners of parent	-	-	137,284	-	137,284	-	-	-	-	-	-	137,284
Dividends of surplus	-	-	(37,715)	-	(37,715)	-	-	-	-	-	-	(37,715)
Purchases of treasury shares	-	-	-	(10)	(10)	-	-	-	-	-	-	(10)
Net changes in items other than shareholders' equity	-	-	-	-	-	(33,798)	37	(6,972)	(2,303)	(43,036)	1,413	(41,623)
Balance at March 31, 2020	$ 53,936	$ 54,358	$ 1,447,532	$ (71,395)	$ 1,484,431	$ 47,560	$ 147	$ 8,817	(3,386)	$ 53,138	$ 3,156	$ 1,540,725

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FUJI CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit before income taxes	¥ 20,713	¥ 23,448	$ 190,028
Adjustments for:			
Depreciation	6,825	6,067	62,615
Impairment loss on fixed assets	-	97	-
Amortization of goodwill	951	476	8,725
Increase (decrease) in provision for product warranties	3	(65)	27
Decrease in net retirement benefit liability	(601)	(449)	(5,514)
Interest and dividend income	(722)	(721)	(6,624)
Loss on sales and disposals of property, plant and equipment and intangible assets	136	143	1,248
Gain on sales of investment securities	(729)	(233)	(6,688)
Increase in trade receivables	(68)	(3,402)	(624)
Increase in inventories	(477)	(9,550)	(4,376)
Increase (decrease) in trade payables	2,024	(1,046)	18,569
Other, net	403	(2,641)	3,697
Subtotal	28,458	12,124	261,083
Interest and dividends received	730	717	6,697
Interest paid	(3)	(7)	(27)
Proceeds from insurance income	429	-	3,936
Income taxes paid	(7,054)	(8,648)	(64,716)
Net cash provided by operating activities	22,560	4,186	206,973
Cash flows from investing activities:			
Net decrease in short-term investments	6,526	2,468	59,871
Purchases of property, plant and equipment and intangible assets	(11,912)	(8,351)	(109,284)
Proceeds from sales of property, plant and equipment and intangible assets	95	84	872
Purchases of investment securities	(548)	(1,280)	(5,028)
Proceeds from sales of investment securities	780	417	7,156
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 20)	-	(21,716)	-
Other, net	(42)	(80)	(385)
Net cash used in investing activities	(5,101)	(28,458)	(46,798)
Cash flows from financing activities:			
Dividends paid	(4,109)	(4,109)	(37,697)
Proceeds from share issuance to non-controlling shareholders	132	-	1,211
Other, net	(17)	(2)	(156)
Net cash used in financing activities	(3,994)	(4,111)	(36,642)
Effect of exchange rate changes on cash and cash equivalents	(411)	312	(3,771)
Net increase (decrease) in cash and cash equivalents	13,054	(28,071)	119,762
Cash and cash equivalents at beginning of year	30,853	58,924	283,055
Cash and cash equivalents at end of year	¥ 43,907	¥ 30,853	$ 402,817

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

FUJI CORPORATION and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of FUJI CORPORATION (the "Company") and its consolidated subsidiaries (together with the Company, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instrument 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 application and disclosure requirements from International Financial Reporting Standards (“IFRS”).

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instrument and Exchange Act. In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of the Japanese yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan, using the approximate rate prevailing at March 31, 2020, which was ¥109 to U.S. $1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain comparative figures have been reclassified to conform to the current year’s presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial. All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized profits included in assets resulting from transactions within the Group have also been eliminated.

The number of consolidated subsidiaries for the years ended March 31, 2020 and 2019 was as follows:

	2020	2019
Consolidated subsidiaries:		
Domestic	4	3
Overseas	8	7

A domestic subsidiary has been included in the scope of consolidation as a consolidated subsidiary starting from the fiscal year ended March 31, 2019 as the Company acquired the shares of the domestic subsidiary as of August 31, 2018.

Newly established companies, a domestic subsidiary and an overseas subsidiary, both have been included in the scope of consolidation from the fiscal year ended March 31, 2020.

Three overseas subsidiaries close their books on December 31, three months earlier than the Company and the other consolidated subsidiaries. The Company uses the financial statements of one of the subsidiaries as of its year-end date because the difference between its fiscal year-end date and that of the Company was not more than three months. Significant transactions for the period between the subsidiary's fiscal year-end date and the Company's year-end date have been adjusted for on consolidation. For the other two subsidiaries, the Company uses the financial statements which are compiled by temporary closings of their accounts as of March 31.

(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

The Company has adopted ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 requires that the accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"). In this case, adjustments for the following five items are required in the consolidation process so that the impact on net profit is accounted for in accordance with Japanese GAAP, unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Reclassification adjustments in the case of electing to present subsequent changes in the fair value of an equity instrument in other comprehensive income.

(b) Cash equivalents

The Group considers short-term, highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value purchased with an original maturity of three months or less to be cash equivalents.

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale” securities. The classification determines the respective accounting method to be applied under the accounting standards for financial instruments. According to the investment policy of the Group, its securities portfolio consists of held-to-maturity and available-for-sale securities. The accounting standard requires that held-to-maturity securities be stated at amortized cost and available-for-sale securities for which fair value is available be stated at fair value and that net unrealized gains and losses on such securities be recorded as a component of accumulated other comprehensive income, net of applicable income taxes. Gains and losses on the disposition of available-for-sale securities are computed using the moving average method. Available-for-sale securities without available fair values are carried at cost determined using the moving average method. Adjustments in the carrying value of individual investment securities are charged to income through write-downs when a decline in value is deemed to be other than temporary.

(d) Derivatives

The market value method is applied.

(e) Inventories

In accordance with the accounting standard for measurement of inventories, inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. If the net realizable value falls below the cost at the end of the period, the cost basis is reduced to the net realizable value and the reduction regarded as decreased profitability of inventories. Merchandise, finished goods and work-in-process are measured principally using the specific identification method. Raw materials and supplies are measured principally using the moving average method.

(f) Allowance for doubtful accounts

An allowance for doubtful accounts has been provided at the aggregate amount of estimated credit loss based on individual reviews of certain doubtful or troubled receivables. A general reserve for other receivables is also provided based on the historical loss experience for certain past periods.

(g) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost and depreciated principally by the declining balance method over the estimated useful life of the asset.

(h) Intangible assets

Intangible assets are amortized using the straight-line method. Software for sale is amortized using the straight-line method over the estimated economic life of the asset. Software for internal use is amortized using the straight-line method over the estimated useful life of the asset. Goodwill is amortized on a straight-line basis over 15 years.

(i) Impairment of fixed assets

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Impairment of Fixed Assets" and the related practical guidance. The standard requires fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured by the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property, including intangible assets, and are to be grouped at the lowest levels for which there are identifiable cash flows separate from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the Company and its domestic consolidated subsidiaries, other than idle or unused property, are grouped into cash generating units based on managerial accounting classifications.

(j) Employee retirement benefits

The difference between retirement benefit obligations and plan assets has been recognized as net retirement benefit liability. To calculate retirement benefit obligations, the benefit formula basis is used to allocate estimated retirement benefits to periods of service. Actuarial differences that are yet to be recognized are recognized in the year following the year in which they arise. A net retirement benefit liability and retirement benefit costs of certain consolidated subsidiaries are calculated using the simplified method as permitted by the accounting standard for retirement benefits. In calculating retirement benefit liability and retirement benefit expenses, some of the domestic consolidated subsidiaries apply a simplified method in which an assumed amount of benefits to be paid for basic voluntary retirement at the fiscal year-end is deemed as retirement benefit obligations.

(k) Significant hedge accounting methods

(i) Hedge accounting methods

Deferred hedge accounting is applied.

Forward exchange contracts are accounted for using the “furiate-shori” method, under which foreign currency denominated receivables and payables are translated at the applicable forward foreign exchange rates if requirements for such treatment are satisfied.

(ii) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts

Hedged items: Foreign currency denominated trade receivables

(iii) Hedging policy

Forward exchange contracts are used to manage operating transactions denominated in a foreign currency to manage exchange fluctuation risks associated with them.

(iv) Method of hedge effectiveness assessment

The assessment of hedge effectiveness is omitted as critical terms and conditions of the hedging instruments and the hedged items are identical, and it is expected that the effect of changes in foreign exchange rates or cash flows is fully offset at the commencement of the hedge and throughout the hedge period.

(l) Provision for product warranties

A provision for product warranties to provide for future repairs during free of charge product warranty periods is calculated based on the actual historical ratio of repair costs per corresponding product sales.

(m) Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rate prevailing at the fiscal year-end. For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rate in effect at the respective fiscal year-end. All income and expense accounts are translated at the average rate of exchange for the fiscal year. Translation differences, after allocating portions attributable to non-controlling interests, have been reported in foreign currency translation adjustment as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

(n) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2020 and 2019 were included in selling, general and administrative expenses in the accompanying consolidated statements of income in the amount of ¥ 8,804 million ($80,771 thousand) and ¥7,993 million, respectively.

(o) Enterprise taxes

The Group calculates and records enterprise taxes based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes. Such taxes are included in selling, general and administrative expenses.

(p) Income taxes

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized as the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

(q) Appropriation of retained earnings

Dividends of surplus are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors or the general meeting of stockholders.

(r) Per share data

Basic net profit per share is based on the weighted average number of shares of common stock outstanding during the year. Unless there is an antidilutive effect, diluted net profit per share is calculated to reflect the potential dilution assuming that all outstanding convertible bonds are converted to shares.

Dividends of surplus per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective year.

(s) New standards and interpretations not yet adopted by the Company

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020, Accounting Standards Board of Japan)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and, in May 2014, issued "Revenue from Contracts with Customers" (IFRS 15 by IASB, Topic 606 by FASB). In light of the fact that IFRS 15 and Topic 606 are effective from the fiscal year commencing on or after January 1, 2018 and the fiscal year commencing after December 15, 2017, respectively, the Accounting Standards Board of Japan developed a comprehensive accounting standard for revenue recognition and issued it with implementation guidance.

The basic policy of the Accounting Standards Board of Japan in developing the accounting standard for revenue recognition was to employ the basic principle of comparability between financial statements, which was one of the benefits of maintaining consistency with IFRS 15. If there is any item that requires additional consideration of circumstances such as conventional accounting practices in Japan, alternate treatment will be added to the extent that comparability is not compromised.

(2) Effective date

From the beginning of the fiscal year ending March 31, 2022

(3) Impact of adoption

The impact of the application of "Accounting Standard for Revenue Recognition" on the consolidated financial statements is currently under evaluation.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan)

(1) Outline

With regard to “sources of estimation uncertainty,” which is required to be disclosed under Paragraph 125 of International Accounting Standard (IAS) 1, “Presentation of Financial Statements” (“IAS 1”), issued by the International Accounting Standards Board (IASB) in 2003, in order to oblige requests to consider requiring that sources of estimation uncertainty be treated as information that is highly useful to users of financial statements and disclosed in note form in Japanese GAAP, the Accounting Standards Board of Japan (ASBJ) developed and issued the Accounting Standard for Disclosure of Accounting Estimates (the “Accounting Standard”).

The ASBJ’s basic policy for the development of the Accounting Standard is to focus on the principle of disclosure rather than the enhancement of individual notes and to place the onus of adequate disclosure on entities to determine the specific information to be disclosed, with reference to the provisions of Paragraph 125 of IAS 1.

(2) Effective date

From the end of the fiscal year ending March 31, 2021

(t) Changes in presentation methods

(Consolidated Statements of Income)

“Contribution”, presented separately under “Other income (expenses)” for the previous fiscal year, has been included in “Other, net” from the fiscal year ended March 31, 2020 because the amount has become immaterial. The consolidated financial statements for the previous fiscal year have been reclassified in order to reflect this change in presentation method. As a result, ¥311 million presented in “Contribution” under “Other income (expenses)” in the consolidated statement of income for the previous fiscal year has been reclassified into “Other, net.”

(Consolidated Statements of Cash Flows)

“Purchase of treasury shares”, presented separately under “Cash flows from financing activities” for the previous fiscal year, has been included in “Other, net” from the fiscal year ended March 31, 2020 because the amount has become immaterial. The consolidated financial statements for the previous fiscal year have been reclassified in order to reflect this change in presentation method. As a result, negative ¥1 million presented in “Purchase of treasury shares” under “Cash flows from financing activities” in the consolidated statement of cash flows for the previous fiscal year has been reclassified into “Other, net.”

(Change Associated with Application of “Employee retirement benefits”)

In the previous fiscal year, some of the domestic consolidated subsidiaries at which retirement benefits were accounted for using a simplified method were included in the notes on retirement benefits accounted for using the principle method. As the materiality of these subsidiaries have increased in terms of monetary amounts, figures under the principle method and those under the simplified method are presented separately in the current fiscal year. The Notes to Consolidated Financial Statements for the previous fiscal year have been reclassified in order to reflect this change in presentation method.

(u) (Additional Information)

In response to the spread of novel coronavirus disease (COVID-19), the Group has continued its business activities while implementing measures to reduce the risk of spread of infection in the conduct of its business activities. While there is a concern about the impact on the economy of COVID-19 that is spreading on a global scale, the Group expects capital investments to be made in infrastructure such as servers and networks, PCs, smartphones and semiconductor-related fields that support them in anticipation of the post-COVID-19 demand. Therefore, the Group currently expects a limited impact of the pandemic on accounting estimates and judgments that would impact the consolidated financial statements as a whole. If uncertainty rises further, financial results based on future actual figures may be different from these estimates and assumptions.

3. Financial Instruments

(1) Matters related to status of financial instruments

(a) Policies for financial instruments

The Group restricts its investment of funds to deposits and held-to-maturity debt securities, etc., while raises funds through borrowings from financial institutions, including banks.

Derivative instruments are used for the purpose of hedging against the risks described later. The Group does not enter into derivative instruments for speculative purposes.

(b) Financial instruments and risk management

The Group is exposed to credit risk primarily with respect to trade receivables. In order to reduce the credit risk of these receivables, the Group manages settlement dates and amounts due for counterparties according to its Credit Management Rules and reviews the credit capacity of principal customers on a regular basis.

Securities and investment securities are chiefly held-to-maturity debt securities and shares of companies with which the Group has business relationships. While these securities are exposed to risks of market price fluctuations, the Group marks to market on a regular basis.

Trade payables are generally due within one year.

The Group acquires funds for its business plans from bank borrowings and the issuance of bonds. Borrowings with floating interest rates expose the Group to the risks associated with fluctuations in interest rates. In connection with some long term borrowings, the Group enters into interest rate swaps to avoid the risk of interest rate fluctuation and to fix interest payments.

A certain domestic consolidated subsidiary uses forward exchange contracts (derivative instruments) for avoiding exchange rate fluctuation risk involving operating transactions denominated in foreign currency.

The Group is a party to derivative financial instruments such as interest rate swaps in the normal course of business. Pursuant to the Group's internal rules for risk management, contract balances for derivatives are limited to certain anticipated transactions, and credit risk is reduced by limiting the counterparties to highly creditworthy financial institutions. Trade payables are exposed to liquidity risk that the Group manages in ways such as preparing monthly cash management plans.

(2) Fair values of financial instruments

The fair value and carrying value of financial statements other than unlisted equity securities for which the fair value was extremely difficult to determine at March 31, 2020 and 2019 were as follows.

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2020:			
Financial assets:			
Cash and cash equivalents	¥ 43,907	¥ 43,907	¥ -
Short-term investments	189	189	-
Trade notes and accounts receivable	35,174	35,174	-
Investment securities:			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	18,795	18,795	-
Total	¥ 98,065	¥ 98,065	¥ -
Financial liabilities:			
Trade notes and accounts payable	¥ 9,050	¥ 9,050	¥ -
Bonds	7,227	8,314	1,087
Total	¥ 16,277	¥ 17,364	¥ 1,087
Derivative instruments (*)	¥ 10	¥ 10	¥ -

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2019:			
Financial assets:			
Cash and cash equivalents	¥ 30,853	¥ 30,853	¥ -
Short-term investments	6,614	6,609	(5)
Trade notes and accounts receivable	35,257	35,257	-
Investment securities:			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	23,783	23,783	-
Total	¥ 96,507	¥ 96,502	¥ (5)
Financial liabilities:			
Trade notes and accounts payable	¥ 7,273	¥ 7,273	¥ -
Bonds	7,235	8,134	899
Total	¥ 14,508	¥ 15,407	¥ 899
Derivative instruments (*)	¥ 3	¥ 3	¥ -

	Thousands of U.S. dollars		
At March 31, 2020:			
Financial assets:			
Cash and cash equivalents	$ 402,817	$ 402,817	$ -
Short-term investments	1,734	1,734	-
Trade notes and accounts receivable	322,697	322,697	-
Investment securities:			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	172,431	172,431	-
Total	$ 899,679	$ 899,679	$ -
Financial liabilities:			
Trade notes and accounts payable	$ 83,027	$ 83,027	$ -
Bonds	66,303	76,275	9,972
Total	$ 149,330	$ 159,302	$ 9,972
Derivative instruments (*)	$ 92	$ 92	$ -

(*) Net debts and credits arising from derivative instruments are presented in net amounts, and a net debt is presented in parentheses.

Notes:

(1) Details of the methods and assumptions used to estimate the fair value of financial instruments are summarized below:

(i) Cash and cash equivalents and trade notes and accounts receivable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(ii) Short-term investments and investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on prices provided by correspondent financial institutions. The fair value of short-term investments is approximately equal to the carrying value due to their short-term maturities.

(iii) Trade notes and accounts payable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(iv) Bonds

The fair value of convertible bonds is based principally on prices provided by correspondent financial institutions.

(v) Derivative instruments

See Note 7 for the methods used to determine the fair value of derivative instruments such as foreign currency forward exchange contracts.

(2) The following securities were not included in the table above because their fair values were extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	¥ 589	¥ 247	$ 5,404

(3) Expected maturities of financial assets at March 31, 2020 and 2019 were as follows:

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years	
	Millions of yen							
At March 31, 2020:								
Financial assets:								
Cash and cash equivalents	¥	43,907	¥	-	¥	-	¥	-
Short-term investments		189		-		-		-
Trade notes and accounts receivable		35,174		-		-		-
Investment securities								
Bonds		-		-		-		-
Other securities with maturities		-		-		400		-
Total	¥	79,270	¥	-	¥	400	¥	-

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years	
	Millions of yen							
At March 31, 2019:								
Financial assets:								
Cash and cash equivalents	¥	30,853	¥	-	¥	-	¥	-
Short-term investments		6,614		-		-		-
Trade notes and accounts receivable		35,257		-		-		-
Investment securities								
Bonds		-		-		-		-
Other securities with maturities		-		-		500		-
Total	¥	72,724	¥	-	¥	500	¥	-
	Thousands of U.S. dollars							
At March 31, 2020:								
Financial assets:								
Cash and cash equivalents	$	402,817	$	-	$	-	$	-
Short-term investments		1,734		-		-		-
Trade notes and accounts receivable		322,697		-		-		-
Investment securities								
Bonds		-		-		-		-
Other securities with maturities		-		-		3,670		-
Total	$	727,248	$	-	$	3,670	$	-

(4) Contractual maturities of bonds and long-term debt at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Year ending March 31,			
Bonds			
2021	¥ 7,220	¥ 7,220	$ 66,239

4. Notes and Accounts Receivable

At March 31, 2020 and 2019, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trade	¥ 35,174	¥ 35,257	$ 322,697
Other	6,686	5,753	61,339
Less allowance for doubtful accounts	(27)	(35)	(247)
Total	¥ 41,833	¥ 40,975	$ 383,789

5. Inventories

At March 31, 2020 and 2019, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished goods	¥ 8,399	¥ 9,502	$ 77,055
Work-in-process	22,796	21,379	209,138
Raw materials and supplies	8,641	8,841	79,275
Total	¥ 39,836	¥ 39,722	$ 365,468

Loss on the write-down of ¥963 million ($8,835 thousand) and ¥348 million were recognized as costs of sales for the years ended March 31, 2020 and 2019, respectively.

6. Investment Securities

(1) At March 31, 2020 and 2019, short-term investments consisted of the following:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Securities with fair value:						
Held-to-maturity debt securities						
Bonds	¥	-	¥	6,500	$	-
Other		-		-		-
Time deposits with an original maturity of more than three months		189		114		1,734
Total	¥	189	¥	6,614	$	1,734

(2) At March 31, 2020 and 2019, investment securities consisted of the following:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Securities with fair value:						
Available-for-sale-securities						
Equity securities	¥	18,386	¥	23,267	$	168,679
Bonds		409		516		3,752
Total securities with fair value		18,795		23,783		172,431
Unlisted securities without fair value		589		247		5,404
Total	¥	19,384	¥	24,030	$	177,835

There was no carrying value or fair value of held-to-maturity debt securities for the year ended March 31, 2020.

At March 31, 2019, the carrying value and fair value of held-to-maturity debt securities were as follows:

	Carrying value		Gross unrealized gains		Gross unrealized losses		Fair value	
	Millions of yen							
At March 31, 2019:								
Bonds	¥	6,500	¥	1	¥	(6)	¥	6,495

At March 31, 2020 and 2019, the cost and fair and carrying value of available-for-sale securities were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of yen			
At March 31, 2020:				
Equity securities	¥ 11,118	¥ 7,854	¥ (586)	¥ 18,386
Bonds	418	0	(9)	409
Total	¥ 11,536	¥ 7,854	¥ (595)	¥ 18,795
At March 31, 2019:				
Equity securities	¥ 10,970	¥ 12,375	¥ (78)	¥ 23,267
Bonds	521	1	(6)	516
Total	¥ 11,491	¥ 12,376	¥ (84)	¥ 23,783
	Thousands of U.S. dollars			
At March 31, 2020:				
Equity securities	$ 102,000	$ 72,055	$ (5,376)	$ 168,679
Bonds	3,835	0	(83)	3,752
Total	$ 105,835	$ 72,055	$ (5,459)	$ 172,431

(3) At March 31, 2020 and 2019, sales of available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Sales proceeds:			
Equity securities	¥ 780	¥ 418	$ 7,156
Aggregate gains:			
Equity securities	¥ 729	¥ 233	$ 6,688

7. Derivative Instruments

At March 31, 2020 and 2019, derivative instruments to which hedge accounting was applied consisted of the following:

Currency related transactions

	Hedged items	Contract amount	Contract amount of more than 1 year	Fair value
		Millions of yen		
At March 31, 2020:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	¥ 1,902	¥ -	¥ 10
At March 31, 2019:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	¥ 644	¥ -	¥ 3
		Thousands of U.S. dollars		
At March 31, 2020:				
Translated at the contract rate				
Foreign exchange forward contracts (Sell USD)	Accounts receivable	$ 17,450	$ -	$ 92

Notes: Fair values are based on prices quoted by the Company's main financial institutions.

8. Intangible Assets

At March 31, 2020 and 2019, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Goodwill	¥ 12,845	¥ 13,796	$ 117,844
Software	7,091	6,089	65,055
Other intangible assets	5,054	5,607	46,367
Total	¥ 24,990	¥ 25,492	$ 229,266

9. Notes and Accounts Payable

At March 31, 2020 and 2019, notes and accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trade	¥ 9,050	¥ 7,273	$ 83,027
Other	984	4,010	9,028
Total	¥ 10,034	¥ 11,283	$ 92,055

10. Bonds Payable

At March 31, 2020 and 2019, bonds payable consisted of the following:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Zero coupon unsecured convertible bonds, due March 2021	¥	7,227	¥	7,235	$	66,303
(Current portion of bonds payable)		(7,227)		-		(66,303)

Since a year-end dividend of ¥30.00 per share was approved and resolved at the 74rd ordinary general shareholders' meeting held on June 26, 2020, which resulted in an annual dividend of ¥50.00 per share for the fiscal year ended March 31, 2020, the conversion price was retroactively adjusted to ¥1,418.7 from ¥1,436.5 as of April 1, 2020 in accordance with provisions on conversion price adjustments set forth in the terms and conditions of the zero coupon convertible bonds due March 2021.

For the period from November 26, 2020, the Company may at its call option redeem all, but not only some, of the zero coupon convertible bonds due March 2021 at 100% of the principal amount, subject to certain conditions.

At March 31, 2020 and 2019, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 5 million and 5 million, respectively.

To ensure flexibility and security against the demand for capital and to mitigate financial risks, the Company has arranged specific commitment line contracts in the total amount of ¥12,000 million with its main financial institutions. The status of such agreements as of March 31, 2020 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Committed lines of credit in total	¥	12,000	¥	12,000	$	110,092
Loans utilized		-		-		-
Available credit	¥	12,000	¥	12,000	$	110,092

11. Employee Retirement Benefits

The Company has adopted a defined contribution pension plan and a defined benefit corporate pension plan. Some of the domestic consolidated subsidiaries participate in a small- and medium-sized enterprise mutual aid plans or adopt lump-sum retirement payment plans and defined benefit corporate pension plans, while some other consolidated subsidiaries have adopted defined contribution plans.

For the small- and medium-sized enterprise mutual aid plans participated in or the lump-sum retirement payment plans and defined benefit corporate pension plans adopted by some of the domestic consolidated subsidiaries, net retirement benefit liability and retirement benefit expenses are calculated using the simplified method.

The defined benefit corporate pension plans and small- and medium-sized enterprise mutual aid plans of the Company and some of its domestic consolidated subsidiaries are funded plans, and their lump-sum retirement payment plans are unfunded plans.

Employee retirement benefits for the years ended March 31, 2020 and 2019 were as follows:

Defined benefit plans based on the principle method

(1) Movement in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1	¥ 9,388	¥ 8,813	$ 86,128
Service cost	721	702	6,614
Interest cost	-	9	-
Actuarial differences	(112)	85	(1,027)
Benefits paid	(290)	(221)	(2,660)
Balance at March 31	¥ 9,707	¥ 9,388	$ 89,055

(2) Movements in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1	¥ 9,035	¥ 8,093	$ 82,890
Expected return on plan assets	254	226	2,330
Actuarial differences	(644)	(85)	(5,908)
Contributions paid by the employer	1,312	1,022	12,037
Benefits paid	(290)	(221)	(2,661)
Balance at March 31	¥ 9,667	¥ 9,035	$ 88,688

(3) Reconciliation from retirement benefit obligations and plan assets to net retirement benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥ 9,707	¥ 9,388	$ 89,055
Plan assets	(9,667)	(9,035)	(88,688)
Total net retirement benefit liability at March 31	40	353	367
Net retirement benefit liability	40	353	367
Total net retirement benefit liability at March 31	¥ 40	¥ 353	$ 367

(4) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 721	¥ 702	$ 6,614
Interest cost	-	9	-
Expected return on plan assets	(254)	(226)	(2,330)
Amortization of actuarial differences	170	51	1,560
Total retirement benefit costs for the fiscal year	¥ 637	¥ 536	$ 5,844

(5) Remeasurements of defined benefit plans included in other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial differences	¥ 362	¥ 119	$ 3,321

(6) Remeasurements of defined benefit plans included in accumulated other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized actuarial differences	¥ 532	¥ 170	$ 4,881

(7) Plan assets:

(i) Plan assets comprise:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Bonds	¥	4,467	¥	4,159	$	40,982
Equity securities		3,098		2,992		28,422
Short-term funds		307		239		2,816
General accounts of life insurance companies		962		857		8,826
Other		833		788		7,642
Total	¥	9,667	¥	9,035	$	88,688

(ii) Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2020 and 2019 were as follows:

	2020	2019
Discount rate	0.1%	0.0%
Long-term expected rate of return	2.8%	2.8%

The index for increase in salary based on age at March 31, 2018 was used as the rate of increase in salary.

Defined benefit plan based on the simplified method

(1) Movement in retirement benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1	¥ 224	¥ 46	$ 2,055
Benefits cost	181	85	1,661
Benefits paid	(23)	(0)	(211)
Contributions to defined benefit plans	(84)	(48)	(771)
Increase of a consolidated subsidiary	-	141	-
Balance at March 31	¥ 298	¥ 224	$ 2,734

(2) Reconciliation from retirement benefit obligations and plan assets to net retirement benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥ 1,663	¥ 1,719	$ 15,257
Plan assets	(1,493)	(1,611)	(13,697)
	170	108	1,560
Unfunded retirement benefit obligations	128	116	1,174
Total net retirement benefit liability at March 31	298	224	2,734
Net retirement benefit liability	298	224	2,734
Total net retirement benefit liability at March 31	¥ 298	¥ 224	$ 2,734

(3) Benefits cost:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Benefits cost based on the simplified method	¥ 181	¥ 85	$ 1,661

Defined contribution plan

The amounts of required contributions to defined contribution plans of the consolidated subsidiaries were ¥223 million ($2,046 thousand) and ¥217 million for the years ended March 31, 2020 and 2019, respectively.

12. Lease Commitments

At March 31, 2020 and 2019, the Group had commitments under noncancelable operating leases as lessee. The aggregate future minimum payments under these leases were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Operating leases:						
Due within one year	¥	14	¥	13	$	129
Due after one year		47		53		431
	¥	61	¥	66	$	560

13. Contingent Liabilities

There were no contingent liabilities at March 31, 2020 or 2019.

14. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as share capital. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of share capital the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in-capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2020 and 2019, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,450 million ($13,303 thousand) and ¥1,450 million at March 31, 2020 and 2019 respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations. During the year ended March 31, 2020, the Company paid interim dividends of ¥20.00 per share, amounting to ¥1,827 million ($16,761 thousand). In addition, on June 26, 2020, the annual meeting of stockholders of the Company approved cash dividends as an appropriation of retained earnings also in the amount of ¥30.00 per share, amounting to ¥2,740 million ($25,138 thousand), to the shareholders of record at March 31, 2020.

15. Impairment Loss on Fixed Assets

There was no impairment loss on fixed assets for the year ended March 31, 2020.

Impairment loss recognized on the fixed assets for the year ended March 31, 2019 was as follows:

			Millions of yen	
Location	Usage	Assets	2019	
Aichi, Japan	Production facilities	Tools, furniture and fixtures	¥	41
		Software		33
		Machinery		23
			¥	97

In principle, business assets are classified into groups on which separate financial information is reported for management accounting purposes, and idle assets are grouped by individual asset.

The Group recognized impairment loss on fixed assets for the year ended March 31, 2019 because production facilities for the Others segment of EDEC LINSEY SYSTEM Co., Ltd. continued to generate losses or negative cash flows from operating activities and it was unlikely that the situation would improve in the future. The recoverable amounts were measured by value in use and, because the future cash flows were negative, were determined to be of memorandum value.

16. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Loss on valuation of inventories	¥ 1,425	¥ 1,255	$ 13,074
Intercompany unrealized gains on inventories	890	1,282	8,165
Accrued expenses	840	811	7,707
Loss on valuation of investment securities	413	474	3,789
Provision for product warranties	306	310	2,807
Impairment loss on fixed assets	264	275	2,422
Accrued enterprise taxes	148	209	1,358
Net retirement benefit liability	104	176	954
Other	254	239	2,330
Subtotal of deferred tax assets	4,644	5,031	42,606
Less valuation allowance	(733)	(785)	(6,725)
Total deferred tax assets	3,911	4,246	35,881
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(2,087)	(3,439)	(19,147)
Valuation difference for a consolidated subsidiary	(1,500)	(1,661)	(13,761)
Other	(103)	(97)	(945)
Total deferred tax liabilities	(3,690)	(5,197)	(33,853)
Net deferred tax assets	¥ 221	¥ (951)	$ 2,028

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At March 31, 2020 and 2019, a valuation allowance was provided to reduce deferred tax assets to the amount the management believed would be realizable.

Reconciliation of the differences between the Japanese statutory tax rate and the effective tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 was as follows:

	Percentage of pretax income	
	2020	2019
Japanese statutory tax rate	30.6 %	30.6 %
Increase (decrease) due to:		
Tax exempt income	(0.3)	(0.2)
Changes in valuation allowances	(0.3)	(0.4)
Tax credits	(2.9)	(3.0)
Amortization of goodwill	1.4	0.6
Differences in tax rates of subsidiaries	0.0	0.1
Other	(0.9)	0.3
Effective income tax rate	27.6 %	28.0 %

17. Business Combinations

Business combinations through acquisition

1. Outline of business combination

(1) Name of the acquired entity and business description:

Name of the acquired entity: Fasford Technology Co., Ltd. (hereinafter, “FFT”)

Business description: Design, manufacture, sales, repair and maintenance service of semiconductor manufacturing equipment.

(2) Main reason for the business combination:

The Company is one of the world’s leading industrial robot manufacturers, and its main business is manufacturing and sales of robotic mounters and machine tools equipped with a robotic conveyance system. With the Company’s focus on the semiconductor market for which further growth is anticipated in a wide range of fields such as artificial intelligence, self-driving cars, data centers, automobiles, telecommunication devices and industrial devices, the Company decided to make FFT a subsidiary that designs, manufactures and sells die bonding machines in a semiconductor post-process in order to reinforce solutions for the entire production lines, including both the semiconductor back-end process and the electronic component mounting process, and reinforce the ability to propose next generation technology.

FFT has the world’s top market share in die bonding machines used to manufacture memory products such as DRAM and NAND. FFT reflects the market needs in their timely product development and possesses the development capacity to quickly release new machines in a timely manner. FFT has abundant experience in delivering products to OSAT (Outsourced Semiconductor Assembly and Test) and IDM (device makers that provide one-stop services from design, manufacture and sale of products under their own brand) and have a strong presence among the major companies in the industry.

By linking the unique technology cultivated from robotic mounters and the technology related to semiconductors from FFT, the Group will take advantage of these two separate fields to establish a new field of business, further striving to create new high value products and enhance its integrated proposal capabilities as a manufacturer of industrial robots and semiconductor manufacturing equipment.

(3) Date of business combination:

August 31, 2018

(4) Legal form of business combination:

Acquisition of shares

(5) Name of the entity after business combination:

No change

(6) The ratio of voting right acquired:

100%

(7) Grounds for determining the acquired company:

The Company acquired the shares for cash as consideration.

2. Period of financial results of the acquired company included in consolidated financial statements for the fiscal year ended March 31, 2019

From October 1, 2018 to March 31, 2019

3. Acquisition cost and components by type of consideration of the acquired company

		Millions of yen
Consideration for acquisition:	Cash	¥ 21,800
Acquisition cost		¥ 21,800

4. Details and amount of major acquisition related cost

Advisory fees: ¥170 million

5. Amount, source, amortization method and amortization period of goodwill derived

(1) Amount of goodwill derived:

¥14,272 million

(2) Source:

Derived from the excess earning power that is expected from future business development of the acquired company and the excess earning power that is expected from the synergy generated by utilizing each party's technological capabilities and brand recognition.

(3) Amortization method and amortization period:

Amortized on a straight-line basis over 15 years

6. The major assets and liabilities of the acquired entity as of the date of the business combination

		Millions of yen
Current assets	¥	6,568
Non-current assets		6,890
Total assets	¥	13,458
Current liabilities		4,140
Non-current liabilities		1,790
Total liabilities	¥	5,930

7. Estimated impact on the consolidated statements of income if the business combination had been completed at the beginning of the fiscal year ended March 31, 2019

		Millions of yen
Net sales	¥	6,911
Operating profit		(228)
Profit before income taxes		(229)
Net profit		(252)

		Yen
Net profit per share	¥	(2.75)

(Method of Approximation)

The approximate effect on income was calculated as the difference between the net sales and profit and loss information assuming the business combination had been completed at the beginning of the fiscal year and the net sales and profit and loss information stated in the consolidated statement of income of the acquiring entity. In addition, amortization has been calculated based on the assumption that the goodwill recognized at the time of the business combination had been generated at the beginning of the fiscal year.

It should also be noted that this note has not received audit certification.

18. Segment Information

(a) Outline of reportable segments:

Of the units that comprise the Group, financial information is available for each segment and is subject to periodic reviews by the Company's Board of Directors for determination of the allocation of management resources and for evaluation of operating performance.

The Group operates separate divisions based on the type of product and service provided, and each of the divisions plans comprehensive domestic and international strategies for its products and services and is engaged in developing its respective business activities. Thus, the Group has two reportable segments based on the two main types of products and services offered: Robotic Solutions and Machine Tools business. In the Robotic Solutions business, we mainly produce robotic mounters. In the Machine Tools business, we mainly produce machine tools.

(b) Methods for calculating the value of net sales, profit or loss, assets, liabilities, and other items by reportable segment:

The accounting method for the reported business segments is the same as those for preparation of consolidated financial statements. Income in reportable segments is based on operating profit. Inter-segment sales or transfers are based on current market prices.

(c) Information about reportable segments:

Information about reportable segment net sales, profit or loss, assets and other items for the years ended March 31, 2020 and 2019 was as follows:

	Reportable segments						
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total	Adjustments	Consolidated financial statements
	Millions of yen						
For the year ended March 31, 2020:							
Net sales:							
External customers	¥ 127,763	¥ 10,840	¥ 138,603	¥ 2,365	¥ 140,968	¥ 0	¥ 140,968
Intersegment sales/transfers	10	-	10	124	134	(134)	-
Total	¥ 127,773	¥ 10,840	¥ 138,613	¥ 2,489	¥ 141,102	¥ (134)	¥ 140,968
Segment income (loss) (*2)	23,354	(637)	22,717	(1)	22,716	(3,144)	19,572
Segment assets (*3)	130,145	15,689	145,834	3,034	148,868	49,636	198,504
Other items:							
Depreciation (*4)	5,987	632	6,619	75	6,694	131	6,825
Increase in property, plant and equipment and intangible assets (*4)	¥ 7,441	¥ 843	¥ 8,284	¥ 99	¥ 8,383	¥ 259	¥ 8,642

	Reportable segments						
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total	Adjustments	Consolidated financial statements
	Millions of yen						
For the year ended March 31, 2019:							
Net sales:							
External customers	¥ 111,536	¥ 15,661	¥ 127,197	¥ 1,908	¥ 129,105	¥ -	¥ 129,105
Intersegment sales/transfers	46	1	47	70	117	(117)	-
Total	¥ 111,582	¥ 15,662	¥ 127,244	¥ 1,978	¥ 129,222	¥ (117)	¥ 129,105
Segment income (loss) (*2)	25,017	1,662	26,679	(89)	26,590	(3,483)	23,107
Segment assets (*3)	123,953	20,230	144,183	2,250	146,433	47,934	194,367
Other items:							
Depreciation (*4)	5,471	366	5,837	90	5,927	140	6,067
Increase in property, plant and equipment and intangible assets (*4)	¥ 7,305	¥ 3,686	¥ 10,991	¥ 91	¥ 11,082	¥ 141	¥ 11,223

	Reportable segments						
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total	Adjustments	Consolidated financial statements
	Thousands of U.S. dollars						
For the year ended March 31, 2020:							
Net sales:							
External customers	$ 1,172,137	$ 99,450	$ 1,271,587	$ 21,697	$ 1,293,284	$ 0	$ 1,293,284
Intersegment sales/transfers	92	-	92	1,138	1,230	(1,230)	-
Total	$ 1,172,229	$ 99,450	$ 1,271,679	$ 22,835	$ 1,294,514	$ (1,230)	$ 1,293,284
Segment income (loss) (*2)	214,257	(5,844)	208,413	(9)	208,404	(28,844)	179,560
Segment assets (*3)	1,193,991	143,936	1,337,927	27,834	1,365,761	455,377	1,821,138
Other items:							
Depreciation (*4)	54,927	5,798	60,725	688	61,413	1,202	62,615
Increase in property, plant and equipment and intangible assets (*4)	$ 68,266	$ 7,734	$ 76,000	$ 908	$ 76,908	$ 2,376	$ 79,284

*1) "Others" is a business segment that is not considered a reportable segment. It includes the manufacture of control equipment and electronic equipment and image processing development for the years ended March 31, 2020 and 2019.

*2) Segment income adjustment consisted of corporate expenses in the amount of ¥(3,149) million ($(28,890) thousand) and ¥(3,488) million, net of intersegment elimination of ¥5 million ($46 thousand) and ¥5 million, respectively, for the years ended March 31, 2020 and 2019. These corporate expenses consisted mainly of general and administrative expenses and technical research expenses not attributable to the reportable segments.

*3) Segment assets adjustment consisted of corporate assets in the amount of ¥ 49,664 million ($455,633 thousand) and ¥47,941 million, net of intersegment elimination of ¥(28) million ($(256) thousand) and ¥ (7) million, respectively, at March 31, 2020 and 2019. These corporate assets consisted mainly of surplus funds (cash and deposits), long-term investments (investment securities), assets related to technological research and administration divisions and other assets not attributable to the reportable segments.

*4) Adjustments were attributable to technological research and administration divisions related items.

(d) Information about reportable segments:

For the year ended March 31, 2020

(1) Information about products and services:

As this information has been presented under segment information above, it is omitted here.

(2) Information about geographic areas:

As of and for the year ended March 31, 2020, net sales and property, plant and equipment by geographic area were as follows:

	Japan	China	Other Asia	United States	Other North America	Europe	Other	Total
	Millions of yen							
Net sales	¥ 14,779	¥ 64,394	¥ 32,726	¥ 9,021	¥ 4,324	¥ 13,837	¥ 1,887	¥ 140,968
Ratio	10.5 %	45.7 %	23.2 %	6.4 %	3.1 %	9.8 %	1.3 %	100.0%
	Thousands of U.S. dollars							
Net sales	$ 135,587	$ 590,771	$ 300,238	$ 82,761	$ 39,670	$ 126,945	$ 17,312	$ 1,293,284

	Japan	China	United States	Europe	Other	Total
	Millions of yen					
Property, plant and equipment	¥ 22,551	¥ 625	¥ 1,025	¥ 1,104	¥ 116	¥ 25,421
Ratio	88.7 %	2.5 %	4.0 %	4.3 %	0.5 %	100.0%
	Thousands of U.S. dollars					
Property, plant and equipment	$ 206,890	$ 5,734	$ 9,404	$ 10,128	$ 1,064	$ 233,220

(3) Information about major customers:

For the year ended March 31, 2020, information about major customers was as follows:

	Net sales		
Name of customer	Millions of yen	Thousands of U.S. dollars	Segment
American Tec Co., Ltd. (China)	¥ 41,682	$ 382,404	Robotic Solutions

For the year ended March 31, 2019

(1) Information about products and services:

As this information has been presented under segment information above, it is omitted here.

(2) Information about geographic areas:

As of and for the year ended March 31, 2019, net sales and property, plant and equipment by geographic area were as follows:

	Japan	China	Other Asia	United States	Other North America	Europe	Other	Total
	Millions of yen							
Net sales	¥ 15,360	¥ 49,094	¥ 26,968	¥ 14,524	¥ 6,206	¥ 15,468	¥ 1,485	¥ 129,105
Ratio	11.9%	38.0%	20.9%	11.2%	4.8%	12.0%	1.2%	100.0%

	Japan	China	United States	Europe	Other	Total
	Millions of yen					
Property, plant and equipment	¥ 22,063	¥ 777	¥ 1,064	¥ 1,167	¥ 58	¥ 25,129
Ratio	87.8%	3.1%	4.2%	4.7%	0.2%	100.0%

(3) Information about major customers:

For the year ended March 31, 2019, information about major customers was as follows:

Name of customer	Net sales Millions of yen	Segment
American Tec Co., Ltd. (China)	¥ 23,165	Robotic Solutions

(e) Information about impairment loss on fixed assets in reportable segments:

There was no impairment loss on fixed assets for the year ended March 31, 2020. Impairment loss on fixed assets for the year ended March 31, 2019 was recognized in the amount of ¥97 million. However, as reportable segment income is based on operating profit, the impairment loss was not allocated to each reportable segment.

(f) Information about goodwill in reportable segments:

Amortization of goodwill and unamortized balance

	Robotic Solutions	Machine Tools	Others	Corporate/ adjustments	Total
	Millions of yen				
For the year ended March 31, 2020:					
Amortization of goodwill	¥ 951	¥ -	¥ -	¥ -	¥ 951
Balance of goodwill at March 31, 2020	12,845	-	-	-	12,845
For the year ended March 31, 2019:					
Amortization of goodwill	¥ 476	¥ -	¥ -	¥ -	¥ 476
Balance of goodwill at March 31, 2019	13,796	-	-	-	13,796
	Thousands of U.S. dollars				
For the year ended March 31, 2020:					
Amortization of goodwill	$ 8,725	$ -	$ -	$ -	$ 8,725
Balance of goodwill at March 31, 2020	117,844	-	-	-	117,844

Gain on bargain purchases

There was no gain on bargain purchases for the year ended March 31, 2020.

19. Other Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities			
Increase during the year	¥ (4,306)	¥ (3,605)	$ (39,505)
Reclassification adjustments	(729)	(233)	(6,688)
Subtotal, before tax	(5,035)	(3,838)	(46,193)
Tax effect	1,351	1,018	12,395
Subtotal, net of tax	(3,684)	(2,820)	(33,798)
Deferred gains on hedges			
Increase during the year	6	17	55
Tax effect	(2)	(5)	(18)
Subtotal, net of tax	4	12	37
Foreign currency translation adjustment			
Increase during the year	(770)	344	(7,065)
Remeasurements of defined benefit plans			
Increase during the year	(532)	(170)	(4,881)
Reclassification adjustments	170	51	1,560
Subtotal, before tax	(362)	(119)	(3,321)
Tax effect	111	36	1,018
Subtotal, net of tax	(251)	(83)	(2,303)
Total other comprehensive income	¥ (4,701)	¥ (2,547)	$ (43,129)

20. Cash Flow Information

Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:

The assets and liabilities of FFT, a newly consolidated subsidiary acquired through the purchase of shares, and the net cash outflow for such acquisition, which were included in “Purchase of shares of subsidiaries resulting in change in scope of consolidation,” for the year ended March 31, 2019 were as follows:

	Millions of yen
Current assets	¥ 6,568
Non-current assets	6,890
Goodwill	14,272
Current liabilities	(4,140)
Non-current liabilities	(1,790)
Subtotal	21,800
Cash and cash equivalents of the newly consolidated subsidiary	(1,684)
Loan advances to newly consolidated subsidiary	1,600
Total: Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 21,716

<u>**Independent Auditor’s Report**</u>

To the Board of Directors of FUJI CORPORATION:

Opinion

We have audited the accompanying consolidated financial statements of FUJI CORPORATION (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to the Consolidated Financial Statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Noriko Shinke
Designated Engagement Partner
Certified Public Accountant

/S/ Hideki Saito
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Nagoya Office, Japan
July 22, 2020

<u>Notes to the Reader of Independent Auditor's Report</u>:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.