

FUJI robots lead the way

# 2019 ANNUAL REPORT

| Financial Summary |

Fiscal year ended March 31, 2019



## **CONTENTS**

---

Five-Year Summary	2
Analysis of Operating Results	3
Business and Other Risks	10
Consolidated Balance Sheets	12
Consolidated Statements of Income	14
Consolidated Statements of Comprehensive Income	15
Consolidated Statements of Changes in Net Assets	16
Consolidated Statements of Cash Flows	18
Notes to Consolidated Financial Statements	19
Independent Auditor's Report	49

## Five-Year Summary

FUJI CORPORATION and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2015	2016	2017	2018	2019	2019
<b>For the Year</b>						
Orders	¥ 92,019	¥ 82,651	¥ 94,024	¥ 123,540	¥ 124,254	\$ 1,119,405
Net sales	85,266	86,642	86,397	120,032	129,105	1,163,108
Domestic	9,903	15,337	11,877	19,515	15,360	138,379
Overseas	75,363	71,305	74,520	100,517	113,745	1,024,729
Operating income	12,067	11,902	9,794	22,827	23,107	208,171
Income before income taxes	12,797	11,012	9,948	24,148	23,448	211,243
Net income attributable to owners of the parent	8,629	7,237	7,055	17,524	16,855	151,847
Capital expenditures	4,917	5,641	6,175	6,765	11,223	101,108
Depreciation	5,352	4,934	5,158	5,282	6,067	54,658
Research and development expenses	7,491	6,613	6,789	8,349	7,993	72,009
Cash flows from operating activities	9,477	8,086	17,380	16,220	4,186	37,712
Cash flows from investing activities	(5,463)	(6,308)	(10,160)	(9,170)	(28,458)	(256,379)
Free cash flows	4,014	1,778	7,220	7,050	(24,272)	(218,667)
Cash flows from financing activities	(2,005)	4,273	(10,916)	(3,165)	(4,111)	(37,036)
<b>At Year-End</b>						
Total assets	¥ 153,890	¥ 156,958	¥ 158,407	¥ 183,038	¥ 194,367	\$ 1,751,054
Net assets	135,044	132,069	130,948	151,413	161,624	1,456,072
Cash and cash equivalents at end of year	54,207	59,357	55,359	58,924	30,853	277,955
Number of employees (Persons)	2,104	2,108	2,117	2,229	2,449	
<b>Per Share Data (yen and U.S. dollars)</b>						
Net income						
Basic	¥ 88.27	¥ 74.13	¥ 76.19	¥ 195.04	¥ 184.52	\$ 1.66
Diluted	-	74.03	70.90	181.87	174.98	1.58
Net assets	1,379.19	1,372.18	1,461.63	1,655.29	1,767.30	15.92
Cash dividends	28.00	28.00	30.00	40.00	50.00	0.45
<b>Ratios (%)</b>						
Overseas sales ratio	88.4	82.3	86.3	83.7	88.1	
Operating income ratio	14.2	13.7	11.3	19.0	17.9	
R&D expense ratio to net sales	8.8	7.6	7.9	7.0	6.2	
Return on assets	6.0	4.7	4.5	10.3	8.9	
Return on equity	6.8	5.4	5.4	12.4	10.8	
Equity ratio	87.6	84.0	82.5	82.6	83.1	

Notes: 1) U.S. dollar amounts are converted from Japanese yen, for convenience only, at the rate of ¥111 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, 2019, the Japanese economy experienced a modest recovery in consumer spending and robust capital investment, despite signs of sluggishness in the economy. In terms of the global economy, the Chinese economy continued its slowdown due to such factors as intensifying trade friction with the U.S., while capital investment demand from the European and North American manufacturing industries was strong.

In this environment, the Company and its subsidiaries (hereinafter referred to as the "Group") pursued the challenge of reform under the slogan of "Excite and Inspire," based on a growth strategy of blazing a trail to the future through robotics technology. We endeavored to increase profitability with an initiative to bring unique products to the market in a timely fashion, utilizing its mainstay robotic mounters and robotic conveyance systems in the machine tools field, as well as initiatives to strengthen the domestic and overseas sales and technical support systems by enhancing collaboration between Group companies and the dealer network, and continually increase market share by advancing one-stop solutions, while pursuing thorough improvement of QCD (quality, cost, and delivery) through production utilizing IoT.

Furthermore, on August 31, 2018, the Company acquired the shares of Fasford Technology Co., Ltd. (hereinafter referred to as "FFT"), whose main business is the manufacture and sale of semiconductor manufacturing equipment, making it a subsidiary. By integrating FFT's technologies, the Company will enhance its comprehensive proposal capabilities as a manufacturer of industrial robots and semiconductor manufacturing equipment.

### Net sales

Net sales increased by ¥9,073 million (7.6%) from the previous fiscal year to ¥129,105 million. This was primarily due to the addition of new subsidiary FFT to consolidation, combined with sales growth in existing businesses, with both the Robotic Solutions segment and the Machine Tools segment benefiting from robust capital investment demand.

Overseas sales increased by ¥13,228 million (13.2%) from the previous fiscal year to ¥113,745 million. This was due to significant sales growth in Asian markets, particularly in Taiwan and India, on the back of robust capital investment primarily in the fields of telecommunications, computers, and servers. The percentage of overseas sales to total net sales was 88.1% (China: 38.0%, Other Asian countries: 20.9%, Europe: 12.0%, United States: 11.2%, Others: 6.0%), representing an increase of 4.4 percentage points from the previous fiscal year. Domestic sales decreased by ¥4,155 million (21.3%) from the previous fiscal year to ¥15,360 million, as capital investment in the field of module parts did not have the same momentum as in the previous fiscal year, although overall capital investment remained firm.

### Operating income

Unit sales increased, but owing to such factors as increasingly fierce price competition, operating income increased only by ¥280 million (1.2%) from the previous fiscal year to ¥23,107 million.

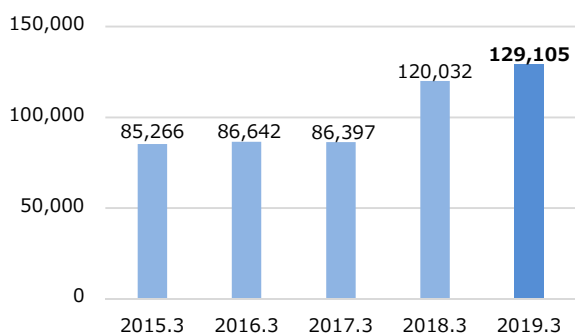
### Net income attributable to owners of the parent

In terms of other income (expenses), income (net) decreased by ¥980 million from the previous fiscal year to ¥341 million mainly due to a decrease in gain on sales of investment securities. As a result, income before income taxes decreased by ¥700 million (2.9%) from the previous fiscal year to ¥23,448 million.

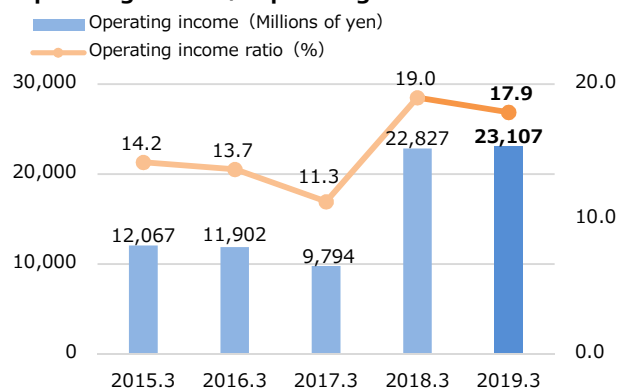
Net income attributable to owners of the parent decreased by ¥669 million (3.8%) from the previous fiscal year, to ¥16,855 million.

As a result of the above, net income per share was ¥184.52, down ¥10.52 from the ¥195.04 recorded in the previous fiscal year. Return on equity (ROE) was 10.8%, down 1.6 percentage points from the previous fiscal year.

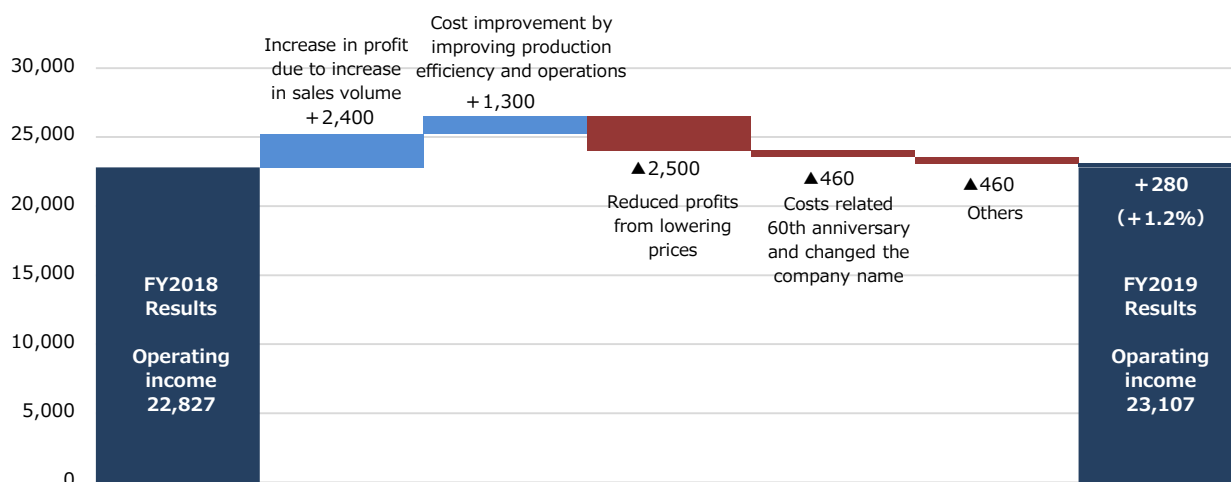
### Net sales (Millions of yen)



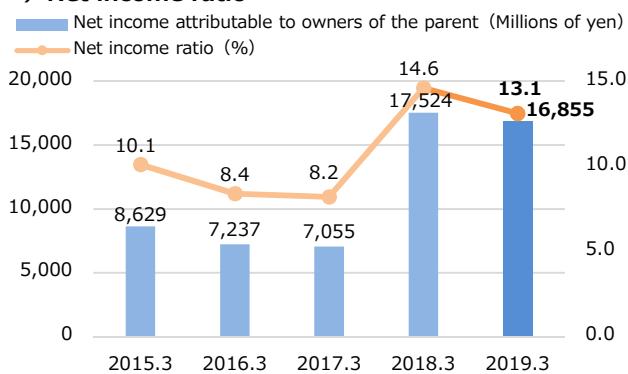
### Operating income/Operating income ratio



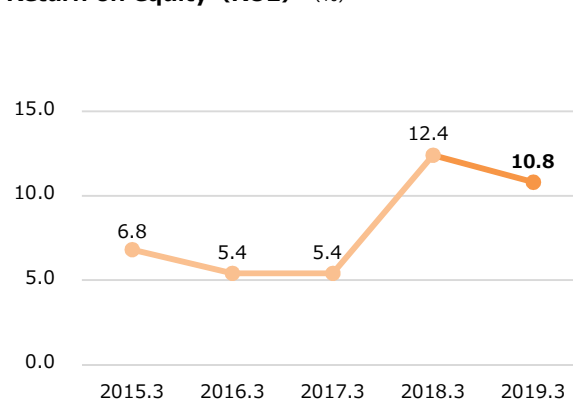
### Operating income increase/decrease analysis (Millions of yen)



### Net income attributable to owners of the parent /Net income ratio



### Return on equity (ROE) (%)



## Business Results by Segment

### Robotic Solutions

Net sales increased by ¥7,533 million (7.2%) from the previous fiscal year, to ¥111,536 million.

Investments in capital equipment were robust in telecommunication equipment, which is our major market, as well as fields such as computers, servers for which the demand is growing on the back of increasing use of web-based solutions such as cloud services, and automotive products whose market is expanding as a result of the evolution of advanced driver assistance systems (ADAS), despite a cautious stance toward capital investment by some customers, especially in China, due to the uncertainty over the future of the economy. Aiming to win new customers and provide services that improve customer satisfaction in an effort to increase its market share, the Group has also 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. As a result, sales increased mainly in Asian markets, including Taiwan and India. The performance of our newly consolidated subsidiary FFT also contributed to the increase in sales.

Meanwhile, operating income decreased by ¥168 million (0.7%) from the previous fiscal year to ¥25,017 million, mainly due to increasingly fierce price competition.

Segment assets increased by ¥38,769 million (45.5%) from the previous fiscal year to ¥123,953 million. This was mainly due to an increase in goodwill and intangible assets related to customer relations and technologies resulting from the acquisition of shares of FFT, and an increase in inventories resulting from increases in production volume and sales.

With regard to the medium-term management goal of 30% market share under the slogan of "FUJI Brand 30," the Group strove to maintain and expand market share. In the next fiscal year, the Group will promote the market launch of the high-end model NXTR, and endeavor to meet the goal of maintaining a market share of 30% or higher.

### Machine Tools

Net sales increased by ¥1,863 million (13.5%) from the previous fiscal year to ¥15,661 million.

Demand was robust, especially in China and South East Asia. The Group also reinforced its sales and services both in Japan and abroad, focusing particularly on expanding and strengthening its sales network in the Chinese market, where demand is expected to grow. Efforts were also made on creating a business structure that generates stable profit, as well as on improving the quality of existing models including DLFn, the Group's flagship product.

Operating income increased by ¥645 million (63.3%) from the previous fiscal year to ¥1,662 million, due mainly to an increase in the number of units sold and improvements to sales prices.

Segment assets increased by ¥6,145 million (43.6%) from the previous fiscal year to ¥20,230 million, due mainly to an increase in notes and accounts receivable, net of allowance for doubtful accounts, resulting from increased sales and an increase in property, plant and equipment resulting from, among others, the construction of a new production building in the Toyota Plant.

With regard to the medium-term management goal to "Obtain complete profitability," revising the allocation of responsibilities between our three production and sales bases, namely the Company's Toyota Plant, Kunshan Fuji Machine Mfg. Co., Ltd., and Fuji Machine America Corporation, to strengthen coordination among them, contributed to the increases in sales and profit for the current fiscal year. The Group will continue to work on profitability improvement.

### Others

Net sales of the Others segment, which includes the manufacture of control equipment and electronic equipment as well as image processing development, decreased by ¥323 million (14.5%) from the previous fiscal year to ¥1,908 million. As a result, the Group recorded an operating loss of ¥89 million (operating loss for the previous fiscal year was ¥237 million).

#### Net sales by segment

(Millions of yen)

	2015.3	2016.3	2017.3	2018.3	2019.3
Robotic Solutions	73,584	70,787	74,105	104,003	<b>111,536</b>
Machine Tools	10,757	14,623	10,997	13,798	<b>15,661</b>
Others	925	1,232	1,295	2,231	<b>1,908</b>
Total	85,266	86,642	86,397	120,032	<b>129,105</b>

#### Operating income by segment

(Millions of yen)

	2015.3	2016.3	2017.3	2018.3	2019.3
Robotic Solutions	15,223	14,527	14,546	25,185	<b>25,017</b>
Machine Tools	-203	614	-713	1,017	<b>1,662</b>
Others	-98	-356	-473	-237	<b>-89</b>
Corporate and eliminations	-2,855	-2,883	-3,566	-3,138	<b>-3,483</b>
Total	12,067	11,902	9,794	22,827	<b>23,107</b>

## Research and Development Expenses and Capital Expenditures

### Research and development expenses

Following the group motto, “We will endeavor to work hard in research and development to provide excellent techniques to respond to customer confidence,” the Group continues to make untiring efforts in 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 decreased by ¥356 million (4.3%) from the previous fiscal year, to ¥7,993 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 parts-refill system.

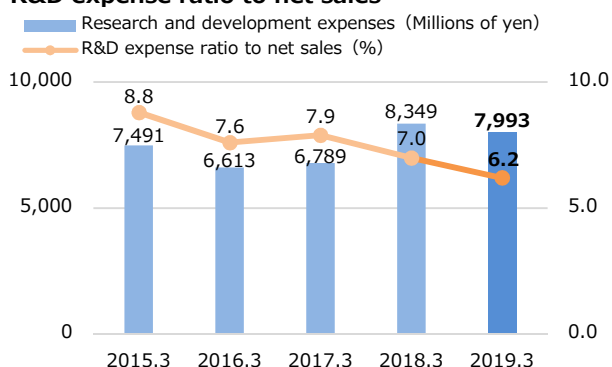
### Capital expenditures

Total capital expenditures increased by ¥4,458 million (65.9%) from the previous fiscal year to ¥11,223 million. Capital expenditures by segment were ¥7,305 million for the Robotic Solutions segment and ¥3,686 million for the Machine Tools segment.

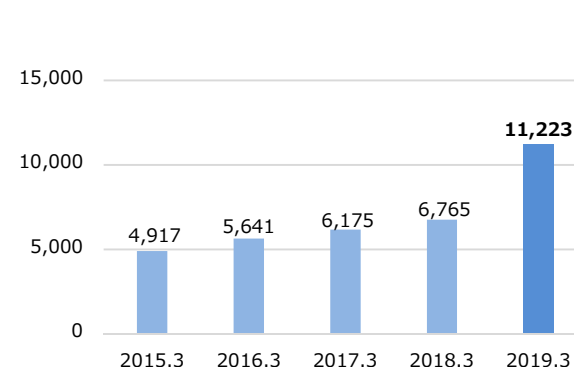
The Group makes ongoing capital investments in production, development, and sales facilities for such purposes as production capacity enhancement, rationalization of facilities, development of next-generation products that lead digital revolution, and the reinforcement of sales network.

Major capital investments included ¥2,682 million in the Robotic Solutions segment for acquisition of software for sales in the market, and ¥5,077 million for the construction of a new production building in the Toyota Plant to increase production capacity in both the Robotic Solutions segment and the Machine Tools segment. Going forward, the Group will aim to create a new manufacturing system leveraging IoT, streamlining and enhancing its production environment to improve efficiency.

### Research and development expenses/ R&D expense ratio to net sales



### Capital expenditures (Millions of yen)



## Financial Position and Cash Flows

### Analysis of financial position

Assets and liabilities have increased in the fiscal year ended March 31, 2019, due to the new consolidation of FFT.

#### (Assets)

Current assets at the end of the fiscal year ended March 31, 2019 decreased by ¥5,451 million from the end of the previous fiscal year, to ¥118,529 million. This was mainly due to decreases of ¥28,071 million in cash and cash equivalents chiefly resulting from the purchase of FFT shares, and capital investment associated primarily with the construction of a new production building in the Toyota Plant, despite increases of ¥11,376 million in inventories and ¥7,951 million in notes and accounts receivable, net of allowance for doubtful accounts, both due to the new consolidation of FFT on top of the increases in production and sales. Investments and other assets and property, plant and equipment increased by ¥16,780 million from the end of the previous fiscal year, to ¥75,838 million. This was mainly due to an increase of ¥6,184 million in property, plant and equipment resulting from the construction of a new production building in the Toyota Plant, and increases of ¥13,796 million in goodwill due to the purchase of FFT shares and ¥5,519 million in intangible assets due to customer relations and technologies (included in other intangible assets), despite a decrease of ¥8,543 million in investment securities due to a decline in the stock market.

As a result, total assets increased by ¥11,329 million from the end of the previous fiscal year, to ¥194,367 million.

#### (Liabilities)

Current liabilities at the end of the fiscal year ended March 31, 2019 increased by ¥1,025 million from the end of the previous fiscal year, to ¥23,164 million.

This was mainly due to an increase of ¥3,770 million in notes and accounts payable resulting from the construction of a new production building in the Toyota Plant and the consolidation of FFT, despite a decrease of ¥1,770 million in income taxes payable. Long-term liabilities increased by ¥93 million from the end of the previous fiscal year to ¥9,579 million. This was mainly due to an increase of ¥265 million in deferred tax liabilities, despite a decrease of ¥189 million in net defined benefit liability.

As a result, total liabilities increased by ¥1,118 million from the end of the previous fiscal year, to ¥32,743 million.

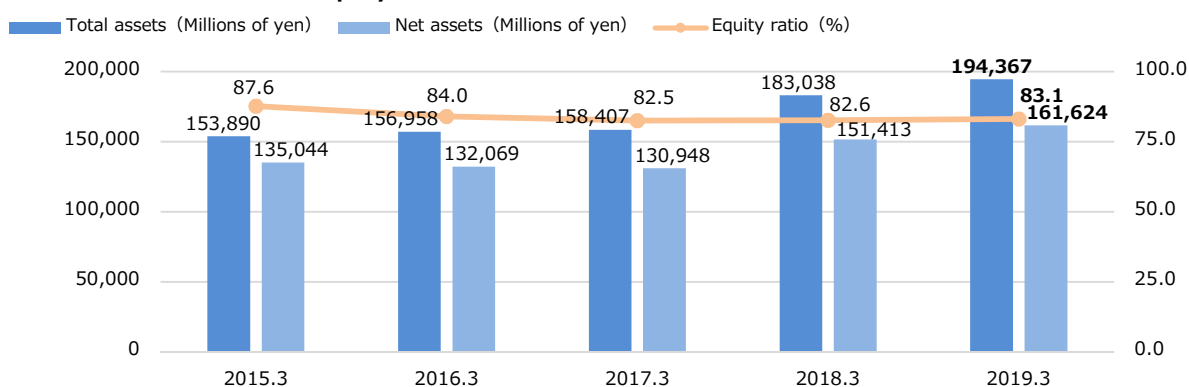
#### (Net assets)

Total net assets at the end of the fiscal year ended March 31, 2019 increased by ¥10,211 million from the end of the previous fiscal year, to ¥161,624 million. This was mainly due to an increase of ¥16,855 million in retained earnings through net income attributable to owners of the parent, despite decreases of ¥4,111 million in retained earnings due to payment of dividends, and ¥2,820 million in net unrealized gains 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, 2019 was 83.1% (compared to 82.6% at the end of the previous fiscal year). Net assets per share was ¥1,767.30 (compared to ¥1,655.29 at the end of the previous fiscal year).

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 comparison of the financial position was made using the retrospectively restated figures for the fiscal year ended March 31, 2018.

### Total assets/Net assets/Equity ratio



## Analysis of cash flows

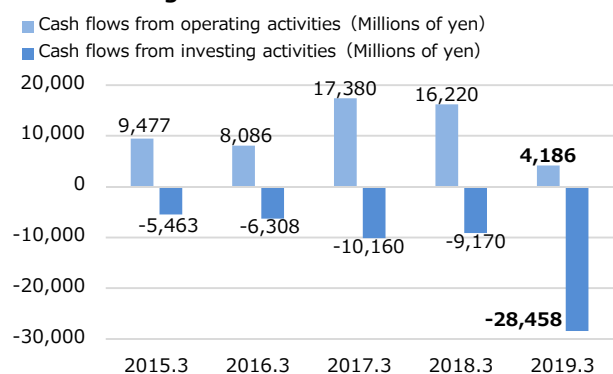
Net cash provided by operating activities was ¥4,186 million (¥16,220 million in the previous fiscal year). This was mainly due to the incoming factors including income before income taxes of ¥23,448 million and depreciation of ¥6,067 million, along with outgoing factors including income taxes paid of ¥8,648 million, an increase of ¥9,550 million in inventories, and an increase of ¥3,402 million in trade receivables.

Net cash used in investing activities was ¥28,458 million (¥9,170 million in the previous fiscal year). This was mainly due to ¥21,716 million in purchase of shares of subsidiary (FFT) resulting in change in scope of consolidation, and ¥8,351 million in purchase of property, plant and equipment and intangible assets, due primarily to the construction of a new production building in the Toyota Plant.

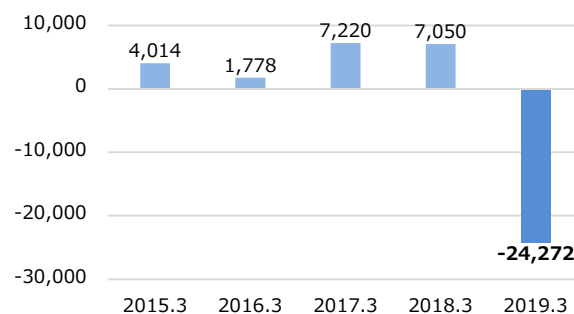
Net cash used in financing activities was ¥4,111 million (¥3,165 million in the previous fiscal year). This was mainly due to dividends paid of ¥4,109 million.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2019 decreased by ¥28,071 million (47.6%) from the end of the previous fiscal year to ¥30,853 million.

### Cash flows from operating activities and investing activities



### Free cash flows (Millions of yen)



## 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.

The Group will consider procuring funds through borrowings as necessary, as well as maintain a certain level of retained earnings in order to make capital investments for future growth, such as strategic and capital investments in peripheral and new businesses.

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 the construction of a multistory parking structure at the Company's headquarters, upgrades to machining equipment at the Toyota Plant, and the construction of a new corporate building for FFT, which will be financed using retained earnings.

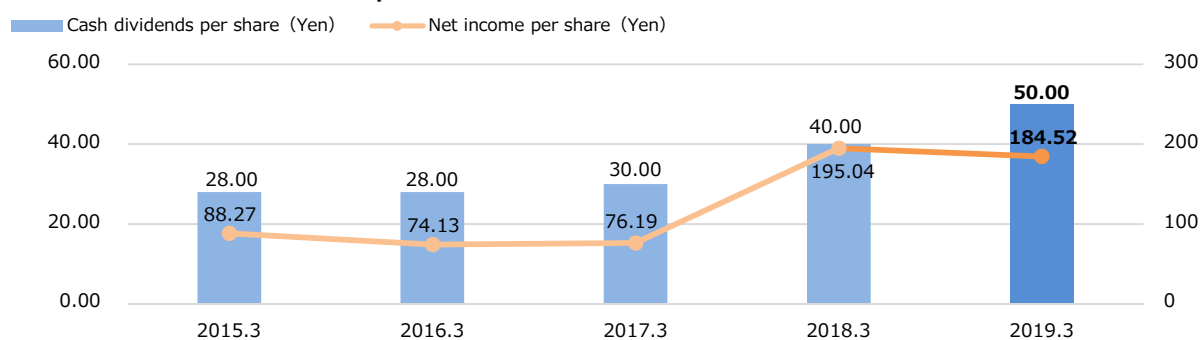
### Basic Policy for Profit Distribution

With regard to the Company's basic policy for profit sharing, 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.

Year-end dividends were ¥25.00 per share (including a commemorative dividend of ¥5.00 per share for the Company's 60th anniversary), based on the basic policy for profit sharing, and together with interim dividends of ¥25.00 per share (including a commemorative dividend of ¥5.00 per share for the Company's 60th anniversary), the Company decided to pay out total annual dividends of ¥50.00 per share.

### Cash dividends and Net income per share



## Business and Other Risks

The following covers the main risks which would likely have a large impact on the Group's financial position and operating results.

The items in this document relating to possible future events are as determined by the Group as of the end of the consolidated fiscal year.

### **(1) Impact of changes in the market environment**

The demand for robotic solutions, which is the core element of the Group's business, changes based on the influence of market trends for electronics such as smartphones and computer products. The demand for machine tools changes based on the influence of capital investment trends in the automotive industry, who are the primary customers. There is a possibility that these changes in demand may impact financial results.

### **(2) Impact of pricing competition**

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 electronics and automotive products.

While the Group is focused on improving profitability through developing products which are cost competitive, strengthening services, promoting solution-based sales, and pursuing cost reduction through improved production, there may be an impact on financial results in cases where drops in 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. To avoid foreign exchange risk during export activities, the Group's transactions are based in Japanese currency. However, there are cases in which fluctuations in exchange rates may lower the Group's cost competitiveness in comparison to competitors, which may impact financial results. Also, the general rule for transactions with consolidated subsidiaries overseas (United States, Germany, China) 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. 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 developed technology caused by technological innovations.

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 business activities in foreign markets**

The Group has placed sales offices in each region of the world and are engaged in global business expansion. However, changes in the political situations and economies of those countries may impact financial results.

### **(6) 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. These could destabilize production, which may impact financial results.

**(7) Impact of large-scale disasters**

The Group has measures in place to minimize the damage caused by a disaster. However, 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, where the majority of the Group's production is centered, 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.

**(8) 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.

**(9) 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.

**(10) 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.

**(11) Impact of goodwill impairment**

In August 2018, the Group acquired the shares of Fasford Technology Co., Ltd. (hereinafter referred to as "FFT") to enhance its comprehensive proposal capabilities as a manufacturer of industrial robots and semiconductor manufacturing equipment, and recognized a goodwill of ¥13,796 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.

**(12) Impact of impairment of fixed assets**

The Group holds property, plant and equipment and intangible assets. Any impairment loss on these assets arising due to declines in profitability caused by, for example, significant deterioration of the business environment or declines in market prices, may impact the financial results or financial condition of the Group.

**(13) 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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 3)	¥ 30,853	¥ 58,924	\$ 277,955
Short-term investments (Notes 3 and 6)	6,614	3,282	59,586
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	40,975	33,024	369,144
Inventories (Note 5)	39,722	28,346	357,856
Other current assets	365	404	3,288
Total current assets	118,529	123,980	1,067,829
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 6)	24,030	32,573	216,486
Intangible assets (Note 8)	25,492	6,331	229,658
Deferred tax assets (Note 16)	770	766	6,937
Other assets	417	443	3,757
Total investments and other assets	50,709	40,113	456,838
<b>Property, plant and equipment:</b>			
Land	5,107	4,050	46,009
Buildings and structures	25,233	23,509	227,324
Machinery, equipment and vehicles	14,874	14,204	134,000
Tools, furniture and fixtures	8,266	7,469	74,469
Construction in progress	5,466	1,203	49,243
Total property, plant and equipment	58,946	50,435	531,045
Less accumulated depreciation	(33,817)	(31,490)	(304,658)
Total net property, plant and equipment (Note 18)	25,129	18,945	226,387
Total assets (Note 18)	¥ 194,367	¥ 183,038	\$ 1,751,054

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Liabilities and Net assets</b>			
<b>Current liabilities:</b>			
Notes and accounts payable (Notes 3 and 9)	¥ 11,283	¥ 7,513	\$ 101,649
Accrued expenses	4,891	4,521	44,063
Income taxes payable	3,418	5,188	30,793
Provision for product warranties	1,074	1,109	9,676
Other current liabilities	2,498	3,808	22,504
Total current liabilities	23,164	22,139	208,685
<b>Long-term liabilities:</b>			
Long-term debt (Notes 3 and 10)	7,235	7,242	65,180
Net defined benefit liability (Note 11)	577	766	5,198
Deferred tax liabilities (Note 16)	1,721	1,456	15,505
Other long-term liabilities	46	22	414
Total long-term liabilities	9,579	9,486	86,297
Total liabilities	32,743	31,625	294,982
<b>Net assets (Note 14):</b>			
Shareholders' equity:			
Common stock: 390,000,000 shares authorized and 97,823,748 shares issued	5,879	5,879	52,964
Capital surplus	5,925	5,925	53,378
Retained earnings	146,928	134,184	1,323,676
Less treasury stock, at cost: 6,478,764 shares in 2019 and 6,477,857 shares in 2018	(7,781)	(7,780)	(70,099)
Total shareholders' equity	150,951	138,208	1,359,919
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	8,868	11,688	79,892
Deferred gains on hedges	12	-	108
Foreign currency translation adjustments	1,721	1,343	15,504
Remeasurements of defined benefit plans (Note 11)	(118)	(35)	(1,063)
Total accumulated other comprehensive income	10,483	12,996	94,441
Noncontrolling interests	190	209	1,712
Total net assets	161,624	151,413	1,456,072
Total liabilities and net assets	¥ 194,367	¥ 183,038	\$ 1,751,054

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Operating revenue:</b>			
Net sales (Note 18)	¥ 129,105	¥ 120,032	\$ 1,163,108
<b>Operating costs and expenses:</b>			
Costs of goods sold	76,468	70,219	688,901
Selling, general and administrative expenses	29,530	26,986	266,036
	<u>105,998</u>	<u>97,205</u>	<u>954,937</u>
Operating income (Note 18)	<u>23,107</u>	<u>22,827</u>	<u>208,171</u>
<b>Other income (expenses):</b>			
Interest and dividend income	721	593	6,496
Interest expense	(7)	(3)	(63)
Foreign exchange (loss) gain	(63)	37	(568)
Contribution	(311)	(1)	(2,802)
Loss on sales and disposals of property, plant and equipment and intangible assets	(143)	(369)	(1,288)
Impairment loss on fixed assets (Note 15)	(97)	-	(874)
Gain on sales of investment securities (Note 6)	233	1,370	2,099
Litigation settlement	-	(391)	-
Other, net	8	85	72
	<u>341</u>	<u>1,321</u>	<u>3,072</u>
Income before income taxes	<u>23,448</u>	<u>24,148</u>	<u>211,243</u>
<b>Income taxes (Note 16):</b>			
Current	6,890	6,844	62,072
Deferred	(313)	(235)	(2,820)
Total income taxes	<u>6,577</u>	<u>6,609</u>	<u>59,252</u>
Net income	16,871	17,539	151,991
<b>Less net income attributable to noncontrolling interests</b>	<u>16</u>	<u>15</u>	<u>144</u>
Net income attributable to owners of the parent	<u>¥ 16,855</u>	<u>¥ 17,524</u>	<u>\$ 151,847</u>
	<u>Yen</u>	<u>U.S. dollars</u>	
<b>Per share:</b>			
Net income			
Basic	¥ 184.52	¥ 195.04	\$ 1.66
Diluted	174.98	181.87	1.58
Cash dividends (Note 14)	50.00	40.00	0.45

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Net Income</b>	¥ 16,871	¥ 17,539	\$ 151,991
<b>Other comprehensive income (Note 19):</b>			
Net unrealized gains on available-for-sale securities	(2,820)	3,948	(25,405)
Deferred gains on hedges	12	-	108
Foreign currency translation adjustments	344	(559)	3,099
Remeasurements of defined benefit plans	(83)	(119)	(748)
Total other comprehensive income	(2,547)	3,270	(22,946)
<b>Comprehensive income</b>	<u>¥ 14,324</u>	<u>¥ 20,809</u>	<u>\$ 129,045</u>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥ 14,343	¥ 20,804	\$ 129,216
Noncontrolling interests	(19)	5	(171)
Total comprehensive income	<u>¥ 14,324</u>	<u>¥ 20,809</u>	<u>\$ 129,045</u>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2019 and 2018

	Shareholders' equity						Accumulated other comprehensive income							
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net					Total accumulated other comprehen- sive income	Non- controlling interests	Total net assets
							unrealized gains on available- for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans				
	Millions of yen													
<b>Balance at April 1, 2017</b>	97,823,748	¥ 5,879	¥ 5,414	¥ 119,791	¥ (10,055)	¥ 121,029	¥ 7,740	¥ -	¥ 1,892	¥ 83	¥ 9,715	¥ 204	¥ 130,948	
Net income for the year attributable to owners of the parent	-	-	-	17,524	-	17,524	-	-	-	-	-	-	17,524	
Cash dividends	-	-	-	(3,131)	-	(3,131)	-	-	-	-	-	-	(3,131)	
Purchases of treasury stock	-	-	-	-	(2)	(2)	-	-	-	-	-	-	(2)	
Disposal of treasury stock	-	-	511	-	2,277	2,788	-	-	-	-	-	-	2,788	
Net changes in items other than shareholders' equity	-	-	-	-	-	-	3,948	-	(549)	(118)	3,281	5	3,286	
<b>Balance at March 31, 2018</b>	97,823,748	5,879	5,925	134,184	(7,780)	138,208	11,688	-	1,343	(35)	12,996	209	151,413	
Net income for the year attributable to owners of the parent	-	-	-	16,855	-	16,855	-	-	-	-	-	-	16,855	
Cash dividends	-	-	-	(4,111)	-	(4,111)	-	-	-	-	-	-	(4,111)	
Purchases of treasury stock	-	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)	
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(2,820)	12	378	(83)	(2,513)	(19)	(2,532)	
<b>Balance at March 31, 2019</b>	97,823,748	¥ 5,879	¥ 5,925	¥ 146,928	¥ (7,781)	¥ 150,951	¥ 8,868	¥ 12	¥ 1,721	¥ (118)	¥ 10,483	¥ 190	¥ 161,624	

	Shareholders' equity				Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Thousands of U.S. dollars (Note 1)											
<b>Balance at March 31, 2018</b>	\$ 52,964	\$ 53,378	\$ 1,208,865	\$ (70,090)	\$ 1,245,117	\$ 105,297	\$ -	\$ 12,099	\$ (315)	\$ 117,081	\$ 1,883	\$ 1,364,081
Net income for the year attributable to owners of the parent	-	-	151,847	-	151,847	-	-	-	-	-	-	151,847
Cash dividends	-	-	(37,036)	-	(37,036)	-	-	-	-	-	-	(37,036)
Purchases of treasury stock	-	-	-	(9)	(9)	-	-	-	-	-	-	(9)
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-	(25,405)	108	3,405	(748)	(22,640)	(171)	(22,811)
<b>Balance at March 31, 2019</b>	<u>\$ 52,964</u>	<u>\$ 53,378</u>	<u>\$ 1,323,676</u>	<u>\$ (70,099)</u>	<u>\$ 1,359,919</u>	<u>\$ 79,892</u>	<u>\$ 108</u>	<u>\$ 15,504</u>	<u>(1,063)</u>	<u>\$ 94,441</u>	<u>\$ 1,712</u>	<u>\$ 1,456,072</u>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

FUJI CORPORATION and Consolidated Subsidiaries

For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 23,448	¥ 24,148	\$ 211,243
Adjustments for:			
Depreciation	6,067	5,282	54,658
Impairment loss on fixed assets	97	-	874
Amortization of goodwill	476	-	4,288
(Decrease) increase in provision for product warranties	(65)	264	(585)
Decrease in net defined benefit liability	(449)	(264)	(4,045)
Interest and dividend income	(721)	(593)	(6,496)
Loss on sales and disposals of property, plant and equipment and intangible assets	143	369	1,288
Gain on sales of investment securities	(233)	(1,370)	(2,099)
Increase in trade receivables	(3,402)	(11,055)	(30,649)
Increase in inventories	(9,550)	(1,308)	(86,036)
(Decrease) increase in trade payables	(1,046)	1,293	(9,423)
Other, net	(2,641)	2,256	(23,793)
Subtotal	12,124	19,022	109,225
Interest and dividends received	717	595	6,460
Interest paid	(7)	(3)	(63)
Income taxes paid	(8,648)	(3,394)	(77,910)
Net cash provided by operating activities	4,186	16,220	37,712
<b>Cash flows from investing activities:</b>			
Net decrease in short-term investments	2,468	867	22,234
Purchases of property, plant and equipment and intangible assets	(8,351)	(6,373)	(75,234)
Proceeds from sales of property, plant and equipment and intangible assets	84	107	757
Purchases of investment securities	(1,280)	(6,000)	(11,532)
Proceeds from sales of investment securities	417	2,371	3,757
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 20)	(21,716)	-	(195,640)
Other, net	(80)	(142)	(721)
Net cash used in investing activities	(28,458)	(9,170)	(256,379)
<b>Cash flows from financing activities:</b>			
Repayments of long-term debt	-	(34)	-
Dividends paid	(4,109)	(3,129)	(37,018)
Purchase of treasury stock	(1)	(2)	(9)
Other, net	(1)	-	(9)
Net cash used in financing activities	(4,111)	(3,165)	(37,036)
Effect of exchange rate changes on cash and cash equivalents	312	(320)	2,811
Net (decrease) increase in cash and cash equivalents	(28,071)	3,565	(252,892)
Cash and cash equivalents at beginning of year	58,924	55,359	530,847
Cash and cash equivalents at end of year	¥ 30,853	¥ 58,924	\$ 277,955

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, 2019, which was ¥111 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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Consolidated subsidiaries:		
Domestic	3	2
Overseas	7	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 said company as of August 31, 2018.

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.

One overseas subsidiary changed its closing date from December 31 to March 31 from the fiscal year ended March 31, 2018. This change had no impact on the consolidated financial statements as the Company had been conducting provisional settlements at the end of each consolidated fiscal year.

**(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 four items are required in the consolidation process so that the impact on net income 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

**(b) Cash equivalents**

The Group considers cash equivalents to be 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.

**(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) 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 net realizable value and 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.

**(e) 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.

**(f) 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 based on the estimated useful life of the asset.

**(g) 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. Software for internal use is amortized using the straight-line method over the estimated useful life. Goodwill is amortized on a straight-line basis over 15 years.

**(h) 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.

**(i) Employee retirement benefits**

The difference between retirement benefit obligations and plan assets has been recognized as net defined 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 defined 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.

**(j) 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.

**(k) 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 noncontrolling interests, have been reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

**(l) 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, 2019 and 2018 were included in selling, general and administrative expenses in the accompanying consolidated statements of income in the amount of ¥7,993 million (\$72,009 thousand) and ¥8,349 million, respectively.

**(m) Enterprise taxes**

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

**(n) 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.

**(o) Appropriation of retained earnings**

Cash dividends 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.

**(p) Per share data**

Basic net income 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 income per share is calculated to reflect the potential dilution assuming that all convertible bonds are converted at the time of issue.

Cash dividends 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.

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

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018, 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 of these accounting standards, etc.

The impact of the application of “Accounting Standard for Revenue Recognition”, etc. on the consolidated financial statements is currently under evaluation.

**(r) Changes in presentation methods**

(Change associated with Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)  
“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under long-term liabilities. As a result, in the consolidated balance sheet for the previous fiscal year, “Deferred tax assets” under “Current assets” decreased by ¥3,352 million and “Deferred tax assets” under “Investments and other assets” increased by ¥628 million, while “Deferred tax liabilities” under “Long-term liabilities” decreased by ¥2,724 million. Deferred tax assets and deferred tax liabilities of the same taxable entity are offset before presentation, whereby total assets decreased by ¥2,724 million as a result of the aforementioned change.

### **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 purpose.

##### **(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.

Derivative instruments used by a certain domestic consolidated subsidiary is forward exchange contracts 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, 2019 and 2018 were as follows.

	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	<u>¥ 96,507</u>	<u>¥ 96,502</u>	<u>¥ (5)</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 7,273	¥ 7,273	¥ -
Bonds	7,235	8,134	899
Total	<u>¥ 14,508</u>	<u>¥ 15,407</u>	<u>¥ 899</u>
Derivative instruments (*)	<u>¥ 3</u>	<u>¥ 3</u>	<u>¥ -</u>

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2018:			
Financial assets:			
Cash and cash equivalents	¥ 58,924	¥ 58,924	¥ -
Short-term investments	3,282	3,280	(2)
Trade notes and accounts receivable	28,920	28,920	-
Investment securities:			
Held-to-maturity debt securities	5,800	5,793	(7)
Available-for-sale securities	26,693	26,693	-
Total	<u>¥ 123,619</u>	<u>¥ 123,610</u>	<u>¥ (9)</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 6,535	¥ 6,535	¥ -
Bonds	7,242	10,379	3,137
Total	<u>¥ 13,777</u>	<u>¥ 16,914</u>	<u>¥ 3,137</u>
Derivative instruments (*)	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
At March 31, 2019:			
Financial assets:			
Cash and cash equivalents	\$ 277,955	\$ 277,955	\$ -
Short-term investments	59,586	59,541	(45)
Trade notes and accounts receivable	317,630	317,630	-
Investment securities:			
Held-to-maturity debt securities	-	-	-
Available-for-sale securities	214,261	214,261	-
Total	<u>\$ 869,432</u>	<u>\$ 869,387</u>	<u>\$ (45)</u>
Financial liabilities:			
Trade notes and accounts payable	\$ 65,523	\$ 65,523	\$ -
Bonds	65,180	73,279	8,099
Total	<u>\$ 130,703</u>	<u>\$ 138,802</u>	<u>\$ 8,099</u>
Derivative instruments (*)	<u>\$ 27</u>	<u>\$ 27</u>	<u>\$ -</u>

(\*) 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 of 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	
	2019	2018	2019	
Unlisted equity securities	¥ 247	¥ 80	\$	2,225

(3) Expected maturities of financial assets at March 31, 2019 and 2018 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, 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	<u>¥ 72,724</u>	<u>¥ -</u>	<u>¥ 500</u>	<u>¥ -</u>
Millions of yen				
At March 31, 2018:				
Financial assets:				
Cash and cash equivalents	¥ 58,924	¥ -	¥ -	¥ -
Short-term investments	3,282	-	-	-
Trade notes and accounts receivable	28,920	-	-	-
Investment securities				
Bonds	-	5,800	-	-
Other securities with maturities	-	-	500	-
Total	<u>¥ 91,126</u>	<u>¥ 5,800</u>	<u>¥ 500</u>	<u>¥ -</u>
Thousands of U.S. dollars				
At March 31, 2019:				
Financial assets:				
Cash and cash equivalents	\$ 277,955	\$ -	\$ -	\$ -
Short-term investments	59,586	-	-	-
Trade notes and accounts receivable	317,630	-	-	-
Investment securities				
Bonds	-	-	-	-
Other securities with maturities	-	-	4,505	-
Total	<u>\$ 655,171</u>	<u>\$ -</u>	<u>\$ 4,505</u>	<u>\$ -</u>

(4) Contractual maturities of bonds and long-term debt at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Year ending March 31, Bonds 2021	¥ 7,220	¥ 7,220	\$ 65,045

#### 4. Notes and Accounts Receivable

At March 31, 2019 and 2018, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trade	¥ 35,257	¥ 28,920	\$ 317,630
Other	5,753	4,137	51,829
Less allowance for doubtful accounts	(35)	(33)	(315)
Total	¥ 40,975	¥ 33,024	\$ 369,144

#### 5. Inventories

At March 31, 2019 and 2018, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise and finished goods	¥ 9,502	¥ 7,064	\$ 85,604
Work-in-process	21,379	15,153	192,603
Raw materials and supplies	8,841	6,129	79,649
Total	¥ 39,722	¥ 28,346	\$ 357,856

Loss on the write-down of ¥348 million (\$3,135 thousand) and ¥242 million were recognized as costs of goods sold for the years ended March 31, 2019 and 2018, respectively.

## 6. Investment Securities

(1) At March 31, 2019 and 2018, short-term investments consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities with fair value:			
Held-to-maturity debt securities			
Bonds	¥ 6,500	¥ 2,200	\$ 58,559
Other	-	1,000	-
Time deposits with an original maturity of more than three months	114	82	1,027
Total	¥ 6,614	¥ 3,282	\$ 59,586

(2) At March 31, 2019 and 2018, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities with fair value:			
Held-to-maturity debt securities			
Bonds	¥ -	¥ 5,800	\$ -
Available-for-sale-securities			
Equity securities	23,267	26,176	209,612
Bonds	516	517	4,649
Total securities with fair value	23,783	32,493	214,261
Unlisted securities without fair value	247	80	2,225
Total	¥ 24,030	¥ 32,573	\$ 216,486

At March 31, 2019 and 2018, 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, 2018:				
Bonds	¥ 8,000	¥ -	¥ (9)	¥ 7,991
Thousands of U.S. dollars				
At March 31, 2019:				
Bonds	\$ 58,559	\$ 9	\$ (54)	\$ 58,514

At March 31, 2019 and 2018, the cost and fair 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, 2019:				
Equity securities	¥ 10,970	¥ 12,375	¥ (78)	¥ 23,267
Bonds	521	1	(6)	516
Total	<u>¥ 11,491</u>	<u>¥ 12,376</u>	<u>¥ (84)</u>	<u>¥ 23,783</u>
At March 31, 2018:				
Equity securities	¥ 10,040	¥ 16,141	¥ (5)	¥ 26,176
Bonds	521	1	(5)	517
Total	<u>¥ 10,561</u>	<u>¥ 16,142</u>	<u>¥ (10)</u>	<u>¥ 26,693</u>
Thousands of U.S. dollars				
At March 31, 2019:				
Equity securities	\$ 98,829	\$ 111,486	\$ (703)	\$ 209,612
Bonds	4,694	9	(54)	4,649
Total	<u>\$ 103,523</u>	<u>\$ 111,495</u>	<u>\$ (757)</u>	<u>\$ 214,261</u>

(3) At March 31, 2019 and 2018, sales of available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales proceeds:			
Equity securities	¥ 418	¥ 2,371	\$ 3,766
Aggregate gains:			
Equity securities	¥ 233	¥ 1,370	\$ 2,099

## 7. Derivative Instruments

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

Currency related transactions

	Hedged item	Contract amount	Contract amount of more than 1 year		Fair value
			Millions of yen		
At March 31, 2019:					
Translated at the contract rate					
Foreign exchange forward contract (Sell USD)	Accounts receivable	¥ 644	¥ -	¥	3
Thousands of U.S. dollars					
At March 31, 2019:					
Translated at the contract rate					
Foreign exchange forward contract (Sell USD)	Accounts receivable	\$ 5,802	\$ -	\$	27

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

## 8. Intangible Assets

At March 31, 2019 and 2018, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Goodwill	¥ 13,796	¥ -	\$ 124,288
Software	6,089	6,304	54,856
Other intangible assets	5,607	27	50,514
Total	¥ 25,492	¥ 6,331	\$ 229,658

## 9. Notes and Accounts Payable

At March 31, 2019 and 2018, notes and accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trade	¥ 7,273	¥ 6,535	\$ 65,523
Other	4,010	978	36,126
Total	¥ 11,283	¥ 7,513	\$ 101,649

## 10. Long-term Debt

At March 31, 2019 and 2018, long-term debt consisted of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Zero coupon unsecured convertible bonds, due March 2021	¥ 7,235	¥ 7,242	\$ 65,180

Since a year-end dividend of ¥25.00 per share was approved and resolved at the 73<sup>rd</sup> ordinary general shareholders' meeting held on June 27, 2019, which resulted in an annual dividend of ¥50.00 per share for the fiscal year ended March 31, 2019, the conversion price was retroactively adjusted to ¥1,436.5 from ¥1,458 as of April 1, 2019 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, 2019 and 2018, the number of shares of common stock necessary for conversion of all convertible bonds outstanding were approximately 5 million and 5 million.

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, 2019 is summarized as follows:

	Millions of yen	Thousands of
	2019	U.S. dollars
Committed lines of credit in total	¥ 12,000	\$ 108,108
Loans utilized	-	-
Available credit	¥ 12,000	\$ 108,108

## 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 plan or adopt a lump-sum retirement payment plan and a defined benefit corporate pension plan, while some other consolidated subsidiaries have adopted defined contribution plans.

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

Employee retirement benefits for the years ended March 31, 2019 and 2018 were as follows:

**Defined benefit plan**

(1) Movement in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1	¥ 9,019	¥ 8,444	\$ 81,252
Service cost	795	693	7,162
Interest cost	9	17	81
Actuarial differences	85	103	766
Benefits paid	(283)	(238)	(2,550)
Increase of a consolidated subsidiary	1,599	-	14,406
Balance at March 31	¥ 11,224	¥ 9,019	\$ 101,117

(2) Movements in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1	¥ 8,252	¥ 7,585	\$ 74,343
Expected return on plan assets	227	208	2,045
Actuarial differences	(84)	52	(757)
Contributions paid by the employer	1,022	625	9,207
Benefits paid	(221)	(223)	(1,991)
Increase of a consolidated subsidiary	1,458	-	13,135
Other	(7)	5	(63)
Balance at March 31	¥ 10,647	¥ 8,252	\$ 95,919

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligations	¥ 11,224	¥ 9,018	\$ 101,117
Plan assets	(10,647)	(8,252)	(95,919)
Total net defined benefit liability at March 31	577	766	5,198
Net defined benefit liability	577	766	5,198
Total net defined benefit liability at March 31	¥ 577	¥ 766	\$ 5,198

(4) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 795	¥ 693	\$ 7,162
Interest cost	9	17	81
Expected return on plan assets	(227)	(208)	(2,045)
Amortization of actuarial differences	51	(121)	460
Total retirement benefit costs for the fiscal year	¥ 628	¥ 381	\$ 5,658

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences	¥ 119	¥ 171	\$ 1,072

(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
	2019	2018	2019
Unrealized actuarial differences	¥ 170	¥ 51	\$ 1,531

(7) Plan assets:

(i) Plan assets comprise:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bonds	¥ 4,997	¥ 3,595	\$ 45,018
Equity securities	3,334	2,821	30,036
Short-term funds	281	224	2,531
General accounts of life insurance	858	777	7,730
Other	1,177	835	10,604
Total	¥ 10,647	¥ 8,252	\$ 95,919

(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, 2019 and 2018 were as follows:

	2019	2018
Discount rate	0.0%	0.1%
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 contribution plan**

The amounts of required contributions to defined contribution plans of the consolidated subsidiaries were ¥217 million (\$1,955 thousand) and ¥210 million for the years ended March 31, 2019 and 2018, respectively.

**12. Lease Commitments**

At March 31, 2019 and 2018, 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
	2019	2018	2019
Operating leases:			
Due within one year	¥ 13	¥ 7	\$ 117
Due after one year	53	27	478
	¥ 66	¥ 34	\$ 595

**13. Contingent Liabilities**

There were no contingent liabilities at March 31, 2019 and 2018.

**14. Net Assets**

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. 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 common stock over 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, 2019 and 2018, 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 (\$13,063 thousand) and ¥1,450 million at March 31, 2019 and 2018 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, 2019, the Company paid interim dividends of ¥25.00 per share (including a commemorative dividend of ¥5 on the 60th anniversary of the Company's founding), amounting to ¥2,284 million (\$20,577 thousand). In addition, on June 27, 2019, the annual meeting of stockholders of the Company approved cash dividends as an appropriation of retained earnings also in the amount of ¥25.00 per share (including a commemorative dividend of ¥5 on the 60th anniversary of the Company's founding), amounting to ¥2,284 million (\$20,577 thousand), to the shareholders of record at March 31, 2019.

#### 15. Impairment Loss on Fixed Assets

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

Location	Usage	Assets	Millions of yen	Thousands of U.S. dollars
			2019	2019
Aichi, Japan	Production facilities	Tools, furniture and fixtures	¥ 41	\$ 370
		Software	33	297
		Machinery	23	207
			¥ 97	\$ 874

In principle, business assets are classified into groups on which separate financial information is reported for management accounting purpose, 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, the recoverable amounts were determined to be memorandum value.

There was no impairment loss on fixed assets for the year ended March 31, 2018.

## 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Deferred tax assets:			2019
Intercompany unrealized gains on inventories	¥ 1,282	¥ 998	\$ 11,550
Loss on the write-down of inventories	1,255	951	11,306
Accrued expenses	811	833	7,306
Loss on the write-down of investment securities	474	530	4,270
Provision for product warranties	310	327	2,793
Impairment loss on fixed assets	275	249	2,477
Accrued enterprise taxes	209	291	1,883
Net defined benefit liability	176	236	1,586
Other	239	195	2,153
Subtotal of deferred tax assets	5,031	4,610	45,324
Less valuation allowance	(785)	(831)	(7,072)
Total deferred tax assets	4,246	3,779	38,252
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	(3,439)	(4,456)	(30,982)
Valuation difference for a consolidated subsidiary	(1,661)	-	(14,964)
Other	(97)	(13)	(874)
Total deferred tax liabilities	(5,197)	(4,469)	(46,820)
Net deferred tax assets	¥ (951)	¥ (690)	\$ (8,568)

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, 2019 and 2018, a valuation allowance was provided to reduce deferred tax assets to the amount the management believed would be realizable.

Reconciliation of differences between the Japanese statutory tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018 were as follows:

	Percentage of pretax income	
	2019	2018
Japanese statutory income tax rate	30.6 %	30.8 %
Increase (decrease) due to:		
Tax exempt income	(0.2)	(0.3)
Changes in valuation allowances	(0.4)	(0.9)
Tax credits	(3.0)	(3.3)
Amortization of goodwill	0.6	-
Effect of income tax rate changes (U.S.)	-	1.1
Differences in tax rates of subsidiaries	0.1	0.4
Other	0.3	(0.4)
Effective income tax rate	28.0 %	27.4 %

The U.S. tax reform act, Tax Cuts and Jobs Act of 2017, was enacted on December 22, 2017 in the U.S. and reduced the federal corporate income tax rate applied to the subsidiaries in the U.S. from 35% to 21% beginning January 1, 2018. The effect of this change was to decrease deferred tax assets net of deferred tax liabilities by ¥191 million and increase net unrealized gains on available-for-sale securities by ¥41 million in the consolidated balance sheet as of March 31, 2018 and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥242 million.

## 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 referred to as "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 possess 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 to sales 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 products with a high value and enhancing 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

From October 1, 2018 to March 31, 2019

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

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition:	Cash	<u>¥ 21,800</u>	<u>\$ 196,396</u>
Acquisition cost		<u>¥ 21,800</u>	<u>\$ 196,396</u>

4. Details and amount of major acquisition related cost

Advisory fees: ¥170 million (\$1,532 thousand)

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

(1) Amount of goodwill derived:

¥14,272 million (\$128,577 thousand)

(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 synergy generated by utilizing each party's technological capability 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

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Current assets	¥ 6,568	\$ 59,171
Noncurrent assets	6,890	62,072
Total assets	<u>¥ 13,458</u>	<u>\$ 121,243</u>
Current liabilities	4,140	37,297
Long-term liabilities	1,790	16,126
Total liabilities	<u>¥ 5,930</u>	<u>\$ 53,423</u>

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

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Net sales	¥ 6,911	\$ 62,261
Operating income	(228)	(2,054)
Income before income taxes	(229)	(2,063)
Net income	(252)	(2,270)
	<u>Yen</u>	<u>U.S. dollars</u>
Net income per share	¥ (2.75)	\$ (0.02)

(Method of Approximation)

The approximate amount of income effect was calculated as the difference between the net sales and profit and loss information calculated 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, the amount of 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 review by the Company's Board of Directors to determine of the allocation of management resources and evaluate the operating performance.

The Group operates separate divisions based on the type of products and services provided. Each division plans comprehensive domestic and international strategies for its products and services and develops 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 mounter. In the Machine Tools business, we are focused on producing machine tools.

### **(b) Methods used to calculate the value of net sales, income or loss, assets, liabilities and other items by reportable segment:**

The accounting methods used for the reported business segments were the same as those described in Note 2, "Summary of Significant Accounting Policies." Income in reportable segments is based on operating income. Intersegment sales and 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, 2019 and 2018 was as follows:

	Reportable segments					Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total		
	Millions of yen						
<b>For the year 2019:</b>							
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
	Millions of yen						
<b>For the year 2018:</b>							
Net sales:							
External customers	¥ 104,003	¥ 13,798	¥ 117,801	¥ 2,231	¥ 120,032	¥ -	¥ 120,032
Intersegment sales/transfers	29	3	32	10	42	(42)	-
Total	¥ 104,032	¥ 13,801	¥ 117,833	¥ 2,241	¥ 120,074	¥ (42)	¥ 120,032
Segment income (loss) (*2)	25,185	1,017	26,202	(237)	25,965	(3,138)	22,827
Segment assets (*3)	85,184	14,085	99,269	2,684	101,953	81,085	183,038
Other items:							
Depreciation (*4)	4,623	359	4,982	103	5,085	197	5,282
Increase in property, plant and equipment and intangible assets (*4)	¥ 5,664	¥ 879	¥ 6,543	¥ 159	¥ 6,702	¥ 63	¥ 6,765

	Reportable segments					Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total		
	Thousands of U.S. dollars						
<b>For the year 2019:</b>							
Net sales:							
External customers	\$ 1,004,829	\$ 141,090	\$ 1,145,919	\$ 17,189	\$ 1,163,108	\$ -	\$ 1,163,108
Intersegment sales/transfers	414	9	423	631	1,054	(1,054)	-
Total	\$ 1,005,243	\$ 141,099	\$ 1,146,342	\$ 17,820	\$ 1,164,162	\$ (1,054)	\$ 1,163,108
Segment income (loss) (*2)	225,378	14,973	240,351	(802)	239,549	(31,378)	208,171
Segment assets (*3)	1,116,694	182,252	1,298,946	20,270	1,319,216	431,838	1,751,054
Other items:							
Depreciation (*4)	49,288	3,298	52,586	810	53,396	1,262	54,658
Increase in property, plant and equipment and intangible assets (*4)	\$ 65,811	\$ 33,207	\$ 99,018	\$ 820	\$ 99,838	\$ 1,270	\$ 101,108

\*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, 2019 and 2018.

\*2) Segment income adjustment consisted of corporate expenses in the amount of ¥(3,488) million (\$ (31,423) thousand) and ¥(3,147) million, net of intersegment elimination of ¥5 million (\$45 thousand) and ¥9 million, respectively, for the years ended March 31, 2019 and 2018. 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 ¥47,941 million (\$431,901 thousand) and ¥81,113 million, net of intersegment elimination of ¥(7) million (\$ (63) thousand) and ¥ (28) million, respectively, at March 31, 2019 and 2018. 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. "Partial Amendments to Accounting Standards for Tax Effect Accounting" were applied from the beginning of the fiscal year ended March 31, 2019. The new accounting standard was applied retroactively to figures for the fiscal year ended March 31, 2018.

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

(d) Information about reportable segments:

**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%
	Thousands of U.S. dollars							
Net sales	\$ 138,379	\$ 442,288	\$ 242,955	\$ 130,847	\$ 55,910	\$ 139,351	\$ 13,378	\$ 1,163,108
	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%		
	Thousands of U.S. dollars							
Property, plant and equipment	\$ 198,766	\$ 7,000	\$ 9,586	\$ 10,513	\$ 522	\$ 226,387		

(3) Information about major customers:

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

Name of customer	Net sales		Segment
	Millions of yen	Thousands of U.S. dollars	
American Tec Co., Ltd. (China)	¥ 23,165	\$ 208,694	Robotic Solutions

**For the year ended March 31, 2018**

(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, 2018, 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	¥ 19,515	¥ 53,482	¥ 12,273	¥ 13,488	¥ 6,291	¥ 13,463	¥ 1,520	¥ 120,032
Ratio	16.3%	44.6%	10.2%	11.2%	5.2%	11.2%	1.3%	100.0%
	Japan	China	United States	Europe	Other	Total		
	Millions of yen							
Property, plant and equipment	¥ 15,772	¥ 825	¥ 1,057	¥ 1,201	¥ 90	¥ 18,945		
Ratio	83.3%	4.3%	5.6%	6.3%	0.5%	100.0%		

(3) Information about major customers:

For the year ended March 31, 2018, information about major customers was as follows:

Name of customer	Net sales	Segment
	Millions of yen	
American Tec Co., Ltd. (China)	¥ 19,064	Robotic Solutions

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

Impairment loss on fixed assets for the year ended March 31, 2019 was recognized in the amount of ¥97 million (\$874 thousand). However, as reportable segment income is based on operating income, the impairment loss was not allocated to each reportable segment. There was no impairment loss on fixed assets for the year ended March 31, 2018.

(f) Information about goodwill in reportable segments:

**Amortization of goodwill and unamortized balance**

	Robotic Solutions	Machine Tools	Others	Corporate/ adjustments	Total
	Millions of yen				
<b>For the year 2019:</b>					
Amortization of goodwill	¥ 476	¥ -	¥ -	¥ -	¥ 476
Balance of goodwill at March 31, 2019	13,796	-	-	-	13,796
	Thousands of U.S. dollars				
<b>For the year 2019:</b>					
Amortization of goodwill	\$ 4,288	\$ -	\$ -	\$ -	\$ 4,288
Balance of goodwill at March 31, 2019	124,288	-	-	-	124,288

**Gain on bargain purchases**

As this information was not material, it has been omitted.

## 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized gains on available-for-sale securities			
Increase during the year	¥ (3,605)	¥ 6,891	\$ (32,478)
Reclassification adjustments	(233)	(1,370)	(2,099)
Subtotal, before tax	(3,838)	5,521	(34,577)
Tax effect	1,018	(1,573)	9,172
Subtotal, net of tax	(2,820)	3,948	(25,405)
Deferred gains on hedges			
Increase during the year	12	-	108
Foreign currency translation adjustments			
Increase during the year	344	(559)	3,099
Remeasurements of defined benefit plans			
Increase during the year	(170)	(51)	(1,531)
Reclassification adjustments	51	(120)	459
Subtotal, before tax	(119)	(171)	(1,072)
Tax effect	36	52	324
Subtotal, net of tax	(83)	(119)	(748)
Total other comprehensive income	¥ (2,547)	¥ 3,270	\$ (22,946)

## 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	Thousands of U.S. dollars
	¥	\$
Current assets	6,568	59,171
Noncurrent assets	6,890	62,072
Goodwill	14,272	128,576
Current liabilities	(4,140)	(37,297)
Long-term liabilities	(1,790)	(16,126)
Subtotal	21,800	196,396
Cash and cash equivalents of the newly consolidated subsidiary	(1,684)	(15,171)
Loan advances to newly consolidated subsidiary	1,600	14,415
Total: Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 21,716	\$ 195,640

# Independent Auditor's Report



## Independent Auditor's Report

To the Board of Directors of FUJI CORPORATION:

We have audited the accompanying consolidated financial statements of FUJI CORPORATION (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2019 and 2018 and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 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 Consolidated Financial Statements.

*KPMG AZSA LLC*

July 12, 2019  
Nagoya, Japan