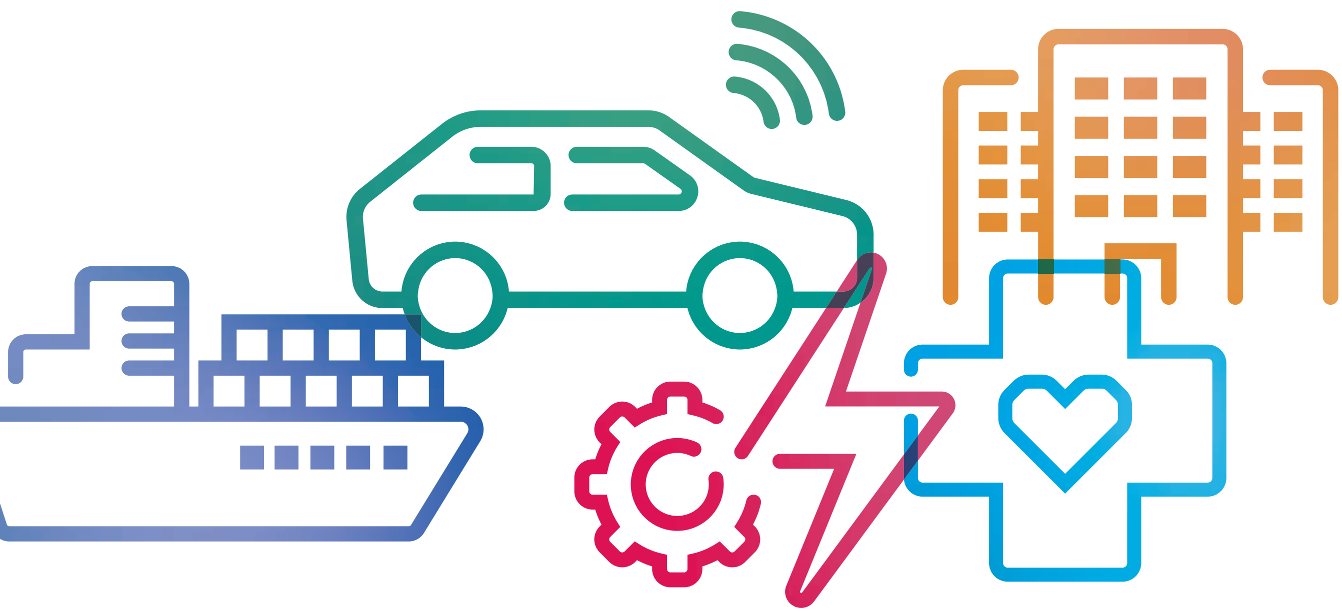
DELIVERING INFORMATION AND INTELLIGENCE

Japan Radio Co., Ltd.

Annual Report 2018

For the year ended March 31, 2018

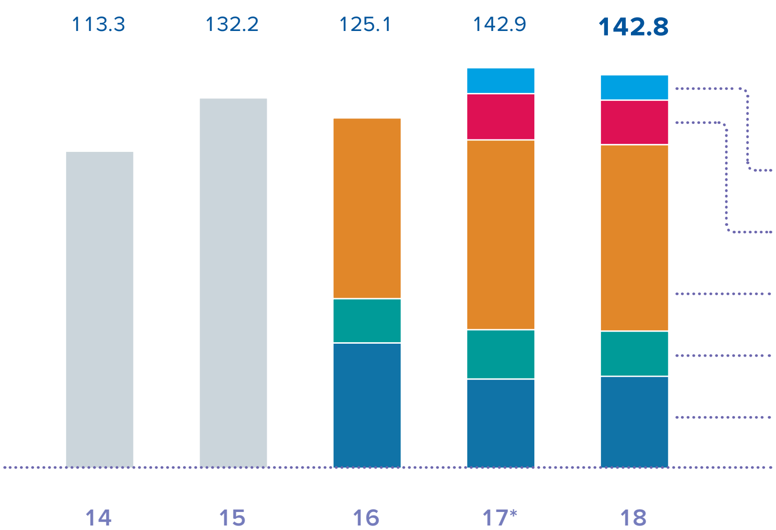


Business Highlights

Net Sales

¥142.8 bill.

¥0.1 bill. down (-0.05%)



Medical Equipment

Mechatronics & Power Supply

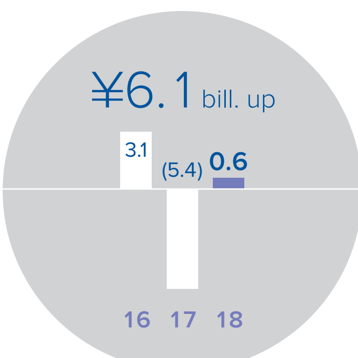
Solutions and Specialized Equipment

Communications Equipment

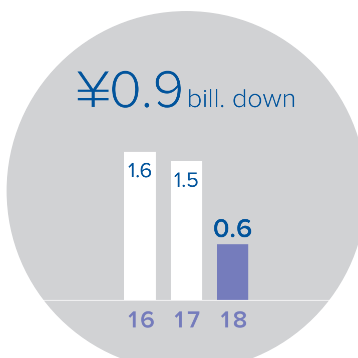
Marine Systems

* From 2017, net sales and income is including subsidiaries NJRC and UJRC.

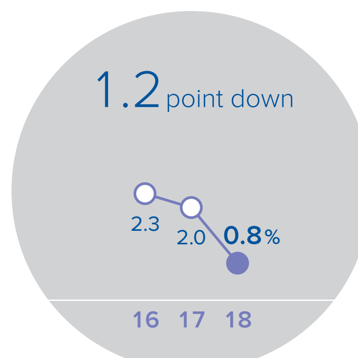
Operating Income (loss)



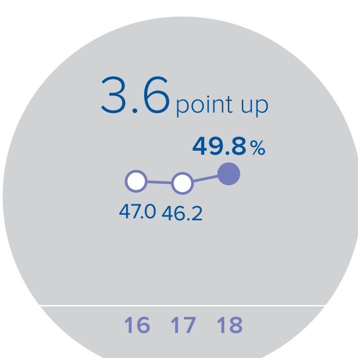
Net Income



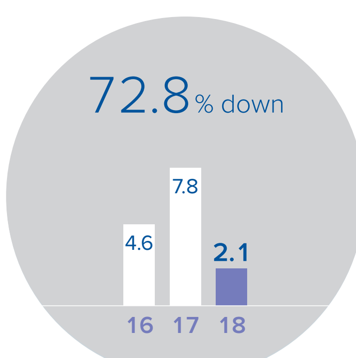
ROE



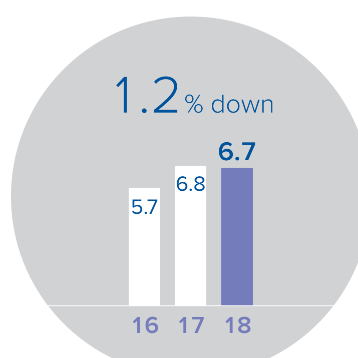
Net Equity Ratio



Capital Expenditure



R&D Expenditure



Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note)
For the years ended March 31,	2014	2015	2016	2017	2018	2018
Net sales	¥113,307	¥132,252	¥125,192	¥142,910	¥142,833	$1,344,439
Operating income (loss)	7,281	7,713	3,184	(5,487)	693	6,527
Operating income (loss) ratio (%)	6.4	5.8	2.5	(3.8)	0.5	–
Income (loss) before income taxes and minority interests	2,727	15,519	3,030	3,771	91	853
Net income (loss)	2,311	14,342	1,662	1,559	606	5,703
As of March 31,						
Total assets	113,814	142,509	160,950	167,092	154,985	1,458,818
Total equity	49,843	71,840	77,257	77,341	77,278	727,390
Net equity ratio (%)	42.6	49.4	47.0	46.2	49.8	–
Interest-bearing liabilities	5,888	6,678	21,232	24,241	18,155	170,890
Depreciation	2,098	2,932	2,193	2,867	3,155	29,703
Capital expenditures	2,630	14,950	4,656	7,834	2,133	20,085
Net income (loss) per share (yen/U.S. dollars)	16.77	104.13	59.48	47.72	18.55	0.17
ROE (%)	4.7	24.1	2.3	2.0	0.8	–
D/E ratio (times)	0.12	0.09	0.28	0.31	0.23	–
Employees	3,294	3,366	5,575	5,571	5,653	–

Note: U.S. dollar amounts are translated, for convenience only, at ¥106.24= US$1.00, the rate prevailing on March 31, 2018.

Contents of Financial Statements

Consolidated Balance Sheet

Japan Radio Co., Ltd. and Consolidated Subsidiaries

March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 4,624	¥ 5,116	$ 43,526
Short-term investments (Note 11)		20	
Receivables:			
Trade notes (Notes 8 and 11)	8,946	8,100	84,205
Trade accounts (Note 11)	53,222	55,208	500,964
Unconsolidated subsidiaries and affiliated companies (Note 11)	3		24
Allowance for doubtful accounts	(324)	(276)	(3,051)
Short-term loans due from parent company (Note 11)	1,750	1,400	16,472
Inventories	36,561	41,834	344,134
Deferred tax assets	1,727	2,557	16,258
Prepaid expenses and other	2,884	3,484	27,150
Total current assets	¥109,393	¥117,443	$1,029,682
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Note 4)	7,076	7,305	66,602
Buildings and structures (Note 4)	35,959	36,060	338,473
Machinery and equipment (Note 4)	6,633	6,703	62,437
Furniture and fixtures (Note 4)	15,881	17,903	149,482
Lease assets (Note 4)	716	620	6,736
Construction in progress	45	255	421
Total	66,310	68,846	624,151
Accumulated depreciation	(34,983)	(35,435)	(329,280)
Net property, plant and equipment	31,327	33,411	294,871
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 11)	3,809	5,101	35,854
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 11)	510	458	4,802
Goodwill	1,806	2,189	16,995
Asset for retirement benefits	3,277	2,836	30,848
Deferred tax assets	2,500	2,815	23,533
Other (Note 4)	3,375	3,879	31,763
Allowance for doubtful accounts	(1,012)	(1,040)	(9,530)
Total investments and other assets	14,265	16,238	134,265
TOTAL	¥154,985	¥167,092	$1,458,818

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 11)	¥ 13,636	¥ 20,499	$ 128,355
Current portion of long-term debt (Note 11)	200	165	1,879
Current portion of long-term lease obligations	177	166	1,662
Payables:			
Trade notes (Notes 8 and 11)	9,870	5,374	92,907
Trade accounts (Notes 8 and 11)	15,616	21,436	146,986
Other (Note 8)	1,918	4,322	18,052
Income taxes payable	535	774	5,036
Accrued expenses	2,866	3,620	26,972
Advances received	2,269	3,659	21,361
Provision for loss on construction contracts	65	977	607
Provision for contingent loss	749	2,239	7,047
Provision for environmental measures	135		1,271
Other	5,400	1,608	50,840
Total current liabilities	¥ 53,436	¥ 64,839	$ 502,975
LONG-TERM LIABILITIES:			
Long-term debt (Note 11)	3,923	3,173	36,930
Liability for retirement benefits	17,379	17,311	163,581
Deferred tax liabilities	460	2,485	4,330
Deferred tax liabilities for land revaluation (Note 5)	256	510	2,408
Long-term lease obligations	248	276	2,331
Provision for environmental measures	1,010	141	9,508
Asset retirement obligations	472	476	4,439
Other	523	540	4,926
Total long-term liabilities	24,271	24,912	228,453
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
EQUITY (Note 10):			
Common stock—authorized, 43,200,000 shares; issued, 32,668,523 shares in 2018 and 32,804,846 shares in 2017	14,704	14,704	138,407
Capital surplus	22,417	22,417	211,008
Retained earnings	39,273	39,655	369,661
Treasury stock—at cost, 0 shares in 2018 and 135,166 shares in 2017		(184)	
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,148	1,721	10,799
Foreign currency translation adjustments	256	(135)	2,405
Defined retirement benefit plans	(920)	(1,248)	(8,655)
Revaluation reserve for land (Note 5)	237	252	2,227
Total	77,115	77,182	725,852
Non-controlling interests	163	159	1,538
Total equity	77,278	77,341	727,390
TOTAL	¥154,985	¥167,092	$1,458,818

Consolidated Statement of Income

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥142,833	¥142,910	$1,344,439
COST OF SALES (Notes 3 and 9)	114,278	119,446	1,075,661
Gross profit	28,555	23,464	268,778
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	27,862	28,951	262,251
Operating income (loss)	693	(5,487)	6,527
OTHER INCOME (EXPENSES):			
Interest and dividend income	326	151	3,065
Interest expense	(120)	(156)	(1,132)
Foreign exchange loss—net	(17)	(174)	(162)
Subsidy income	113	1,000	1,061
Equity in earnings of affiliated companies	5	10	52
Impairment losses (Note 4)	(763)	(159)	(7,186)
(Loss) gain on sales of property, plant and equipment	(16)	11,153	(147)
Gain on sales of investment securities	994		9,357
Provision for environmental measures	(1,087)		(10,229)
Amortization of goodwill		(854)	
Loss on revision of retirement benefit plan	(52)		(491)
Provision for contingent loss		(1,687)	
Other—net	15	(26)	138
Other income (expenses)—net	(602)	9,258	(5,674)
INCOME BEFORE INCOME TAXES	91	3,771	853
INCOME TAXES:			
Current	466	909	4,391
Deferred	(1,001)	1,167	(9,434)
Total income taxes	(535)	2,076	(5,043)
NET INCOME	626	1,695	5,896
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	20	136	193
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 606	¥ 1,559	$ 5,703

	Millions of Yen		U.S. Dollars (Note 1)
	2018	2017	2018
PER SHARE OF COMMON STOCK (Note 2t):			
Basic net income	¥ 18.55	¥ 47.72	$ 0.17
Cash dividends applicable to the year	25.00	25.00	0.24

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2018

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Revaluation Reserve for Land	Total	Non-controlling Interests	Total Equity
BALANCE, APRIL 1, 2016	163,364	¥14,704	¥22,417	¥38,912	¥(180)	¥1,054	¥(121)	¥(1,364)	¥252	¥75,674	¥1,583	¥77,257
Net income attributable to owners of the parent				1,559						1,559		1,559
Cash dividends, ¥25 per share				(816)						(816)		(816)
Purchase of treasury stock	(3)				(4)					(4)		(4)
Consolidation of shares	(130,691)											
Net change in the year						667	(14)	116		769	(1,424)	(655)
BALANCE, MARCH 31, 2017	32,670	14,704	22,417	39,655	(184)	1,721	(135)	(1,248)	252	77,182	159	77,341
Net income attributable to owners of the parent				606						606		606
Cash dividends, ¥25 per share			(817)						(817)		(817)	
Purchase of treasury stock	(1)				(2)					(2)		(2)
Retirement of treasury stock				(186)	186							
Reversal of revaluation reservef or land				15						15		15
Net change in the year						(573)	391	328	(15)	131	4	135
BALANCE, MARCH 31, 2018	32,669	¥14,704	¥22,417	¥39,273		¥1,148	¥256	¥(920)	¥237	¥77,115	¥163	¥77,278

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Revaluation Reserve for Land	Total	Non-controlling Interests	Total Equity
BALANCE, MARCH 31, 2017	$138,407	$211,008	$373,253	$(1,731)	$16,199	$(1,276)	$(11,746)	$2,381	$726,495	$1,493	$727,988
Net income attributable to owners of the parent			5,703						5,703		5,703
Cash dividends, $0.24 per share			(7,688)						(7,688)		(7,688)
Purchase of treasury stock				(24)					(24)		(24)
Retirement of treasury stock			(1,755)	1,755							
Reversal of revaluation reserve for land			148						148		148
Net change in the year					(5,400)	3,681	3,091	(154)	1,218	45	1,263
BALANCE, MARCH 31, 2018	$138,407	$211,008	$369,661		$10,799	$2,405	$(8,655)	$2,227	$725,852	$1,538	$727,390

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Year Ended March 31, 2018

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Japan Radio Co., Ltd. (the "Company") and consolidated subsidiaries, in accordance with the provisions set forth in the Companies Act of Japan and applicable regulations and in accordance with accounting principles generally accepted in Japan. The information provided in the notes to the consolidated financial statements is limited to that required by the Companies Act of Japan and applicable regulations.

Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to $1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Consolidation*—The consolidated financial statements as of March 31, 2018, include the accounts of the Company and its 27 (28 in 2017) significant subsidiaries (together, the "Group").

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

Investments in one (one in 2017) unconsolidated subsidiary is accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary company at the date of acquisition. Goodwill is reported in the balance sheet and is amortized using the straight-line method over seven years.

b. *Adoption of Consolidated Taxation System*—From the fiscal year ended March 31, 2018, the Company and some of its consolidated subsidiaries adopted the consolidated taxation system, with Nisshinbo Holdings Inc., as the taxable parent company.

c. *Inventories—Inventories* are measured at the lower of cost, or net selling value.

The cost of finished products, semifinished products, and work in process is determined principally by the specific identification method.

The cost of raw materials and supplies is determined principally by the average cost method.

Selling value is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. Replacement cost may be used in place of the net selling value, if appropriate.

d. *Marketable and Investment Securities*—Marketable and investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. *Property, Plant and Equipment*—Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method. The range of useful lives is from 10 to 50 years for buildings and structures and from 7 to 8 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

f. *Long Lived Assets*—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling price at disposition.

g. *Stock and Bond Issue Costs*—Stock and bond issue costs are charged to income as incurred.

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

i. *Retirement and Pension Plans*—The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans.

The Company and certain consolidated subsidiaries accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10–13 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 13–15 years within the average remaining service period.

j. *Provision for Loss on Construction Contracts*—The provision for loss on construction contracts is provided for an estimated amount of probable losses to be incurred in future years.

k. *Provision for Contingent Loss*—On November 18, 2014, the Company was investigated by the Japan Fair Trade Commission (the "Commission") on suspected infringement of The Antimonopoly Act of Japan in connection with the bids for Digital Radios/solution for fire and emergency medical services. On February 2, 2017, the Company received from the Commission a cease-and-desist order and a payment order of surcharge. As a result, the Company posted the estimated amount deemed necessary for the loss burden.

l. *Provision for Environmental Measures*—The provision for environmental measures is estimated and recorded to provide for future potential costs, such as costs related to disposal of Poly Chlorinated Biphenyl based on related legal requirements. The Company recorded the estimated amount deemed necessary for the loss on removal of soil contamination on part of the land owned by Company.

m. *Asset Retirement Obligations*—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

n. ***Reserve for Product Defect Compensation***—The Company provided a reserve for product defect compensation at an estimated amount in order to cover the anticipated compensation.

o. ***Construction Contracts***—Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method is applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract is immediately recognized by providing for a loss on such construction contracts.

p. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

q. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward currency contracts and options.

r. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign currency forward contracts, interest rate swaps, and currency options/swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for import purchases and export sales are measured at fair value and the unrealized gains or losses are recognized in income. Trade payables and trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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

t. ***Per Share Information***—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed as there were no securities with a dilutive effect.

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

3. INVENTORIES

Write downs of inventories for the years ended March 31, 2018 and 2017, were recognized in the following account:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Cost of sales	**¥217**	¥2,003	**$2,043**

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment at March 31, 2018 and 2017, and recognized impairment losses as follows:

Year Ended March 31, 2018

Location: Nagano City, Nagano; Koto Ward, Tokyo and more
Asset use: Assets for the Marine Electronics Equipment Division
Reason: Due to the difficulty of maintaining positive cash flows in operating income

	Millions of Yen	Thousands of U.S. Dollars
Type:		
Buildings and structures	¥ 40	$ 373
Machinery and equipment	28	260
Furniture and fixtures	223	2,098
Other	216	2,048
Total	¥507	$4,779

Location: Nagano City, Nagano
Asset use: Assets for the Specialized Equipment Division
Reason: Due to the difficulty of maintaining positive cash flows in operating income

	Millions of Yen	Thousands of U.S. Dollars
Type—Furniture and fixtures	¥1	$5
Total	¥1	$5

Location: Nagano City, Nagano
Asset use: Commercial land and idle land
Reason: Due to arrangement to sell the land

	Millions of Yen	Thousands of U.S. Dollars
Type—Land	¥134	$1,262
Total	¥134	$1,262

Location: Shenzhen, China
Asset use: Manufacturing facilities
Reason: Due to poor business performance

	Millions of Yen	Thousands of U.S. Dollars
Type:		
Buildings and structures	¥ 63	$ 592
Machinery and equipment	40	373
Furniture and fixtures	11	107
Lease assets	5	47
Other	2	21
Total	¥121	$1,140

Year Ended March 31, 2017

Location: Nagano City and Ueda City, Nagano
Asset use: Assets for the Communications Equipment Division
Reason: Due to the difficulty of maintaining positive cash flows in operating income

	Millions of Yen
Type:	
Machinery and equipment	¥29
Furniture and fixtures	87
Total	¥116

Location: Nagano City, Nagano
Asset use: Assets for the Specialized Equipment Division
Reason: Due to the difficulty of maintaining positive cash flows in operating income

	Millions of Yen
Type:	
Machinery and equipment	¥4
Furniture and fixtures	36
Other	3
Total	¥43

The Group allocates the assets of its business divisions into the smallest cash generating units when evaluating them for impairment.

5. LAND REVALUATION

Nagano Japan Radio Co., Ltd., a consolidated subsidiary, revaluated its land used for business activities in accordance with the "Law of Land Revaluation" on March 31, 2002. The difference between the revalued amount and the book value is recorded within "Revaluation reserve for land" in equity after deducting the related deferred tax liability.

The fair value as of March 31, 2018 and 2017, declined by ¥988 million ($9,301 thousand) and ¥936 million, respectively, compared to the book value after the revaluation.

6. PLEDGED ASSETS

As of March 31, 2018 and 2017, the following assets were pledged as collateral for short-term loans and long-term debt of the Group:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Land	¥244	¥244	$2,297
Buildings and structures	650	593	6,117
Total	¥894	¥837	$8,414

Debts for the pledged assets above as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Short-term bank loans	¥150	¥150	$1,412
Total	¥150	¥150	$1,412

7. CREDIT FACILITY AGREEMENT

Certain subsidiaries have concluded a credit facility agreement with a local bank for procurement of working capital. The portion of the credit line that had not been exercised under this agreement as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Total loan agreement limits	**¥1,552**	¥2,001	**$14,607**
Loan executions	**(221)**	(496)	**(2,076)**
Net	**¥1,331**	¥1,505	**$12,531**

For this facility, the following securities have been provided:
- Rights of pledge for the inventory of Alphatron Marine Beheer B.V.
- Possessory pledge for all Dutch receivables

8. NOTES MATURING AS OF THE END OF THE FISCAL YEAR

As the end of this fiscal year, March 31, 2018, was a bank holiday, the following notes were recorded as if they were settled at the maturity date March 31, 2018.

	Millions of Yen	Thousands of U.S. Dollars
Receivables:		
Trade notes	¥1,237	$11,641
Payables:		
Trade notes	1,511	14,220
Other	16	158

9. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Provision for losses on construction contracts included in cost of sales for the years ended March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Cost of sales	**¥115**	¥676	**$1,081**

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having Audit & Supervisory Board members, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The increase/decrease of treasury stock as of each fiscal year-end was as follows:

	Number of Shares	Amount	
	Shares	Millions of Yen	Thousands of U.S. Dollars
Balance, March 31, 2017	135,166	¥184	$1,731
Increase	1,157	2	24
Decrease due to retirement	(136,323)	(186)	(1,755)
Balance, March 31, 2018			

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its business plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Investment securities and equity instruments of customers and suppliers of the Group are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Maturities of bank loans are less than two years after the consolidated balance sheet date. Although a part of such bank loans is exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives mainly include forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stages.

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

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from forecasted transactions, forward foreign currency contracts may be used under the limited contracts term of half a year.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Basic principles of derivative transactions are approved by an executive officer based on the internal guidelines which prescribe the authority and the limit for each transaction by the accounting and finance department. Reconciliation of transactions and balances with customers is made, and transaction data is reported to the officer on a quarterly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk through commitment lines with major financial institutions.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 4,624	¥ 4,624	
Short-terma investments			
Receivables:			
Trade notes	8,946	8,946	
Trade accounts	53,222	53,222	
Unconsolidated subsidiaries and affiliated companies (notes and accounts)	3	3	
Short-term loans receivable	1,757	1,757	
Investment securities	3,628	3,628	
Total	¥72,180	¥72,180	
Short-term bank loans	¥13,636	¥13,636	
Payables:			
Trade notes	9,870	9,870	
Trade accounts	15,616	15,616	
Long-term debt (including current portion of long-term debt)	4,123	4,107	¥(16)
Total	¥43,245	¥43,229	¥(16)

March 31, 2017			
Cash and cash equivalents	¥ 5,116	¥ 5,116	
Short-term investments	20	20	
Receivables:			
Trade notes	8,100	8,100	
Trade accounts	55,208	55,208	
Unconsolidated subsidiaries and affiliated companies (notes and accounts)			
Short-term loans receivable	1,400	1,400	
Investment securities	4,930	4,930	
Total	¥74,774	¥74,774	
Short-term bank loans	¥20,499	¥20,499	
Payables:			
Trade notes	5,374	5,374	
Trade accounts	21,436	21,436	
Long-term debt (including current portion of long-term debt)	3,338	3,347	¥9
Total	¥50,647	¥50,656	¥9

March 31, 2018	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/ Loss
Cash and cash equivalents	$ 43,526	$ 43,526	
Short-term investments			
Receivables:			
Trade notes	84,205	84,205	
Trade accounts	500,964	500,964	
Unconsolidated subsidiaries and affiliated companies (notes and accounts)	24	24	
Short-term loans receivable	16,538	16,538	
Investment securities	34,150	34,150	
Total	$679,407	$679,407	
Short-term bank loans	$128,355	$128,355	
Payables:			
Trade notes	92,907	92,907	
Trade accounts	146,986	146,986	
Long-term debt (including current portion of long-term debt)	38,809	38,663	$(146)
Total	$407,057	$406,911	$(146)

Cash and Cash Equivalents
The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Short-Term Investments
The carrying values of short-term investments approximate fair value because of their short maturities.

Short-Term Loans Receivable
The carrying values of short-term loans receivable approximate fair value because of their short maturities.

Investment Securities
The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments.

Receivables and Payables
The fair values of receivables and payables are measured at the amount to be received or paid at maturity because of their short maturities.

Short-Term Bank Loans
The carrying values of short-term bank loans approximate fair value because of their short maturities.

Long-Term Debt (including Current Portion of Long-Term Debt)
The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group’s assumed corporate borrowing rate.

Derivatives
Since interest rate swaps that are subject to special treatment are accounted for with long-term loans payable, which are hedged items, their fair value is included in the fair value of said long-term loans payable.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investment securities in equity instruments that do not have a quoted market price in an active market	¥181	¥171	$1,704
Investments in and advances to unconsolidated subsidiaries and affiliated companies in equity instruments that do not have a quoted market price in an active market	181	149	1,705
Total	¥362	¥320	$3,409

12 SUBSEQUENT EVENT

Appropriation of Retained Earnings

The appropriation of retained earnings for the year ended March 31, 2018, is not applicable.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Radio Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Japan Radio Co., Ltd. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Radio Co., Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations for the year then ended in accordance with the Companies Act of Japan and applicable regulations and accounting principles generally accepted in Japan.

Emphasis of Matter

As explained in Note 1 to the consolidated financial statements, the information provided in the notes to the consolidated financial statements is limited to that required by the Companies Act of Japan and applicable regulations. Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein. Our opinion is not modified in respect of this matter.

Member of
Deloitte Touche Tohmatsu Limited

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 18, 2018

Japan Radio Co., Ltd.

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