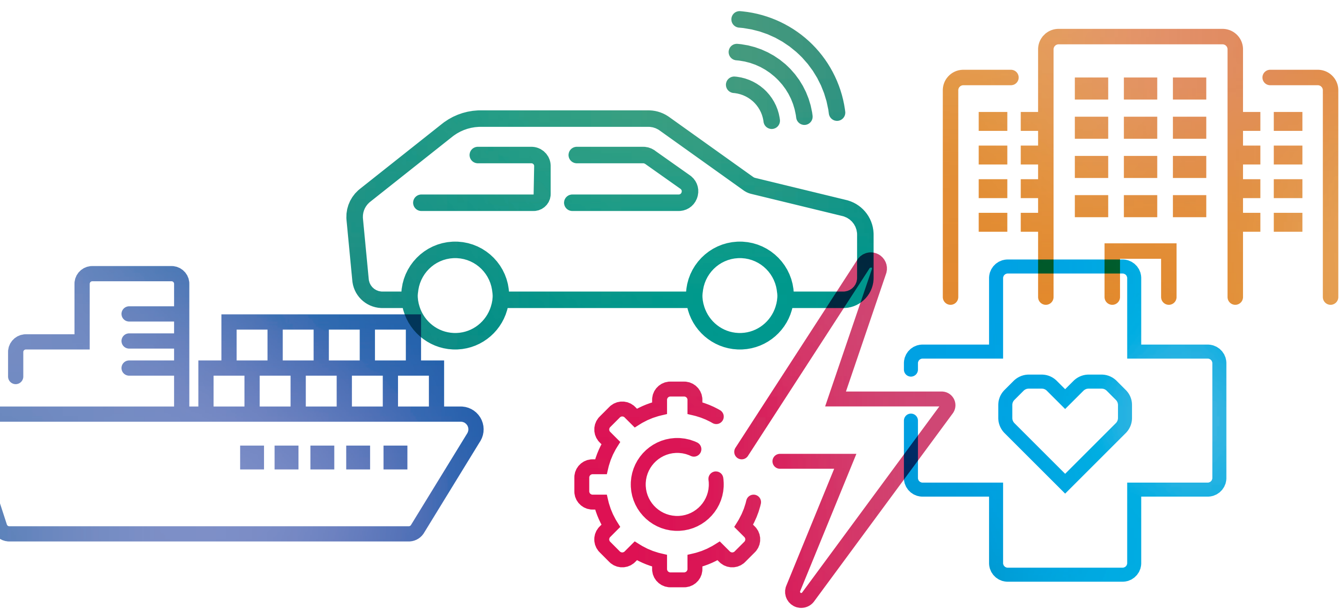
DELIVERING INFORMATION AND INTELLIGENCE

Japan Radio Co., Ltd.

Financial Report 2023

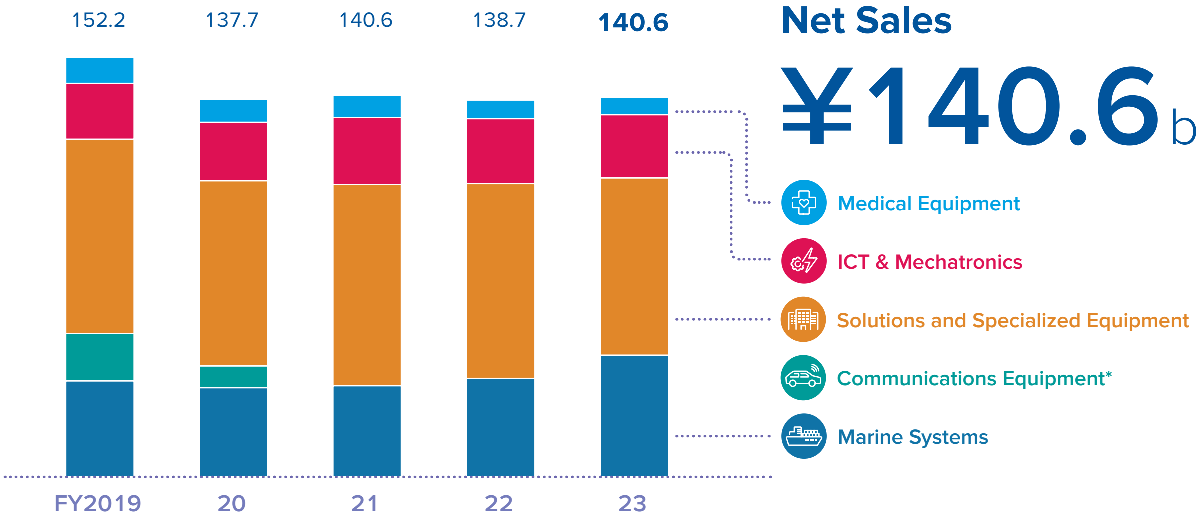
For the year ended December 31, 2023



Business Highlights

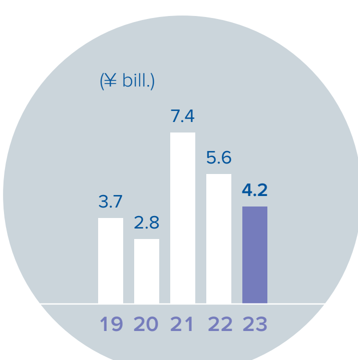
Net Sales

¥140.6 bill.

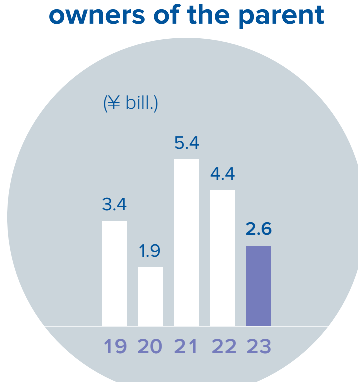


* From FY2021, the Communications Equipment business is excluded, as this business was transferred to JRC Mobility Inc. January 1, 2021 through an absorption-type company split.

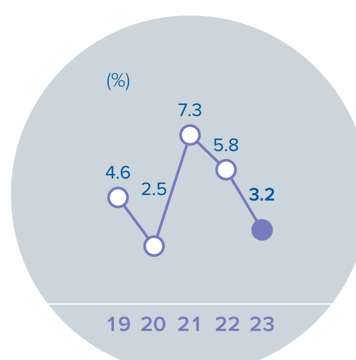
Operating Income



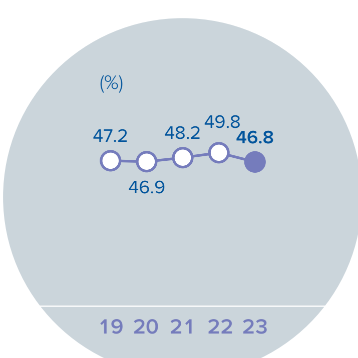
Net Income attributable to owners of the parent



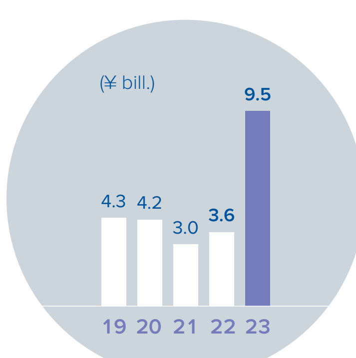
ROE



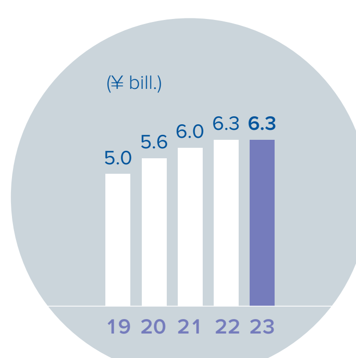
Net Equity Ratio



Capital Expenditure



R&D Expenditure



Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Five-Year Term Summary

	Millions of yen					Thousands of U.S. dollars (Note)
For the years ended December 31, 2019, 2020, 2021, 2022 and 2023.	2019	2020	2021	2022	2023	2023
Net sales	¥152,184	¥137,726	¥140,614	¥138,671	¥140,567	$991,094
Operating income	3,701	2,793	7,366	5,572	4,193	29,565
Operating income ratio (%)	2.4	2.0	5.2	4.0	3.0	–
Income before income taxes	4,449	3,059	8,399	6,532	4,260	30,037
Net income attributable to owners of the parent	3,366	1,855	5,431	4,438	2,552	17,994
As of December 31, 2019, 2020, 2021, 2022 and 2023						
Total assets	159,659	156,592	156,368	157,443	174,481	1,230,214
Total equity	75,612	73,613	75,523	78,527	81,889	577,377
Net equity ratio (%)	47.2	46.9	48.2	49.8	46.8	–
Interest-bearing liabilities	21,424	21,351	15,449	19,512	32,254	227,410
Depreciation and Amortization	3,652	3,625	3,733	3,840	4,482	31,604
Capital expenditures	4,315	4,167	2,972	3,648	9.516	67,096
Basic net income per share (yen/U.S. dollars)	103.04	56.77	166.25	135.84	78.12	0.55
ROE (%)	4.6	2.5	7.3	5.8	3.2	–
D/E ratio (times)	0.28	0.29	0.20	0.20	0.40	–
Number of Employees	5,923	5,662	5,602	5,639	5,634	–

Note: U.S. dollar amounts are translated, for convenience only, at ¥141.83 =US$1.00, the rate prevailing on December 31, 2023.

Contents of Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
December 31, 2023

ASSETS	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT ASSETS:		
Cash and cash equivalents	¥ 10,754	$ 75,825
Receivables:		
Trade notes (Note 10)	7,033	49,586
Trade accounts and contract assets	34,813	245,454
Unconsolidated subsidiaries and affiliated companies	157	1,105
Allowance for doubtful accounts	(172)	(1,214)
Short-term loans due from parent company	2,798	19,728
Inventories	61,774	435,551
Prepaid expenses and other	4,722	33,299
Total current assets	121,879	859,334
PROPERTY, PLANT AND EQUIPMENT (Note 8):		
Land	6,821	48,091
Buildings and structures	40,610	286,326
Machinery and equipment	8,006	56,448
Furniture and fixtures (Note 6)	15,396	108,554
Lease assets	1,636	11,534
Construction in progress	557	3,925
Other	5,527	38,973
Total	78,553	553,851
Accumulated depreciation	(47,714)	(336,416)
Net property, plant and equipment	30,839	217,435
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 13)	4,662	32,869
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 13)	832	5,867
Goodwill	39	277
Asset for retirement benefits	5,879	41,451
Deferred tax assets	1,106	7,801
Other (Note 6)	9,670	68,178
Allowance for doubtful accounts	(425)	(2,998)
Total investments and other assets	21,763	153,445
TOTAL	¥174,481	$1,230,214

LIABILITIES AND EQUITY	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT LIABILITIES:		
Short-term bank loans	¥ 25,472	$ 179,596
Current portion of long-term debt (Note 13)	1,432	10,096
Current portion of long-term lease obligations	785	5,532
Payables:		
Trade notes (Note 10)	10,330	72,833
Trade accounts	12,456	87,823
Other (Note 10)	1,332	9,388
Income taxes payable	912	6,430
Accrued expenses	3,942	27,791
Contract liabilities	7,981	56,269
Provision for bonuses	636	4,482
Provision for loss on construction contracts	77	544
Other	4,251	29,988
Total current liabilities	69,606	490,772
LONG-TERM LIABILITIES:		
Long-term debt (Note 13)	2,675	18,861
Liability for retirement benefits	17,342	122,272
Deferred tax liabilities	267	1,882
Deferred tax liabilities for land revaluation (Note 7)	256	1,803
Long-term lease obligations	1,571	11,075
Asset retirement obligations	466	3,286
Other	409	2,886
Total long-term liabilities	22,986	162,065
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
EQUITY (Note 12):		
Common stock—authorized, 43,200,000 shares; issued, 32,668,523 shares as of December 31, 2023	14,704	103,676
Capital surplus	22,417	158,059
Retained earnings	39,869	281,100
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	1,904	13,426
Foreign currency translation adjustments	1,381	9,740
Defined retirement benefit plans	1,210	8,528
Revaluation reserve for land (Note 7)	227	1,599
Total	81,712	576,128
Noncontrolling interests	177	1,249
Total equity	81,889	577,377
TOTAL	¥174,481	$1,230,214

See notes to consolidated financial statements.

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended December 31, 2023

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES (Notes 3 and 4)	¥140,567	$991,094
COST OF SALES (Notes 5 and 11)	106,268	749,261
Gross profit	34,299	241,833
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	30,106	212,268
Operating income	4,193	29,565
OTHER INCOME (EXPENSES):		
Interest and dividend income	226	1,590
Interest expense	(273)	(1,927)
Foreign exchange gain—net	187	1,318
Equity in earnings of unconsolidated subsidiaries and associated companies	132	931
Impairment losses (Note 6)	(10)	(72)
Loss on valuation of investment securities	(273)	(1,922)
Other—net	78	554
Other income—net	67	472
INCOME BEFORE INCOME TAXES	4,260	30,037
INCOME TAXES:		
Current	1,875	13,220
Deferred	(206)	(1,454)
Total income taxes	1,669	11,766
NET INCOME	2,591	18,271
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	39	277
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,552	$ 17,994

	Yen	U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2r):		
Basic net income	¥78.12	$0.55
Cash dividends applicable to the year	16.77	0.12

See notes to consolidated financial statements.

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2023

	Thousands	Millions of Yen									
					Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Revaluation Reserve for Land	Total	Noncontrolling Interests	Total Equity
BALANCE, DECEMBER 31, 2022	32,669	¥14,704	¥22,417	¥39,248	¥1,073	¥ 681	¥ 18	¥227	¥78,368	¥159	¥78,527
Net income attributable to owners of the parent				2,552					2,552		2,552
Cash dividends, ¥59.11 per share				(1,931)					(1,931)		(1,931)
Net change in the year					831	700	1,192		2,723	18	2,741
BALANCE, DECEMBER 31, 2023	32,669	¥14,704	¥22,417	¥39,869	¥1,904	¥1,381	¥1,210	¥227	¥81,712	¥177	¥81,889

	Thousands of U.S. Dollars (Note 1)									
				Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Revaluation Reserve for Land	Total	Noncontrolling Interests	Total Equity
BALANCE, DECEMBER 31, 2022	$103,676	$158,059	$276,721	$ 7,567	$4,803	$ 125	$1,599	$552,550	$1,117	$553,667
Net income attributable to owners of the parent			17,994					17,994		17,994
Cash dividends, $0.42 per share			(13,615)					(13,615)		(13,615)
Net change in the year				5,859	4,937	8,403		19,199	132	19,331
BALANCE, DECEMBER 31, 2023	$103,676	$158,059	$281,100	$13,426	$9,740	$8,528	$1,599	$576,128	$1,249	$577,377

See notes to consolidated financial statements.

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 its consolidated subsidiaries (collectively, the "Group") 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.

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 ¥141.83 to $1, the approximate rate of exchange at December 31, 2023. 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 December 31, 2023, include the accounts of the Company and its 28 significant subsidiaries.

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 two unconsolidated subsidiaries are 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. ***Inventories***—Inventories are measured at the lower of cost or net selling value.

The cost of finished products and semifinished products is determined by the specific identification method or the average cost method.

The cost of work in process is determined 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.

c. ***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.

d. ***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.

e. ***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.

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

g. ***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.

h. ***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 10–11 years, within the average remaining service period. Past service costs are amortized on a straight-line basis over 15 years, within the average remaining service period.

i. ***Provision for Bonuses***—The provision for bonuses is estimated and recorded to provide for the payment of employee bonuses.

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. ***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.

l. ***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.

m. ***Revenue Recognition and Cost of Sales***—The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers. The main performance obligations for each product line and when such obligations are satisfied are as follows:

(1) *Sales of merchandise and finished goods*

The Group manufactures and sells wireless communication equipment. In principle, revenue is recognized when performance obligations are satisfied at the time products are delivered to customers or upon customer acceptance. For merchandise and finished goods that require installation work and the installation work is treated as a separate performance obligation from sales of merchandise and finished goods, the transaction price is allocated between the identified performance obligations based on the stand-alone selling price. (For export sales, revenue is recognized at a point in time when title, and risk and rewards of ownership have transferred to the customer in accordance with trade terms stipulated by International Commercial Terms.)

In addition, for transactions when the Group purchases raw materials from a customer and sells them back after processing them, the Group does not recognize the raw materials purchased as inventories. This is because the Group does not obtain control of the raw materials, thus, revenue recognition is only for the processing fees on a net basis.

(2) *Construction and manufacturing contracts*

The Group enters into construction or manufacturing contracts with its customers. For transactions when the Group determines that its performance obligations in such contracts are satisfied over time, revenue is recognized based on the progress in satisfying the performance obligations. Progress is primarily measured based on the ratio of the cumulative costs incurred by the end of the fiscal year against the total estimated costs for each contract. In other cases, revenue is recognized at a point in time when performance obligations are satisfied upon construction completion.

(3) *Maintenance, inspection and repair service*

The Group provides maintenance, inspection, and repair services to its customers. For transactions when the Group determines that its performance obligations in such contracts are satisfied over time, revenue is recognized based on the progress in satisfying the performance obligations. Progress is measured based on the ratio of the actual elapsed period as of the end of the fiscal year against the total period. In other cases, revenue is recognized when the delivery of the services is completed as the performance obligations are satisfied at a point in time.

n. ***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.

o. ***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.

p. ***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.

q. ***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.

r. ***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.

s. ***Adoption of Group Tax Sharing System***—The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system.

t. ***Application of Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System***—Effective from the current consolidated fiscal year, the Company and certain domestic consolidated subsidiaries have adopted the group tax sharing system instead of the consolidated taxation system and have applied accounting treatment and disclosure of corporate and local corporate income taxes or relevant tax effect accounting in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Accounting Standards Board of Japan Practical Issues Task Force No. 42, August 12, 2021), hereafter "ASBJ PITF No. 42."

Based on ASBJ PITF No. 42 Paragraph 32(1), the Group assumes that there is no impact from changes in accounting policy due to the application of ASBJ PITF No. 42.

3. REVENUE RECOGNITION

(1) *Disaggregation of Revenue*

The Group is engaged in marine systems, solution and specialized equipment, ICT and mechatronics, medical equipment, and other businesses. The types of goods or services for each business are wireless communications equipment and maintenance, inspection, and repair works.

Revenue for each business is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marine systems	¥43,956	$ 309,922
Solution and specialized equipment	62,792	442,729
ICT and mechatronics	22,436	158,190
Medical equipment	6,153	43,383
Other businesses	5,230	36,870

(2) *Basic Information to Understand Revenue*

Refer to Note 2m, "Revenue Recognition and Cost of Sales."

(3) *Revenue Allocated to Remaining Performance Obligations*

The total transaction price allocated to the remaining performance obligations as of December 31, 2023, is ¥117,308 million ($827,100 thousand) and the Group expects to recognize the amount as revenue over one to three years.

4. SIGNIFICANT ACCOUNTING ESTIMATE

Revenue Recognition by Method of Revenue Recognized Over Time

(1) *Carrying amount*

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥16,464	$ 116,082

(2) *Information on the significant accounting estimate*

Revenue recognition on the progress in satisfying the performance obligations is calculated based on the ratio of the cumulative costs incurred by the end of the fiscal year against the total estimated costs for each contract. The total estimated costs are considered based on project specifications, actual incurred costs in previous similar projects, and the complexity of the projects. In addition, there is a possibility that the estimated costs may be changed due to changes in specifications required by the customers after the beginning of the project. Changes in the estimate may lead to a significant impact on future financial statements.

5. INVENTORIES

Write-downs of inventories for the year ended December 31, 2023, were recognized in the following account:

	Millions of Yen	Thousands of U.S. Dollars
Cost of sales	¥1,888	$13,312

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment at December 31, 2023, and recognized impairment losses as follows:

Year Ended December 31, 2023

Location: Fujimino City, Saitama
Asset use: Assets for the Other Business Division
Reason: Due to the difficulty of maintaining positive cash flows in the operation

	Millions of Yen	Thousands of U.S. Dollars
Type:		
Furniture and fixtures	¥10	$67
Other		5
Total	¥10	$72

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

7. 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 December 31, 2023, declined by ¥1,032 million ($7,277 thousand) compared to the book value after the revaluation.

8. PLEDGED ASSETS

As of December 31, 2023, 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
Land	¥ 34	$ 236
Buildings and structures	152	1,079
Total	¥186	$1,315

There are no liabilities corresponding to the above assets pledged as collateral as of December 31, 2023.

9. 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 December 31, 2023, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total loan agreement limits	¥864	$6,093
Loan executions		
Net	¥864	$6,093

For this facility, the following have been as collateral:

- Rights of pledge for the inventory of Alphatron Marine Beheer B.V.
- Possessory pledge for all Dutch receivables

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

As the end of this fiscal year, December 31, 2023, was a bank holiday, the trade notes maturing on the balance sheet date of the period in the following amounts were included.

	Millions of Yen	Thousands of U.S. Dollars
Receivables:		
Trade notes	¥ 708	$ 4,992
Payables:		
Trade notes	1,544	10,888
Other	44	309

11. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Provision for losses on construction contracts included in cost of sales for the year ended December 31, 2023, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cost of sales	¥77	$544

12. 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. However, the Company does not meet 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.

13. 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 not used 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 three years after the consolidated balance sheet date and a part of such bank loans is exposed to market risks from changes in variable interest rates.

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

(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 December 31, 2023.

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 planned to be 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 are planned to be used under the limited contract term of half a year.

Interest rate swaps are planned to be 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 positions 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 values of financial instruments*

	Millions of Yen		
December 31, 2023	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	¥3,629	¥3,629	—
Total	¥3,629	¥3,629	—
Long-term debt (including current portion of long-term debt)	¥4,107	¥4,104	¥(3)
Total	¥4,107	¥4,104	¥(3)

	Thousands of U.S. Dollars		
December 31, 2023	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	$ 25,585	$ 25,585	—
Total	$ 25,585	$ 25,585	—
Long-term debt (including current portion of long-term debt)	$ 28,957	$ 28,936	$ (21)
Total	$ 28,957	$ 28,936	$ (21)

The fair values of cash and deposits are not disclosed. In addition, the fair values of receivables, short-term loan receivable, short-term bank loan and payables are not disclosed because they are settled in the short term and their fair values approximate their book values.

(*b*) *Financial instruments whose fair values cannot be reliably determined*

	Carrying Amount	
December 31, 2023	Millions of Yen	Thousands of U.S. Dollars
Investment in equity instruments that do not have a quoted market price in an active market	¥1,033	$ 7,284
Investments in and advances to unconsolidated subsidiaries and affiliated companies that do not have a quoted market price in an active market	832	5,867
Total	¥1,865	$ 13,151

(5) ***Financial Instruments Categorized by Fair Value Hierarchy***

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the fair value measurement, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(*a*) *Financial instruments measured at fair value*

	Millions of Yen			
December 31, 2023	Level 1	Level 2	Level 3	Total
Investment securities—				
Available-for-sale securities—stocks	¥3,629			¥3,629
Total	¥3,629			¥3,629

	Thousands of U.S. Dollars			
December 31, 2023	Level 1	Level 2	Level 3	Total
Investment securities—				
Available-for-sale securities—stocks	$25,585			$25,585
Total	$25,585			$25,585

(*b*) *Financial instruments not measured at fair value*

	Millions of Yen			
December 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt (including current portion of the long-term debt)		¥4,104		¥4,104
Total		¥4,104		¥4,104

	Thousands of U.S. Dollars			
December 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt (including current portion of the long-term debt)		$28,936		$28,936
Total		$28,936		$28,936

Listed stocks are valued based on quoted prices. Since listed stocks are traded in active markets, their fair values are categorized as Level 1.

The fair values of long-term debt (including current portion of the long-term debt) with fixed interest rate are measured by using the present values based on discounting the sum of principals and interests at the assumed borrowing rate in the case of new similar borrowing. The carrying amounts of those with variable interest rates approximate fair value because the variable interest rates reflect market rates in a short period of time. The fair values of those long-term debt are categorized as Level 2.

14. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings for the year ended December 31, 2023, was approved at the shareholders' meeting of the Company held on March 26, 2024:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥16.77 ($0.12) per share	¥548	$3,864

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Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Japan Radio Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2023, and the consolidated statement of income and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023, and its consolidated financial performance for the year then ended in accordance with the Companies Act of Japan and applicable regulations and accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with the Companies Act of Japan and applicable regulations and accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

May 10, 2024

JRC Japan Radio Co., Ltd.

Nakano Central Park East,
4-10-1, Nakano, Nakano-ku, Tokyo 164-8570, Japan
http://www.jrc.co.jp/eng