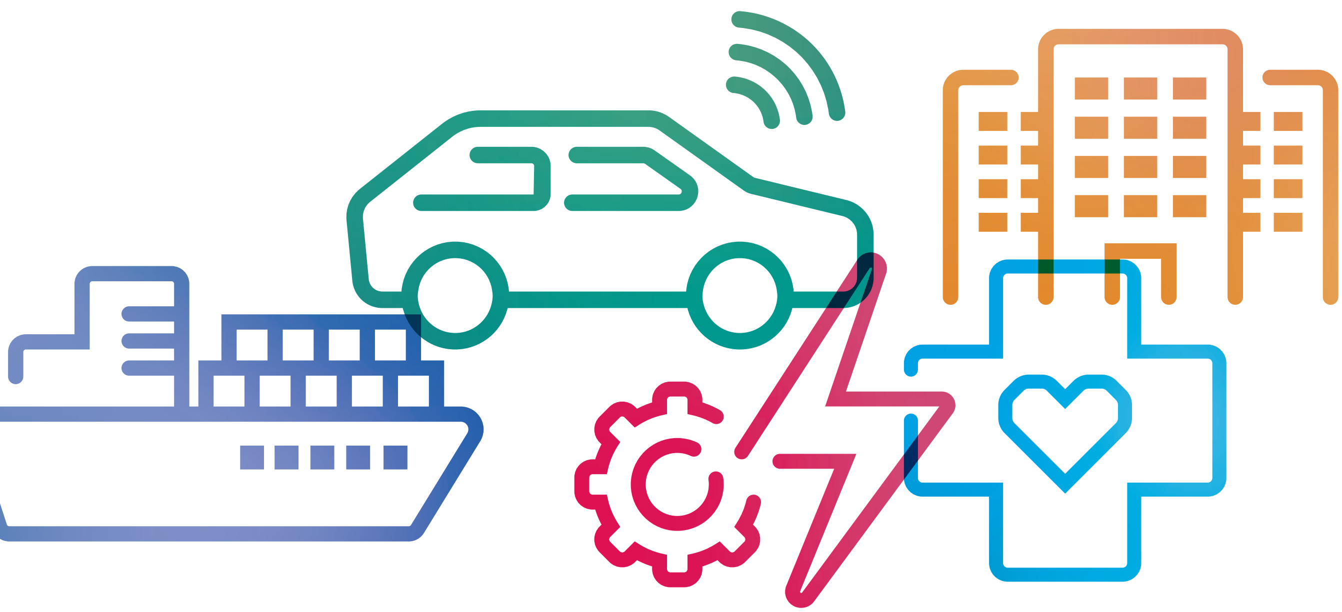
DELIVERING INFORMATION AND INTELLIGENCE

Japan Radio Co., Ltd.

Financial Report 2020

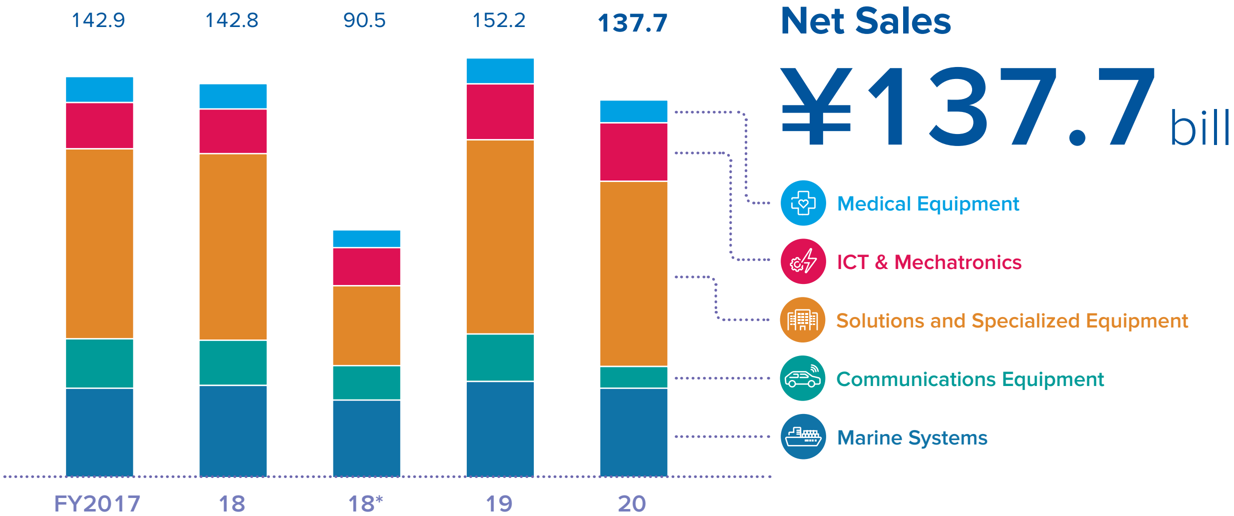
For the year ended December 31, 2020



Business Highlights

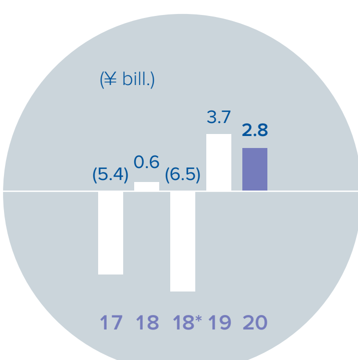
Net Sales

¥137.7 bill.

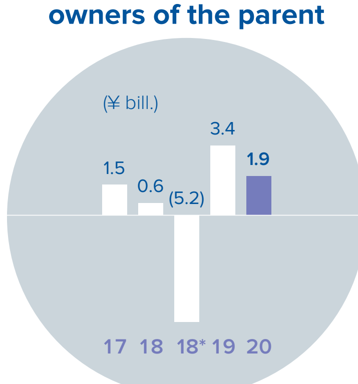


* The Company and some of its consolidated subsidiaries whose fiscal year-end date had been March 31 changed the fiscal year-end and consolidated fiscal year-end from March 31 to December 31. Accordingly, fiscal year, ended December 31, 2018 included only nine months of operations whereas fiscal years ended December 31, 2019 and 2020 consisted of twelve months.

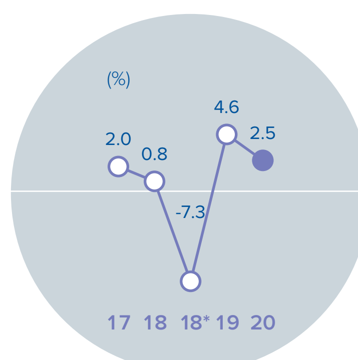
Operating Income (loss)



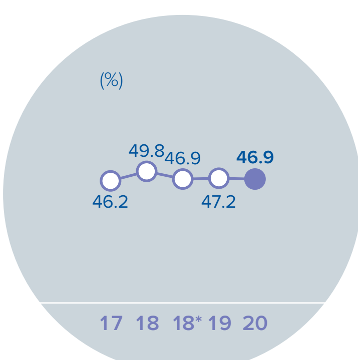
Net Income (loss) attributable to owners of the parent



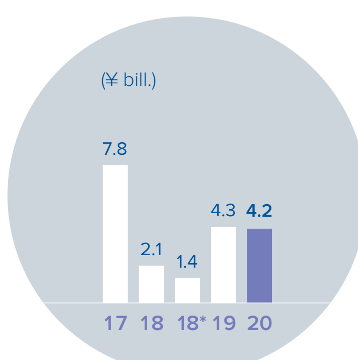
ROE



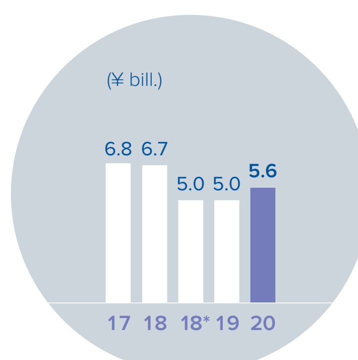
Net Equity Ratio



Capital Expenditure



R&D Expenditure



Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Five-Term Summary

	Millions of yen					Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2017, 2018, nine months ended December 31, 2018, and the years ended December 31, 2019 and 2020	2017	2018	2018 (Note 2)	2019 (Note 2)	2020 (Note 2)	2020 (Note 2)
Net sales	¥142,910	¥142,833	¥90,452	¥152,184	¥137,726	$1,330,690
Operating income (loss)	(5,487)	693	(6,466)	3,701	2,793	26,981
Operating income (loss) ratio (%)	(3.8)	0.5	(7.1)	2.4	2.0	–
Income (loss) before income taxes	3,771	91	(6,733)	4,449	3,059	29,556
Net income (loss) attributable to owners of the parent	1,559	606	(5,170)	3,366	1,855	17,919
As of March 31, 2017, 2018, December 31, 2018, 2019 and 2020						
Total assets	167,092	154,985	150,361	159,659	156,592	1,512,971
Total equity	77,341	77,278	70,665	75,612	73,613	711,241
Net equity ratio (%)	46.2	49.8	46.9	47.2	46.9	–
Interest-bearing liabilities	24,241	18,155	19,185	21,424	21,351	206,290
Depreciation and Amortization	2,867	3,155	2,257	3,652	3,625	35,022
Capital expenditures	7,834	2,133	1,440	4,315	4,167	40,259
Basic net income (loss) per share (yen/U.S. dollars)	47.72	18.55	(158.26)	103.04	56.77	0.55
ROE (%)	2.0	0.8	(7.0)	4.6	2.5	–
D/E ratio (times)	0.31	0.23	0.27	0.28	0.29	–
Number of Employees	5,571	5,653	5,731	5,923	5,662	–

Notes:

1. U.S. dollar amounts are translated, for convenience only, at ¥103.50=US$1.00, the rate prevailing on December 30, 2020.
2. The Company and some of its consolidated subsidiaries whose fiscal year-end date had been March 31 changed the fiscal year-end and consolidated fiscal year-end from March 31 to December 31. Accordingly, fiscal December 31, 2018 included only nine months of operations whereas fiscal years ended December 31, 2019 and 2020 consisted of twelve months.

Contents of Financial Statements

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
December 31, 2020

ASSETS	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT ASSETS:		
Cash and cash equivalents (Note 11)	¥ 7,371	$ 71,218
Receivables:		
Trade notes (Notes 8 and 11)	6,994	67,576
Trade accounts (Note 11)	34,027	328,760
Unconsolidated subsidiaries and affiliated companies (Note 11)	113	1,088
Allowance for doubtful accounts	(239)	(2,307)
Short-term loans due from parent company (Note 11)	2,048	19,783
Inventories	50,540	488,304
Prepaid expenses and other (Note 11)	5,242	50,663
Total current assets	106,096	1,025,085
PROPERTY, PLANT AND EQUIPMENT (Note 6):		
Land	7,303	70,561
Buildings and structures	39,771	384,259
Machinery and equipment (Note 4)	7,323	70,749
Furniture and fixtures (Note 4)	15,066	145,563
Lease assets	1,552	14,994
Construction in progress	887	8,574
Other	2,274	21,977
Total	74,176	716,677
Accumulated depreciation	(40,523)	(391,527)
Net property, plant and equipment	33,653	325,150
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 11)	3,335	32,225
Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 11)	518	5,006
Goodwill	102	984
Asset for retirement benefits	3,965	38,311
Deferred tax assets	3,039	29,361
Other (Note 4)	6,557	63,353
Allowance for doubtful accounts	(673)	(6,504)
Total investments and other assets	16,843	162,736
TOTAL	¥156,592	$1,512,971

LIABILITIES AND EQUITY	Millions of Yen	Thousands of U.S. Dollars (Note 1)
CURRENT LIABILITIES:		
Short-term bank loans (Note 11)	¥ 17,456	$ 168,658
Current portion of long-term debt (Note 11)	775	7,488
Current portion of long-term lease obligations	721	6,970
Payables:		
Trade notes (Notes 8 and 11)	9,966	96,292
Trade accounts (Note 11)	12,634	122,065
Other (Note 8)	2,521	24,358
Income taxes payable	511	4,933
Accrued expenses	3,281	31,700
Advances received	6,733	65,049
Provision for bonuses	1,491	14,401
Provision for loss on construction contracts	66	636
Other	3,444	33,285
Total current liabilities	59,599	575,835
LONG-TERM LIABILITIES:		
Long-term debt (Note 11)	2,775	26,812
Liability for retirement benefits	18,289	176,705
Deferred tax liabilities	110	1,058
Deferred tax liabilities for land revaluation (Note 5)	256	2,470
Long-term lease obligations	883	8,531
Provision for environmental measures	101	973
Asset retirement obligations	462	4,464
Other	504	4,882
Total long-term liabilities	23,380	225,895
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)		
EQUITY (Note 10):		
Common stock—authorized, 43,200,000 shares; issued, 32,668,523 shares as of December 31, 2020	14,704	142,071
Capital surplus	22,417	216,594
Retained earnings	35,488	342,876
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	861	8,319
Foreign currency translation adjustments	(311)	(3,006)
Defined retirement benefit plans	74	716
Revaluation reserve for land (Note 5)	227	2,192
Total	73,460	709,762
Noncontrolling interests	153	1,479
Total equity	73,613	711,241
TOTAL	¥156,592	$1,512,971

See notes to consolidated financial statements.

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended December 31, 2020

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES	¥137,726	$1,330,690
COST OF SALES (Notes 3 and 9)	108,108	1,044,525
Gross profit	29,618	286,165
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	26,825	259,184
Operating income	2,793	26,981
OTHER INCOME (EXPENSES):		
Interest and dividend income	97	935
Interest expense	(146)	(1,406)
Foreign exchange loss—net	(104)	(1,005)
Equity in earnings of unconsolidated subsidiaries and associated companies	22	212
Impairment losses (Note 4)	(83)	(802)
Gain on sales of investment securities	108	1,043
Reversal of provision for contingent loss	331	3,194
Subsidy income	116	1,117
Dismantlement cost	(65)	(632)
Loss related to COVID-19 (Note 12)	(15)	(140)
Loss on valuation of investment securities	(27)	(256)
Other—net	32	315
Other income—net	266	2,575
INCOME BEFORE INCOME TAXES	3,059	29,556
INCOME TAXES:		
Current	564	5,448
Deferred	652	6,303
Total income taxes	1,216	11,751
NET INCOME	1,843	17,805
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(12)	(114)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,855	$ 17,919

	Yen	U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2t):		
Basic net income	¥56.77	$0.55
Cash dividends applicable to the year	41.39	0.40

See notes to consolidated financial statements.

Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2020

	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, 2019	32,669	¥14,704	¥22,417	¥37,655	¥908	¥(277)	¥(221)	¥227	¥75,413	¥199	¥75,612
Net income attributable to owners of the parent				1,855					1,855		1,855
Cash dividends, ¥41.39 per share				(1,352)					(1,352)		(1,352)
Decrease by corporate division—split-off type				(2,670)					(2,670)		(2,670)
Net change in the year					(47)	(34)	295		214	(46)	168
BALANCE, DECEMBER 31, 2020	32,669	¥14,704	¥22,417	¥35,488	¥861	¥(311)	¥ 74	¥227	¥73,460	¥153	¥73,613

	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, 2019	$142,071	$216,594	$363,814	$8,774	$(2,676)	$(2,140)	$2,192	$728,629	$1,923	$730,552
Net income attributable to owners of the parent			17,919					17,919		17,919
Cash dividends, $0.40 per share			(13,062)					(13,062)		(13,062)
Decrease by corporate division—split-off type			(25,795)					(25,795)		(25,795)
Net change in the year				(455)	(330)	2,856		2,071	(444)	1,627
BALANCE, DECEMBER 31, 2020	$142,071	$216,594	$342,876	$8,319	$(3,006)	$ 716	$2,192	$709,762	$1,479	$711,241

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, 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 ¥103.50 to $1, the approximate rate of exchange at December 30, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of December 31, 2020, include the accounts of the Company and its 28 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 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, 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.

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 10–12 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. ***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 the 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.

u. ***Adoption of Consolidated Taxation System***—The Company and some of its consolidated subsidiaries adopted the consolidated taxation system with Nisshinbo Holdings Inc. as the taxable parent company.

v. ***Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System***—A transition to a group tax sharing system established in the "Act for Partial Amendment of the Income Tax, etc." (Act. 8 of 2020) and readjustments of a nonconsolidated taxation system in line with the transition to the group tax sharing system.

For the items subject to such transition or the readjustments, the Company and some of its consolidated subsidiaries do not apply the provisions of Paragraph (44) of "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 8, February 16, 2018) in accordance with the treatment under Paragraph (3) of "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing system" (ASBJ Practical Issues Task Force No. 39, March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Tax Act prior to the amendment.

3. INVENTORIES

Write-downs of inventories for the year ended December 31, 2020, were recognized in the following account:

	Millions of Yen	Thousands of U.S. Dollars
Cost of sales	¥520	$5,020

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment at December 31, 2020, and recognized impairment losses as follows:

Year Ended December 31, 2020

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

	Millions of Yen	Thousands of U.S. Dollars
Type:		
Machinery and equipment	¥30	$293
Furniture and fixtures	29	275
Other	24	234
Total	¥83	$802

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 December 31, 2020, declined by ¥988 million ($9,543 thousand) compared to the book value after the revaluation.

6. PLEDGED ASSETS

As of December 31, 2020, 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	¥ 33	$ 324
Buildings and structures	193	1,864
Total	¥226	$2,188

There are no liabilities corresponding to the above assets pledged as collateral as of December 31, 2020.

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 December 31, 2020, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total loan agreement limits	¥698	$6,746
Loan executions		
Net	¥698	$6,746

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, December 31, 2020, 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	¥ 577	$ 5,579
Payables:		
Trade notes	1,489	14,386
Other	47	458

9. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Provision for losses on construction contracts included in cost of sales for the year ended December 31, 2020, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cost of sales	¥41	$396

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. 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.

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 four years after the consolidated balance sheet date and the interest rate is a fixed rate.

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, 2020.

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, 2020	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 7,371	¥ 7,371	
Receivables:			
Trade notes	6,994	6,994	
Trade accounts	34,027	34,027	
Unconsolidated subsidiaries and affiliated companies (notes and accounts)	113	113	
Short-term loans receivable	2,124	2,124	
Investment securities	3,124	3,124	
Total	¥53,753	¥53,753	
Short-term bank loans	¥17,456	¥17,456	
Payables:			
Trade notes	9,966	9,966	
Trade accounts	12,634	12,634	
Long-term debt (including current portion of long-term debt)	3,550	3,557	¥7
Total	¥43,606	¥43,613	¥7

	Thousands of U.S. Dollars		
December 31, 2020	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 71,218	$ 71,218	
Receivables:			
Trade notes	67,576	67,576	
Trade accounts	328,760	328,760	
Unconsolidated subsidiaries and affiliated companies (notes and accounts)	1,088	1,088	
Short-term loans receivable	20,520	20,520	
Investment securities	30,185	30,185	
Total	$ 519,347	$ 519,347	
Short-term bank loans	$ 168,658	$ 168,658	
Payables:			
Trade notes	96,292	96,292	
Trade accounts	122,065	122,065	
Long-term debt (including current portion of long-term debt)	34,300	34,368	$68
Total	$ 421,315	$ 421,383	$68

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair value because of their short maturities.

Short-Term Loans Receivable

The carrying amounts 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 amounts 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.

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

	Carrying Amount	
December 31, 2020	Millions of Yen	Thousands of U.S. Dollars
Investment in equity instruments that do not have a quoted market price in an active market	¥211	$2,040
Investments in and advances to unconsolidated subsidiaries and affiliated companies that do not have a quoted market price in an active market	518	5,006
Total	¥729	$7,046

12. LOSS RELATED TO COVID-19

In response to the requests by foreign governments and their local governments with regard to COVID-19, the Group has temporarily closed some of its overseas factories and sales offices. For this reason, fixed costs (personnel expenses, depreciation expenses, rent expenses, etc.) incurred during the period are posted as losses related to COVID-19.

13. BUSINESS COMBINATION

Business Transfer by Absorption-Type Company Split

The Company transferred the rights and obligations regarding its ITS business of the communications equipment division to JRC Mobility Inc., effective January 1, 2020, based on its decision made at the shareholders' meeting held on November 25, 2019.

Furthermore, there is no cash consideration as a result of this company split.

(1) *Subject of business transfer*

ITS business of the communications equipment division

(2) *Succeeding company name*

JRC Mobility Inc.

(3) *Major reason for the business transfer*

Nisshinbo Group expands the potential for growth in the mobility field by focusing on ITS business, concentrating the wireless communication technologies, and combining and developing the related technologies to offer new value to the mobility society.

(4) *Estimated amount of business and assets to be succeeded*

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥10,583	$ 102,248
Operating income	1,715	16,568
Total assets	2,670	25,795

(5) *Overview of accounting treatment*

This business transfer was treated as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

14. ADDITIONAL INFORMATION

Accounting Estimates

Due to the impact of COVID-19 over the world, the Group's business has been affected by the reduction of manufacturing and operating activities at the domestic and overseas business area and consequently, sales have declined.

The Group estimates impairment loss and recoverability of deferred tax assets based on the assumption that the financial results impacted by COVID-19, which vary by business, will gradually recover in the next fiscal year and thereafter.

Losses may be incurred if those impacts are prolonged.

15. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings for the year ended December 31, 2020, was approved at the shareholders' meeting of the Company held on March 26, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥48.70 ($0.47) per share	¥1,591	$ 15,372

Business Transfer by Absorption-Type Company Split

The Company decided to transfer the rights and obligations regarding its communications equipment division to JRC Mobility Inc., effective January 1, 2021, based on its decision made at the shareholders' meeting held on November 25, 2020.

Furthermore, there is no cash consideration as a result of this company split.

(1) *Subject of business transfer*

Communications equipment division

(2) *Succeeding company name*

JRC Mobility Inc.

(3) *Major reason for the business transfer*

Nisshinbo Group will develop the mobility field as an independent business entity by this wireless communication business transfer.

(4) *Estimated amount of business and assets to be succeeded*

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥7,670	$74,104
Operating income	201	1,940
Total assets	2,861	27,640
Total liabilities		1

(5) *Overview of accounting treatment*

This business transfer will be treated as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

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Deloitte.

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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, 2020, 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, 2020, 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.

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, related safeguards.

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

February 15, 2021

JRC Japan Radio Co., Ltd.

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