Consolidated Financial Statements 2017

As of and for the Year Ended February 28, 2017,
and Independent Auditor's Report

FURUNO ELECTRIC CO., LTD.

Independent Auditor's Report

To the Board of Directors of Furuno Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Furuno Electric Co., Ltd. (the "Company") and its consolidated subsidiaries as of February 28, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Furuno Electric Co., Ltd. and its consolidated subsidiaries as of February 28, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with 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.

Deloitte Touche Tohmatsu LLC

May 28, 2017

Consolidated Balance Sheets

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
February 28, 2017

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	**¥10,124**	¥10,441	**$ 89,943**
Short-term investments (Notes 4 and 13)	**81**	237	**719**
Notes receivable—trade (Note 13)	**3,698**	4,186	**32,853**
Accounts receivable—trade (Note 13)	**14,266**	15,556	**126,741**
Allowance for doubtful receivables (Note 13)	**(327)**	(350)	**(2,905)**
Inventories (Note 6)	**24,779**	26,461	**220,140**
Deferred tax assets (Note 11)	**639**	359	**5,676**
Other current assets	**2,990**	3,469	**26,563**
Total current assets	**56,253**	60,364	**499,760**
PROPERTY, PLANT AND EQUIPMENT—NET (Notes 7 and 8)**:**			
Land	**3,441**	3,468	**30,570**
Buildings and structures	**13,244**	13,272	**117,661**
Machinery and equipment	**3,844**	3,982	**34,150**
Furniture and fixtures	**10,418**	10,090	**92,555**
Construction in progress	**67**	154	**595**
Total	**31,015**	30,967	**275,541**
Accumulated depreciation	**(21,350)**	(20,832)	**(189,676)**
Property, plant and equipment—net	**9,664**	10,134	**85,856**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 13)	**2,184**	1,746	**19,402**
Investments in unconsolidated subsidiaries and associated companies (Note 13)	**373**	476	**3,313**
Goodwill	**636**	589	**5,650**
Asset for retirement benefits (Notes 2.l and 9)	**319**	21	**2,834**
Deferred tax assets (Note 11)	**26**	27	**230**
Insurance funds	**686**	707	**6,094**
Software (Note 7)	**4,530**	3,432	**40,245**
Other assets (Note 7)	**1,047**	964	**9,301**
Total investments and other assets	**9,805**	7,966	**87,109**
TOTAL	**¥75,724**	¥78,464	**$672,743**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 13)	¥ 4,997	¥ 6,427	$ 44,394
Current portion of long-term debt (Notes 8 and 13)	243	1,191	2,158
Notes payable—trade (Note 13)	282	635	2,505
Accounts payable—trade (Note 13)	3,108	7,260	27,611
Electronically recorded obligations—operating (Note 13)	6,984	4,220	62,046
Income taxes payable	491	482	4,362
Accrued employees' bonuses	1,532	1,590	13,610
Accrued product warranty costs	1,483	1,089	13,175
Other current liabilities	6,762	6,143	60,074
Total current liabilities	25,887	29,041	229,984
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 13)	9,640	9,117	85,643
Liability for retirement benefits (Notes 2.l and 9)—Employees	2,562	2,477	22,761
Deferred tax liabilities (Note 11)	504	439	4,477
Long-term accounts payable	157	172	1,394
Other long-term liabilities	650	634	5,774
Total long-term liabilities	13,515	12,841	120,069
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15)			
EQUITY (Note 10)**:**			
Common stock,			
authorized, 120,000 thousand shares;			
issued, 31,894 thousand shares for both 2017 and 2016	7,534	7,534	66,933
Capital surplus	10,074	10,074	89,498
Retained earnings	21,367	20,082	189,827
Treasury stock—at cost,	(201)	(201)	(1,785)
381 thousand shares in 2017 and 2016			
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	832	470	7,391
Deferred loss on derivatives under hedge accounting	(70)	(36)	(621)
Foreign currency translation adjustments	(2,190)	(420)	(19,456)
Defined retirement benefit plans	(1,365)	(1,321)	(12,126)
Total	35,981	36,182	319,660
Noncontrolling interests	339	398	3,011
Total equity	36,321	36,581	322,681
TOTAL	¥75,724	¥78,464	$672,743

Consolidated Statements of Operations

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	**¥78,674**	¥89,720	**$698,951**
COST OF SALES	**52,171**	60,086	**463,495**
Gross profit	**26,503**	29,634	**235,456**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**24,968**	26,723	**221,819**
Operating income	**1,534**	2,911	**13,628**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**79**	107	**701**
Interest expense	**(134)**	(140)	**(1,190)**
Foreign exchange (loss) gain	**(289)**	211	**(2,567)**
Subsidy income	**109**	39	**968**
Gain on sales of property, plant and equipment	**51**	39	**453**
Gain on sales of investment securities	**6**	918	**53**
Loss on sales of property, plant and equipment	**(6)**	(0)	**(53)**
Loss on disposal of property, plant and equipment	**(7)**	(11)	**(62)**
Loss on impairment of long-lived assets (Note 7)	**(48)**	(144)	**(426)**
Loss on valuation of investment securities		(204)	
Loss on defense equipment (Note 17)		(621)	
Surrender value of insurance	**30**	69	**266**
Other—net	**142**	175	**1,261**
Other (expenses) income—net	**(66)**	436	**(586)**
INCOME BEFORE INCOME TAXES	**1,467**	3,348	**13,033**
INCOME TAXES (Note 11)**:**			
Current	**479**	660	**4,255**
Deferred	**(312)**	(15)	**(2,771)**
Total income taxes	**167**	644	**1,483**
NET INCOME	**1,300**	2,703	**11,549**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**37**	79	**328**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 1,262**	¥ 2,624	**$ 11,211**

PER SHARE OF COMMON STOCK (Notes 2.s and 16)**:**	Yen		U.S. Dollars
	2017	2016	2017
Basic net income	**¥ 40.06**	¥ 83.27	**$ 0.35**
Cash dividends applicable to the year	**8.00**	10.00	**0.07**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥1,300	¥2,703	$11,549
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	361	(909)	3,207
Deferred (loss) gain on derivatives under hedge accounting	(33)	0	(293)
Foreign currency translation adjustments	(1,769)	(1,416)	(15,716)
Defined retirement benefit plans	(43)	(573)	(382)
Total other comprehensive loss	(1,485)	(2,898)	(13,192)
COMPREHENSIVE LOSS	¥ (184)	¥ (194)	$ (1,634)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ (222)	¥ (274)	$ (1,972)
Noncontrolling interests	37	79	328

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2017

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, FEBRUARY 28, 2015	31,513	¥7,534	¥10,074	¥17,862	¥(200)	¥1,379	¥(36)	¥ 996	¥ (748)	¥36,861	¥444	¥37,305
Cumulative effect of accounting change				(151)						(151)		(151)
RESTATED BALANCE, MARCH 1, 2015	31,513	7,534	10,074	17,710	(200)	1,379	(36)	996	(748)	36,710	444	37,154
Net income attributable to owns of the parent				2,624						2,624		2,624
Cash dividends, ¥8.0 per share				(252)						(252)		(252)
Purchase of treasury stock	(0)				(0)					(0)		(0)
Net change in the year						(909)	0	(1,416)	(573)	(2,898)	(45)	(2,944)
BALANCE, FEBRUARY 29, 2016	31,513	7,534	10,074	20,082	(201)	470	(36)	(420)	(1,321)	36,182	398	36,581
Changes in scope of consolidation				337						337		337
Net income attributable to owners of the parent				1,262						1,262		1,262
Cash dividends, ¥10.0 per share				(315)						(315)		(315)
Purchase of treasury stock	(0)				(0)					(0)		(0)
Net change in the year						361	(33)	(1,769)	(43)	(1,485)	(59)	(1,544)
BALANCE, FEBRUARY 28, 2017	**31,512**	**¥7,534**	**¥10,074**	**¥21,367**	**¥(201)**	**¥ 832**	**¥(70)**	**¥(2,190)**	**¥(1,365)**	**¥35,981**	**¥339**	**¥36,321**

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, FEBRUARY 29, 2016	$66,933	$89,498	$178,411	$(1,785)	$4,175	$(319)	$ (3,731)	$(11,735)	$321,446	$3,535	$324,991
Changes in scope of consolidation			2,993						2,993		2,993
Net income attributable to owners of the parent			11,211						11,211		11,211
Cash dividends, $0.08 per share			(2,798)						(2,798)		(2,798)
Purchase of treasury stock				(0)					(0)		(0)
Net change in the year					3,207	(293)	(15,716)	(382)	(13,192)	(524)	(13,717)
BALANCE, FEBRUARY 28, 2017	**$66,933**	**$89,498**	**$189,827**	**$(1,785)**	**$7,391**	**$(621)**	**$(19,456)**	**$(12,126)**	**$319,660**	**$3,011**	**$322,681**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,467	¥ 3,348	$ 13,033
Adjustments for:			
Income taxes—paid	(653)	(857)	(5,801)
Depreciation and amortization	2,924	2,721	25,977
Gain on sales of investment securities	(6)	(918)	(53)
Gain on sales of property, plant and equipment	(51)	(39)	(453)
Loss on disposal of property, plant and equipment	7	11	62
Loss on impairment of long-lived assets	48	144	426
Loss on valuation of investment securities		204	
Loss on defense equipment		621	
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease in trade receivables	1,454	1,551	12,917
Decrease in inventories	1,187	1,231	10,545
(Increase) decrease in interest and dividend receivable	(0)	1	(0)
Increase in asset for retirement benefits	(321)	(382)	(2,851)
Decrease in trade payables	(1,414)	(2,667)	(12,562)
(Decrease) increase in interest payable	(4)	9	(35)
Increase (decrease) in accrued product warranty costs	399	(229)	3,544
Refund of excessive claims on defense equipment		(3,478)	
Decrease in payable on transfer to defined contribution pension plans		(470)	
Increase (decrease) in liability for retirement benefits	67	(52)	595
Other—net	1,312	507	11,656
Total adjustments	4,950	(2,090)	43,976
Net cash provided by operating activities	6,417	1,258	57,009
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	152	93	1,350
Purchases of property, plant and equipment	(1,613)	(1,794)	(14,330)
Proceeds from sales of investment securities	12	1,012	106
Increase in other assets	(2,703)	(1,924)	(24,013)
Net cash used in investing activities	(4,152)	(2,612)	(36,886)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(1,389)	2,917	(12,340)
Proceeds from long-term debt	1,500	3,200	13,326
Repayments of long-term debt	(1,925)	(2,971)	(17,101)
Purchase of treasury stock	(1)	(0)	(8)
Dividends paid	(384)	(332)	(3,411)
Net cash (used in) provided by financing activities	(2,201)	2,811	(19,554)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(572)	(876)	(5,081)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(508)	580	(4,513)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,441	9,861	92,759
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO NEW CONSOLIDATION	190		1,687
CASH AND CASH EQUIVALENTS, END OF YEAR	¥10,124	¥10,441	$ 89,943

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Furuno Electric Co., Ltd. (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 ¥112.56 to $1, the approximate rate of exchange at February 28, 2017. 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.

As permitted under the Financial Instruments and Exchange Act of Japan, figures less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of February 28, 2017 include the accounts of the Company and its 31 significant (30 in 2016) 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 5 (6 in 2016) unconsolidated subsidiaries and 2 (2 in 2016) associated 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.

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 reasonably estimated periods (mainly 18 years) in which economic benefits are expected to be realized.

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 also eliminated.

The fiscal year end dates of 25 consolidated subsidiaries are different from the consolidated balance sheet date of February 28 or 29. The fiscal year end dates of FURUNO U.S.A., Inc. and FURUNO PANAMA, S.A. are November 30 and 23 other subsidiaries' fiscal year dates are December 31.

FURUNO KOREA CO., LTD. has been newly included in the scope of consolidation from this fiscal year due to its increase in materiality. This was not applied retrospectively; the effects of this change on the retained earnings are recognized as "change of scope consolidation" in the consolidated statements of changes in equity.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material; (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. **Business Combinations**—In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) **Transactions with noncontrolling interest**—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) **Presentation of the consolidated balance sheet**—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) **Presentation of the consolidated statement of income**—In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) **Provisional accounting treatments for a business combination**—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) **Acquisition-related costs**—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective March 1, 2016, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after March 1, 2016. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The effect of this change on the consolidated statement of income is immaterial.

d. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

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

f. Inventories—Inventories are stated at the lower of cost, principally determined by the average method, or net selling value.

g. Investment Securities—The Company and its domestic consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities with market prices are carried at fair values prevailing at the balance sheet date, with net unrealized gains and losses, net of related taxes, reported in a separate component of equity. The cost of securities sold is mainly calculated using the moving-average method. If fair value is not available, securities are carried at cost, which is determined mainly by the moving-average method.

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.

h. Property, Plant and Equipment—Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is computed principally by the declining-balance method. Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016," and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effects of this adoption on the consolidated financial statements for the year ended February 28, 2017 are immaterial.

Accumulated depreciation as of February 28, 2017 and February 29, 2016 was ¥21,350 million ($189,676 thousand) and ¥20,832 million, respectively.

i. 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.

j. Product Warranty Costs—The Group establishes a liability for estimated product warranty costs at the time of sale. Estimates for accrued product warranty costs are primarily based on historical experience.

k. Allowance for Loss on Defense Equipment—The Company has established a liability for estimated future refund payments for excessive claims concerning various contracts with the Japanese Ministry of Defense entered into by the Avionics and Defense Division of the Company.

l. Retirement and Pension Plans—The Company and certain consolidated subsidiaries have lump-sum severance indemnity plans, defined contribution pension plans and contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and 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 benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period of employees commencing from the following year after incurrence. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period of employees.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the BAC in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective February 28, 2015, and for (c) above, effective March 1, 2015.
With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of March 1, 2015, in retained earnings.

m. **Asset Retirement Obligations**—In March 2008, the ASBJ published the new accounting standard for asset retirement obligations, ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations,” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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. **Research and Development Costs**—Research and development costs are charged to income as incurred.

o. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements 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.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. **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 statements of operations to the extent that they are not hedged by forward exchange contracts.

q. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" and also allocated to "Non-controlling interests" in a separate component of equity. Revenue and expense accounts of consolidated subsidiaries are translated into yen at the average exchange rate.

r . Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange and interest rates. Currency and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks exposed to long-term debt, interest rate swaps are utilized to reduce interest rate risks exposed to long-term debt, and foreign currency forward contracts are utilized to reduce foreign currency exchange risks exposed to trade receivables in foreign currencies on export sales. 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 statements of income; and b) for derivatives used for hedging purposes, if such 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 in principle.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains/losses are recognized in income.

The currency and 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 are recognized and included in interest expense or income.

s. 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.

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

t. Accounting Changes and Error Corrections—Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

u. New Accounting Pronouncements

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets from effective March 1, 2017, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. BUSINESS COMBINATION

Year Ended February 28, 2017

(Business Combination by Acquisition)

a. Outline of the business combination

(1) Name of the transferer of business and its business outline
Name of the transferer of business: Mitsubishi Heavy Industries Mechatrosystems, Ltd.
Business outline: Domestic ETC system business

(2) Major reason for the business combination
The Company, which aims to expand its activities in the industrial business area based on its core domestic ETC system business, shares a mutual interest with Mitsubishi Heavy Industries Mechatrosystems, Ltd., which intends to concentrate its resources into the global development of the ITS business.

(3) Date of business combination
January 16, 2017

(4) Legal form of business combination
Business transfer in consideration for cash.

(5) Name of the company after the combination
No change.

(6) Basis for determining the acquirer
It is based on the fact that the Company acquired the business in consideration for cash.

b. The period for which the operations of the acquired company are included in the consolidated financial statements
From January 16, 2017 to February 28, 2017

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥380	$3,375
Acquisition cost	¥380	$3,375

d. Major acquisition-related costs
Advisory fees and commissions to lawyers: ¥3 million ($26 thousand)

e. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred
¥155 million ($1,377 thousand)

(2) Reasons for the goodwill incurred
Goodwill is incurred from expected excess earning power in the future arising from further business development.

(3) Method and period of amortization
The goodwill is amortized on a straight-line basis over 5 years.

f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 35	$ 310
Other assets	188	1,670
Total assets acquired	¥224	$1,990

g. Pro forma information (unaudited)
The effects of this business combination on the consolidated statement of income for the year ended February 28, 2017 assuming the business combination was completed on March 1, 2016, the beginning of the current fiscal year, were omitted since it is difficult to determine the effects on a reasonable basis.

Year Ended February 29, 2016
There was no business combination to be noted for the year ended February 29, 2016.

4. SHORT-TERM INVESTMENTS

Short-term investments as of February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Time deposits other than cash equivalents	**¥81**	¥237	**$719**

5. INVESTMENT SECURITIES

Investment securities as of February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Non-current:			
Marketable equity securities	**¥1,942**	¥1,509	**$17,253**
Government and corporate bonds	**101**	104	**897**
Other	**139**	133	**1,234**
Total	**¥2,184**	¥1,746	**$19,402**

The carrying amounts and aggregate fair values of investment securities at February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen			
February 28, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥942**	**¥1,001**	**¥1**	**¥1,942**
Debt securities	**65**	**36**		**101**
Other	**44**	**19**	**0**	**63**
February 29, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥948	¥566	¥5	¥1,509
Debt securities	65	38		104
Other	45	12		57

February 28, 2017	Cost	Thousands of U.S. Dollars Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$8,368	$8,893	$8	$17,253
Debt securities	577	319		897
Other	390	168	0	559

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2017 and February 29, 2016, were as follows:

	Carrying Amount Millions of Yen 2017	2016	Thousands of U.S. Dollars 2017
Available-for-sale:			
Equity securities	¥76	¥76	$675

6. INVENTORIES

Inventories at February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen 2017	2016	Thousands of U.S. Dollars 2017
Merchandise and finished products	¥15,767	¥16,196	$140,076
Work in process	2,735	3,313	24,298
Raw materials and supplies	6,276	6,952	55,756
Total	¥24,779	¥26,461	$220,140

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2017 and February 29, 2016 and, as a result, recognized impairment losses of ¥48 million ($426 thousand) and ¥144 million, respectively, as other expense. These impairment losses primarily related to the long-lived assets of the System Products Division and the Avionics and Defense Division due to the continuing operating losses of the division and software for product development purpose of the Marine Electronic Products Division due to a significant decline in expected sales. Recoverable amounts of these assets were measured at the net selling prices determined by estimated sales prices of the respective assets or assessed value of long-lived assets for property tax purposes.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2017 and February 29, 2016, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.22% to 5.21% and 0.50% to 5.08% at February 28, 2017 and February 29, 2016, respectively.

Long-term debt at February 28, 2017 and February 29, 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Loans from banks and insurance companies, due serially to 2023 with weighted-average interest rates from 0.72% to 0.86% (2017) and from 0.87% to 1.32% (2016)	**¥9,883**	¥10,309	**$87,802**
Less current portion	**(243)**	(1,191)	**(2,158)**
Long-term debt, less current portion	**¥9,640**	¥ 9,117	**$85,643**

Annual maturities of long-term debt at February 28, 2017, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 243	$ 2,158
2019	959	8,519
2020	3,480	30,916
2021	4,000	35,536
2022	500	4,442
2023 and thereafter	700	6,218
Total	¥9,883	$87,802

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥16 million ($142 thousand) at February 28, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings, net of accumulated depreciation	¥118	$1,048
Total	¥118	$1,048

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

9. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to receive additional payments if the termination is by voluntary retirement at earlier ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have contributory, funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain overseas consolidated subsidiaries have defined retirement benefit plans or defined retirement contribution plans.

Certain consolidated subsidiaries adopt the simplified method in determining retirement benefit obligations.

1. Defined benefit plans (including plans to which the simplified method is applied)

(1) The changes in defined benefit obligations for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year (as previously reported)	**¥17,052**	¥17,419	**$151,492**
Cumulative effect of accounting change		151	
Balance at beginning of year (as restated)	**17,052**	17,570	**151,492**
Current service cost	**515**	401	**4,575**
Interest cost	**169**	173	**1,501**
Actuarial losses	**(42)**	141	**(373)**
Benefits paid	**(1,099)**	(1,279)	**(9,763)**
Others	**41**	44	**364**
Balance at end of year	**¥16,636**	¥17,052	**$147,796**

(2) The changes in plan assets for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥14,595**	¥15,249	**$129,664**
Expected return on plan assets	**853**	892	**7,578**
Actuarial (gains) losses	**(428)**	(910)	**(3,802)**
Contributions from the employer	**279**	425	**2,478**
Benefits paid	**(907)**	(1,061)	**(8,057)**
Balance at end of year	**¥14,393**	¥14,595	**$127,869**

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Funded defined benefit obligation	**¥14,073**	¥14,574	**$125,026**
Plan assets	**(14,393)**	(14,595)	**(127,869)**
Total	**(319)**	(21)	**(2,834)**
Unfunded defined benefit obligation	**2,562**	2,477	**22,761**
Net liability arising from defined benefit obligation	**¥ 2,243**	¥ 2,456	**$ 19,927**

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥2,562	¥2,477	$22,761
Asset for retirement benefits	(319)	(21)	(2,834)
Net liability arising from defined benefit obligation	¥2,243	¥2,456	$19,927

(4) The components of net periodic benefit costs for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥515	¥401	$4,575
Interest cost	169	173	1,501
Expected return on plan assets	(853)	(892)	(7,578)
Amortization of transitional obligation		275	
Recognized actuarial losses	359	294	3,189
Amortization of prior service cost	(16)	(90)	(142)
Periodic benefit cost calculated by the simplified method	41	44	364
Others	24	15	213
Net periodic benefit costs	¥239	¥222	$2,123

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥(16)	¥ (90)	$(14)
Actuarial losses	(26)	(758)	(23)
Others		275	
Total	¥(43)	¥(573)	$(38)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2017 and February 29, 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (237)	¥ (253)	$ (2,105)
Unrecognized actuarial losses	1,602	1,575	14,232
Total	¥1,365	¥1,321	$12,126

(7) Plan assets

a. Components of plan assets

Plan assets as of February 28, 2017 and February 29, 2016, consisted of the following:

	2017	2016
Debt investments	40%	41%
Equity investments	22	20
Cash and cash equivalents	0	2
General account assets of life insurance	38	37
Total	100%	100%

b. Method of determining the expected rate of return on plan assets
The expected rate of return on plan assets is determined by considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended February 28, 2017 and February 29, 2016, were set forth as follows:

	2017	2016
Discount rate	**1.0%**	1.0%
Expected rate of return on plan assets	**5.9%**	5.9%
Expected rate of salary increase	**2.8%**	2.8%

2. Defined contribution plans
The amount of required contribution to the defined contribution plans of the Company and consolidated subsidiaries for the years ended February 28, 2017 and February 29, 2016 was ¥287 million ($2,549 thousand) and ¥308 million, respectively.

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 an Audit & Supervisory Board, 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.

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 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 specific formula. Under the Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 33.0% and 35.6% for the years ended February 28, 2017 and February 29, 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2017 and February 29, 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets:			
Unrealized profit	**¥1,133**	¥1,382	**$10,065**
Liability for retirement benefits	**288**	378	**2,558**
Loss on impairment of long-lived assets	**112**	136	**995**
Inventories	**827**	890	**7,347**
Investment securities	**204**	198	**1,812**
Accrued bonuses	**390**	400	**3,464**
Accrued product warranty costs	**440**	347	**3,909**
Tax loss carryforwards	**3,616**	3,672	**32,125**
Other	**521**	504	**4,628**
Less valuation allowance	**(6,814)**	(7,515)	**(60,536)**
Total	**¥ 720**	¥ 395	**$ 6,396**
Deferred tax liabilities:			
Accelerated depreciation in overseas subsidiaries	**¥ 63**	¥ 72	**$ 559**
Unrealized gain on available-for-sale securities	**223**	140	**1,981**
Undistributed earnings of overseas subsidiaries	**206**	216	**1,830**
Other	**67**	23	**595**
Total	**¥ 560**	¥ 453	**$ 4,975**
Net deferred tax (liabilities)	**¥ 160**	¥ (57)	**$ 1,421**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 28, 2017 and February 29, 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	**33.0%**	35.6%
Expenses not deductible for income tax purposes	**6.0**	2.8
Per capita inhabitant tax	**1.9**	0.8
Lower income tax rates applicable to income in certain foreign countries	**(11.2)**	(8.7)
Nontaxable dividends and other income	**(0.4)**	(0.5)
Undistributed earnings of overseas subsidiaries	**(0.6)**	(0.5)
Adjustment to deferred tax assets due to a change in tax rate	**23.5**	14.9
Valuation allowance for deferred tax assets	**(48.7)**	(27.0)
Other—net	**7.9**	1.8
Actual effective tax rate	**11.4%**	19.2%

New tax reform laws enacted in 2016 in Japan which changed the normal effective statutory tax rate for fiscal years beginning on or after April 1, 2016, from approximately 32.2% to 30.8%, for temporary differences expected to be realized during the years ended February 28, 2017 and 2018, and 30.5% thereafter.

The effects of this change on the consolidated financial statements for the year ended February 28, 2017 were immaterial.

At February 28, 2017, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥13,707 million ($121,775 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2018		
2019		
2020		
2021		
2022		
2023 and thereafter	¥13,572	$120,575
Total	¥13,572	$120,575

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,253 million ($37,784 thousand) and ¥4,786 million for the years ended February 28, 2017 and February 29, 2016, respectively.

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group raises necessary funds to support its principal business plans to produce and sell marine electronic equipment and industrial electronic equipment. 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 below.

(2) Nature and extent of risks arising from financial instruments

Trade receivables, such as notes receivable and accounts receivable, are exposed to customer credit risk.

Foreign currency denominated trade receivables arising from global activities are exposed to the market risk of fluctuations in foreign currency exchange rates.

Investment securities, mainly equity instruments of customers and suppliers of the Group held for business or capital alliance purposes, are exposed to the risk of market price fluctuation.

Payment terms of trade payables, such as notes payable and accounts payable, are less than one year. Certain trade payables arising from import of raw materials, which are denominated in foreign currencies, are exposed to the market risk of fluctuations in foreign currency exchange rates.

Maturities of bank loans, mainly for the purpose of financing necessary working funds, are less than six years and one month after the balance sheet date. Certain bank loans, which are denominated in foreign currencies, are exposed to the market risk of fluctuations in foreign currency exchange rates and in variable interest rates. Those risks are mitigated by using derivatives such as currency and interest rate swaps.

Derivatives mainly include forward foreign currency contracts, which are used to mitigate the market risk of fluctuations in foreign currency exchange rates to which receivables and payables denominated in foreign currencies are exposed. In addition, currency and interest rate swaps are used to avoid or mitigate the market risks from changes in foreign currency exchange rates and interest rates of bank loans, and interest rate swaps are used to avoid or mitigate the market risks from changes in interest rates. For hedging instruments and hedged items concerning hedge accounting and hedging policies and hedge effectiveness, please see Note 2.r "Derivatives and Hedging Activities" under "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms.

The Company manages its credit risk from trade receivables by monitoring payment terms and balances of major customers and identifying the default risk of counterparties at an early stage in accordance with the credit control policy. The consolidated subsidiaries have similar control policies pursuant to the Company's credit control policy. Derivatives are entered into with only high-credit rating financial institutions and, accordingly, credit risk arising from the counterparties' default is limited to minimum. The maximum credit risk exposure of financial assets as of the consolidated balance sheet date is represented by their carrying values exposed to credit risk.

Market Risk Management (foreign exchange risk and interest rate risk)

The Group hedges foreign currency trade receivables and payables against market risk from fluctuations in foreign currency exchange rates identified by currency and by month using principally forward foreign currency contracts. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, the Group utilizes currency and interest rate swaps to mitigate market risk from changes in foreign currency exchange rates and interest rates and interest rate swaps to mitigate the risk from changes in interest rates associated with bank loans.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis and continuously reviewing the holding status by taking into consideration the relationship with the counterparties.

Derivative transactions are executed and controlled based on internal guidelines, which prescribe the transaction limits and procedures by the Finance Department of each company, and the positions are identified on a regular basis. In addition, the responsible division of the Company is informed of the status of transactions from each group company on a regular basis to control and confirm the positions.

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 by preparing and updating the financial plan by the Accounting Department based on the reports from each division.

(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. Also, please see Note 14 for fair value information for derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
February 28, 2017	Carrying Amount	Fair Value	Net Unrealized Gains
Cash and cash equivalents	**¥10,124**	**¥10,124**	
Short-term investments	**81**	**81**	
Notes receivable—trade	**3,698**		
Accounts receivable—trade	**14,266**		
Allowance for doubtful receivables	**(327)**		
Total receivables—trade	**17,638**	**17,638**	
Investment securities:			
Available-for-sale securities	**2,108**	**2,108**	
Total assets	**¥29,952**	**¥29,952**	
Notes payable—trade	**¥282**	**¥282**	
Accounts payable—trade	**3,108**	**3,108**	
Electronically recorded obligations—operating	**6,984**	**6,984**	
Total payables—trade	**10,376**	**10,376**	
Short-term bank loans	**4,997**	**4,997**	
Long-term debt, including current portion	**9,883**	**9,990**	**¥106**
Total liabilities	**¥25,257**	**¥25,364**	**¥106**
Derivatives (*1)	**¥ (62)**	**¥ (62)**	

	Millions of Yen		
February 29, 2016	Carrying Amount	Fair Value	Net Unrealized Gains
Cash and cash equivalents	¥10,441	¥10,441	
Short-term investments	237	237	
Notes receivable—trade	4,186		
Accounts receivable—trade	15,556		
Allowance for doubtful receivables	(350)		
Total receivables—trade	19,393	19,393	
Investment securities:			
Available-for-sale securities	1,670	1,670	
Total assets	¥31,743	¥31,743	
Notes payable—trade	¥ 635	¥ 635	
Accounts payable—trade	7,260	7,260	
Electronically recorded obligations—operating	4,220	4,220	
Total payables—trade	12,116	12,116	
Short-term bank loans	6,427	6,427	
Long-term debt, including current portion	10,309	10,415	¥106
Total liabilities	¥28,853	¥28,959	¥106
Derivatives (*1)	¥ (41)	¥ (41)	

February 28, 2017	Thousands of U.S. Dollars Carrying Amount	 Fair Value	 Net Unrealized Gains
Cash and cash equivalents	**$ 89,943**	**$ 89,943**	
Short-term investments	**719**	**719**	
Notes receivable—trade	**32,853**		
Accounts receivable—trade	**126,741**		
Allowance for doubtful receivables	**(2,905)**		
Total receivables—trade	**156,698**	**156,698**	
Investment securities:			
Available-for-sale securities	**18,727**	**18,727**	
Total assets	**$266,098**	**$266,098**	
Notes payable—trade	**$ 2,505**	**$ 2,505**	
Accounts payable—trade	**27,611**	**27,611**	
Electronically recorded obligations—operating	**62,046**	**62,046**	
Total payables—trade	**92,181**	**92,181**	
Short-term bank loans	**44,394**	**44,394**	
Long-term debt, including current portion	**87,802**	**88,752**	**$950**
Total liabilities	**$224,386**	**$225,337**	**$950**
Derivatives (*1)	**$ (550)**	**$ (550)**	

*1 Net receivables or payables arising from derivative transactions to which hedge accounting is not applied and deferral hedge accounting is applied are presented in a net amount and net payables are presented in parentheses.

Assets:

Cash and cash equivalents, short-term investments and notes receivable and accounts receivable—trade

The fair values of these items are determined using their carrying amounts, since the fair values approximate their carrying amounts as these amounts are settled in a short period of time.

Investment securities

The fair values of investment securities are measured at the quoted market prices of the stock exchange for equity securities, and at the quoted market prices of the exchanges or the quoted prices obtained from financial institutions for debt securities.

Liabilities:

Notes payable and accounts payable—trade, electronically recorded obligations—operating and short-term bank loans

The fair values of these items are determined using their carrying amounts, since the fair values approximate their carrying amounts as these amounts are settled in a short period of time.

Long-term debt, including current portion

The fair values of long-term debt are measured at the discounted present value of aggregated amounts of principal and interest payables using the interest rate that would be applied to similar transactions to be newly arranged.

The fair values of long-term debt with floating interest rates hedged using currency and interest rate swaps qualifying for hedge accounting are measured at the discounted present value of aggregated amounts of principal and interest payables which are accounted for together with the swaps using the reasonably estimated interest rate that would be applied to the similar transactions to be newly arranged or at the values presented by the financial institutions.

Derivatives

Please see Note 14 “DERIVATIVES.”

The fair values of currency and interest rate swaps and interest rate swaps which are accounted for together with the long-term debt as the hedged item are included in the fair values of the relevant long-term debt, if they qualify for hedge accounting.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
February 28 or 29	**2017**	2016	**2017**
Unlisted equity securities	**¥449**	¥553	**$3,988**

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
February 28, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**¥10,124**			
Short-term investments	**81**			
Notes receivable—trade	**3,698**			
Accounts receivable—trade	**14,266**			
Investment securities:				
Available-for-sale securities with contractual maturities:Debt securities—other			**¥100**	
Total	**¥28,171**		**¥100**	

	Thousands of U.S. Dollars			
February 28, 2017	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	**$ 89,943**			
Short-term investments	**719**			
Notes receivable—trade	**32,853**			
Accounts receivable—trade	**126,741**			
Investment securities:				
Available-for-sale securities with contractual maturities:Debt securities—other			**$888**	
Total	**$250,275**		**$888**	

Please see Note 9 for annual maturities of long-term debt.

14. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into currency and interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is not applied at February 28, 2017 and February 29, 2016

(1) Currency related derivatives

	Millions of Yen			
February 28, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	**¥160**		**¥(11)**	**¥(11)**

	Millions of Yen			
February 29, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	¥128		¥(5)	¥(5)

	Thousands of U.S. Dollars			
February 28, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	**$1,421**		**$(97)**	**$(97)**

(Note 1) The fair values are determined using the prices obtained from the financial institutions.

(2) Hybrid financial instruments

	Millions of Yen			
February 28, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Debt including embedded derivatives:				
Long-term debt, cancelable before the maturity	**¥1,800**	**¥1,800**	**¥(15)**	**¥(15)**

	Millions of Yen			
February 29, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Debt including embedded derivatives:				
Long-term debt, cancelable before the maturity	¥1,800	¥1,800	¥(32)	¥(32)

	Thousands of U.S. Dollars			
February 28, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Debt including embedded derivatives:				
Long-term debt, cancelable before the maturity	**$15,991**	**$15,991**	**$(133)**	**$(133)**

(Note 1) The fair values are determined using the prices obtained from financial institutions.
(Note 2) The fair value of debt, including embedded derivatives is, determined by accounting for embedded derivatives of hybrid financial instruments separately.
(Note 3) The contract amount presents the principal of the debt, including embedded derivatives and does not present the market risk volume exposed to derivative transactions.

Derivative transactions to which hedge accounting is applied at February 28, 2017 and February 29, 2016
(1) Currency related derivatives

		Millions of Yen		
February 28, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying USD	Forecasted transactions denominated in foreign currency	¥195		¥215

		Thousands of U.S. Dollars		
February 28, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying USD	Forecasted transactions denominated in foreign currency	$1,732		$1,910

There were no currency related derivatives outstanding at February 29, 2016.

(2) Interest related derivatives

		Millions of Yen		
February 28, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: Receivable floating rate/Payable fixed rate	**Long-term debt**	**¥1,600**	**¥1,600**	**Note 2**
Receivable floating rate/Payable fixed rate	**Long-term debt**	**¥3,000**	**¥3,000**	**¥(50)**

		Millions of Yen		
February 29, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: Receivable floating rate/Payable fixed rate	Long-term debt	¥2,240	¥1,920	Note 2
Receivable floating rate/Payable fixed rate	Long-term debt	¥2,000	¥2,000	¥(36)

		Thousands of U.S. Dollars		
February 28, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: Receivable floating rate/Payable fixed rate	**Long-term debt**	**$14,214**	**$14,214**	**Note 2**
Receivable floating rate/Payable fixed rate	**Long-term debt**	**$26,652**	**$26,652**	**$(444)**

(Note 1) The fair values are determined using the prices obtained from the financial institutions.
(Note 2) The fair values of currency and interest rate swaps and interest rate swaps, which are accounted for together with the long-term debt as the hedged item, are included in the fair values of the relevant long-term debt, if they qualify for hedge accounting.

15. CONTINGENT LIABILITIES

At February 28, 2017, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans of its customers	¥77	$684
Guarantee of customers' account payables—trade	18	159
Total	¥96	$852

16. NET INCOME PER SHARE

The financial data for the computation of basic net income per share for the years ended February 28, 2017 and February 29, 2016, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted Average Shares	EPS	
Year ended February 28, 2017:				
Basic earnings per share (EPS)				
Net income available to common shareholders	¥1,262	31,512	¥40.06	$0.35
Year ended February 29, 2016:				
Basic earnings per share (EPS)				
Net income available to common shareholders	¥2,624	31,513	¥83.27	

Diluted EPS is not disclosed because the Company did not issue dilutive securities for the years ended February 28, 2017 and February 29, 2016.

17. LOSS ON DEFENSE EQUIPMENT

On March 25, 2014, the Company identified through an internal investigation that the Avionics and Defense Division billed excessive claims for various contracts with the Japanese Ministry of Defense ("MOD"), and reported the fact to the MOD. In addition, the Company launched an internal investigation committee on March 27, 2014, to implement controls to prevent the recurrence of such activities after identifying the facts of excessive billing and determining the causes and finally reported them to the MOD on September 24, 2014.

The Company paid ¥3,478 million for excessive claims and related penalties including past due interest on August 26, 2015, and recorded a loss on defense equipment under "OTHER INCOME (EXPENSES)" in the amount of the difference between the above payment and allowance for loss on defense equipment of ¥2,857 million recorded at February 28, 2015.

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at February 28, 2017, was approved at the Company's shareholders' meeting held on May 25, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4.00 ($0.03) per share	¥126	$1,119

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

   The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The principal business of the Group is manufacturing and sales of marine equipment, industrial electronics equipment, wireless LAN system and handy terminals. The Company consists of divisions separated by product and service, and each division designs comprehensive strategies for its products and services and develops each business activities. Each subsidiary is developing its business activities from the management's viewpoint within the Group. Accordingly, the Group consists of business segments by product and service, which are the "Marine" business, the "Industrial" business, and the "Wireless LAN/Handy Terminal" business, as the reportable segments.

Major products of the "Marine" business are navigation equipment, fishing equipment and radio communication equipment, etc. Major products of the "Industrial" business are medical equipment, ITS equipment, GPS equipment, and avionics electronic equipment, etc. Major products of the "Wireless LAN/Handy Terminal" business are wireless LAN system and handy terminals, etc.

The Company changed the reportable segment which used to be included in "Other" to "Wireless LAN/Handy Terminal" business segment due to an increase in materiality.

Segment information for the year ended February 29, 2016 was adjusted to reflect this change in reportable segments.

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Segment profit corresponds to the figure based on the "operating income" in the consolidated statement of operations.

Intersegment sales or transfers are based on the arm's-length price.

(Application of the Accounting Standard for Business Combinations, Etc.)

As described in Note 2.c "Business Combinations," the "Accounting Standards for Business Combinations," and related guidance, have been applied since the year ended February 28, 2017. The balance generated from the changes in the ownership ratio over the affiliates under control began to be included in capital surplus, and the expense related to acquisitions of businesses are recorded as expenses when they are generated. Furthermore, with regard to business combinations conducted at the beginning of annual periods beginning on or after March 1, 2016, the accounting method has been changed to reflect the revised allocation of acquisition costs arising from the settlement of the tentative accounting treatment in the consolidated financial statements in which the business combination occurs.

The effects of this change on segment profit were immaterial.

(Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

As described in Note 2.h "Property, Plant and Equipment," following the Tax Reform 2016, the Company and its domestic consolidated subsidiaries changed the depreciation method of facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method. As a result, the Companies have changed the depreciation method for each business segment in the same manner.

The effect of this change on segment profit was immaterial.

3. Information about sales, profit (loss), assets, liabilities and other items:

	Millions of Yen							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Sales:								
Sales to external customers	**¥61,106**	**¥14,206**	**¥3,158**	**¥78,471**	**¥ 203**	**¥78,674**		**¥78,674**
Intersegment sales or transfers	**0**	**81**	**180**	**262**	**656**	**919**	**(919)**	
Total	**¥61,106**	**¥14,288**	**¥3,338**	**¥78,733**	**¥ 859**	**¥79,593**	**¥ (919)**	**¥78,674**
Segment profit	**¥ 257**	**¥ 661**	**¥ 360**	**¥ 1,280**	**¥ 146**	**¥ 1,427**	**¥ 106**	**¥ 1,534**
Segment assets	**44,606**	**11,200**	**1,622**	**57,429**	**1,119**	**58,548**	**17,175**	**75,724**
Other:								
Depreciation	**2,091**	**207**	**62**	**2,360**	**54**	**2,414**	**509**	**2,924**
Increase in property, plant and equipment and intangible assets	**3,104**	**129**	**72**	**3,306**	**58**	**3,364**	**499**	**3,863**

	Millions of Yen							
	2016							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Sales:								
Sales to external customers	¥73,434	¥13,362	¥2,776	¥89,573	¥ 147	¥89,720		¥89,720
Intersegment sales or transfers	0	28	113	141	650	792	¥ (792)	
Total	¥73,434	¥13,390	¥2,889	¥89,714	¥ 798	¥90,513	¥ (792)	¥89,720
Segment profit	¥ 3,456	¥ (927)	¥ 191	¥ 2,720	¥ 125	¥ 2,846	¥ 65	¥ 2,911
Segment assets	46,982	11,627	1,329	59,939	1,155	61,094	17,370	78,464
Other:								
Depreciation	1,946	113	48	2,109	44	2,154	566	2,721
Increase in property, plant and equipment and intangible assets	2,404	340	78	2,824	40	2,864	656	3,521

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Sales:								
Sales to external customers	**$542,874**	**$126,208**	**$28,056**	**$697,148**	**$1,803**	**$698,951**		**$698,951**
Intersegment sales or transfers	**0**	**719**	**1,599**	**2,327**	**5,828**	**8,164**	**$ (8,164)**	
Total	**$542,874**	**$126,936**	**$29,655**	**$699,475**	**$7,631**	**$707,116**	**$ (8,164)**	**$698,951**
Segment profit	**$ 2,283**	**$ 5,872**	**$ 3,198**	**$ 11,371**	**$1,297**	**$ 12,677**	**$ 941**	**$ 13,628**
Segment assets	**396,286**	**99,502**	**14,410**	**510,207**	**9,941**	**520,149**	**152,585**	**672,743**
Other:								
Depreciation	**18,576**	**1,839**	**550**	**20,966**	**479**	**21,446**	**4,522**	**25,977**
Increase in property, plant and equipment and intangible assets	**27,576**	**1,146**	**639**	**29,371**	**515**	**29,886**	**4,433**	**34,319**

Notes:
1. “Other” is a business segment which is not included in reportable segments, and includes the electromagnetic environmental testing business and other businesses.
2. The nature of “Reconciliations” is as follows:
   (1) “Reconciliations” of “Segment profit (loss)” includes general and administrative expenses of the head office administration departments which do not belong to any reportable segment.
   (2) “Reconciliations” of “Segment assets” includes assets of the head office administration departments, which do not belong to any reportable segment, mainly consisting of common use assets, investments and other assets.
   (3) “Reconciliations” of “Increase in property, plant and equipment and intangible assets” includes capital investments, which do not belong to any reportable segment.
3. Segment profit (loss) is reconciled with operating income in the consolidated statements of operations.

Other Related Information:

1. Information by product and service
   Information by product and service is omitted since similar information is disclosed in the segment information.
2. Information by geographic region
   (1) Sales

Millions of Yen					
2017					
Japan	North America	Europe	Asia	Other Regions	Total
¥33,555	**¥7,547**	**¥16,886**	**¥17,438**	**¥3,247**	**¥78,674**

Millions of Yen					
2016					
Japan	North America	Europe	Asia	Other Regions	Total
¥32,943	¥8,567	¥19,628	¥24,647	¥3,933	¥89,720

Thousands of U.S. Dollars					
2017					
Japan	North America	Europe	Asia	Other Regions	Total
$298,107	**$67,048**	**$150,017**	**$154,921**	**$28,846**	**$698,951**

Note: Net sales is classified into countries or geographic regions based on the locations of customers.

(2) Property, plant and equipment

Millions of Yen					
2017					
Japan	North America	Europe	Asia	Other Regions	Total
¥7,416	**¥533**	**¥968**	**¥745**		**¥9,664**

Millions of Yen					
2016					
Japan	North America	Europe	Asia	Other Regions	Total
¥7,423	¥608	¥1,258	¥844		¥10,134

Thousands of U.S. Dollars					
2017					
Japan	North America	Europe	Asia	Other Regions	Total
$65,884	**$4,735**	**$8,599**	**$6,618**		**$85,856**

3. Information by major customer
Information by customer is omitted, since there is no customer to whom net sales accounts for more than 10% of total net sales recorded in the consolidated statement of income.

Information about loss on impairment of long-lived assets by reportable segment:

	Millions of Yen							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Loss on impairment	**¥11**	**¥37**		**¥48**		**¥48**		**¥48**

	Millions of Yen							
	2016							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Loss on impairment	¥47	¥97		¥144		¥144		¥144

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Loss on impairment	**$97**	**$328**		**$426**		**$426**		**$426**

Information about amortization and unamortized balance of goodwill by reportable segment:

	Millions of Yen							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Amortization	**¥ 62**	**¥ 5**		**¥ 67**		**¥ 67**		**¥ 67**
Unamortized balance	**485**	**150**		**636**		**636**		**636**

	Millions of Yen							
	2016							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Amortization	¥153			¥153		¥153		¥153
Unamortized balance	589			589		589		589

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Amortization	**$ 550**	**$ 44**		**$ 595**		**$ 595**		**$ 595**
Unamortized balance	**4,308**	**1,332**		**5,650**		**5,650**		**5,650**

As of February 28, 2017

Consolidated Subsidiaries

Country	Company Name	Main Business	Equity Ownership (%)
Japan	KYORITSU RADIO SERVICE CO., LTD.	Clearing of communication charges	100
	FURUNO KYUSHU HANBAI CO., LTD.	Sales and services of marine electronic equipment	100
	FURUNO KANSAI HANBAI CO., LTD.	Sales and services of marine electronic equipment	100
	FURUNO SYSTEMS CO., LTD.	Sales of industrial electronic products	100
	FURUNO LIFEBEST CO., LTD.	Insurance agent and leasing of marine electronic equipment	100
	LABOTECH INTERNATIONAL CO., LTD.	EMC and environmental test laboratory	100
U.S.A.	FURUNO U.S.A., INC.	Sales and services of marine electronic equipment	100
	eRide, INC.	Patent management	100
U.K.	FURUNO (UK) LTD.	Sales and services of marine electronic equipment	100
	FURUNO LEASING LTD.	Leasing and sales of marine electronic equipment	100
Germany	FURUNO DEUTSCHLAND GmbH	Sales and services of marine electronic equipment	100
Holland	FURUNO EUROPE B. V.	Logistic services for Europe	100
Denmark	FURUNO DANMARK A/S	Sales and services of marine electronic equipment	100
	FURUNO BROADBAND SERVICE CENTER ApS	Sales of airtime for Fleet Broad and VSAT equipment	100
Sweden	FURUNO SVERIGE AB	Sales and services of marine electronic equipment	100
Poland	FURUNO POLSKA Sp. zo. o.	Sales and services of marine electronic equipment	100
Russia	FURUNO EURUS LLC	Sales and services of marine electronic equipment	100
France	FURUNO FRANCE S.A.S.	Sales and services of marine electronic equipment	100
Italy	FURUNO ITALIA S.R.L.	Sales and services of marine electronic equipment	100
Spain	FURUNO ELECTRIC HOLDING ESPAÑA, S.A.	Holding of shares	100
	FURUNO ESPAÑA, S.A.	Sales and services of marine electronic equipment	70
Norway	FURUNO NORGE A/S	Sales and services of marine electronic equipment	100
Greece	FURUNO HELLAS S.A.	Sales and services of marine electronic equipment	100
Cyprus	FURUNO (CYPRUS) LTD	Sales and services of marine electronic equipment	100
Finland	FURUNO FINLAND OY	Sales and services of marine electronic equipment	100
China	FURUNO HONG KONG CO., LTD.	Manufacturing of marine electronic equipment	100
	FURUNO CHINA CO., LIMITED	Sales and services of marine electronic equipment	100
Singapore	FURUNO SINGAPORE PTE LTD	Sales and services of marine electronic equipment	100
Panama	FURUNO PANAMA, S.A.	Sales and services of marine electronic equipment	100
Indonesia	PT.FURUNO ELECTRIC INDONESIA	Sales and services of marine electronic equipment	100
Korea	FURUNO KOREA CO., LTD.	Sales and services of marine electronic equipment	100

Unconsolidated Subsidiaries

Country	Company Name	Main Business	Equity Ownership (%)
Japan	FURUNO SOFTECH CO., LTD.	Software development and service	100
	NOVELUCK CO., LTD.	Software development and service	60
China	FURUNO SOFTECH (DALIAN) CO., LTD.	Software development and service	80
	FURUNO SHANGHAI CO., LTD.	Services of marine electronic equipment for China	100
	FUNOTEC (DALIAN) CO., LTD.	Sales, services and manufacturing of medical equipment	100

Five-Year Summary

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended the last day of February

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2013	2014	2015	2016	**2017**	**2017**
For the year:						
Net sales:	¥71,606	¥75,667	¥85,967	¥89,720	**¥78,674**	**$698,951**
Operating income	1,218	1,493	1,799	2,911	**1,534**	**13,628**
Income before income taxes and minority interests	2,090	2,335	50	3,348	**1,467**	**13,033**
Net income (loss)	1,565	(660)	(910)	2,624	**1,262**	**11,211**
Per share of common stock (Notes 2) (yen and U.S. dollars):						
Basic net income (loss)	49.61	(20.92)	(28.85)	83.27	**40.06**	**0.36**
Cash dividends applicable to the year	7.00	8.00	8.00	10.00	**8.00**	
Weighted average number of shares outstanding (thousands)	31,545	31,545	31,523	31,513	**31,512**	
Research and development cost	4,332	5,237	4,539	4,786	**4,253**	**37,784**
Capital expenditure	898	1,479	1,675	1,794	**1,613**	**14,330**
Depreciation and amortization	1,582	2,039	2,587	2,721	**2,924**	**25,977**
Net cash provided by operating activities	770	1,209	2,914	1,258	**6,417**	**57,009**
Net cash used in investing activities	(2,384)	(2,794)	(3,975)	(2,612)	**(4,152)**	**(36,886)**
Net cash provided by (used in) financing activities	(1,802)	3,230	(2,227)	(2,811)	**(2,201)**	**(19,554)**
At year-end:						
Total assets	¥72,672	¥80,075	¥83,796	¥78,464	**¥75,724**	**$672,743**
Interest-bearing debt	11,916	15,477	13,663	16,736	**14,881**	**132,205**
Shareholders' equity	33,746	36,703	36,861	36,182	**35,981**	**319,660**
Number of employees	2,803	2,815	2,930	2,905	**2,894**	
Overseas sales:						
North America	¥ 6,683	¥ 7,978	¥ 8,303	¥ 8,567	**¥ 7,547**	**$ 67,048**
Europe	13,673	17,062	19,610	19,628	**16,886**	**150,017**
Asia	18,785	18,143	22,926	24,647	**17,438**	**154,921**
Other	3,129	3,308	3,723	3,933	**3,247**	**28,846**
Total	42,269	46,491	54,562	56,777	**45,118**	**400,835**
Key ratio (%):						
Return on sales	2.2%	(0.9)%	(1.1)%	2.92%	**1.60%**	
Return on assets	2.9	3.1	3.5	4.10	**1.90**	
Return on equity	4.9	(1.9)	(2.5)	7.18	**3.50**	
Debt equity ratio	35.3	42.0	37.1	46.26	**41.36**	
Equity ratio	46.4	45.8	44.0	46.10	**47.50**	

Note: 1. U.S. dollar amounts have been converted from Japanese yen, for convenience only, at the rate of ¥112.56=U.S. $1, the approximate rate of exchange prevailing at February 28, 2017.
2. See Note 2.s and Note 16 of the Notes to the Consolidated Financial Statements.

FURUNO ELECTRIC CO., LTD.
9-52 Ashihara-cho, Nishinomiya, 662-8580, Japan
www.furuno.co.jp