FURUNO

Consolidated Financial Statements 2018

As of and for the Year Ended February 28, 2018,
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, 2018, 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, 2018, 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 24, 2018

Consolidated Balance Sheets

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
February 28, 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥10,834	¥10,124	$100,903
Short-term investments (Notes 3 and 12)	579	81	5,392
Notes receivable—trade (Note 12)	2,839	3,698	26,441
Accounts receivable—trade (Note 12)	15,065	14,266	140,309
Allowance for doubtful receivables (Note 12)	(342)	(327)	(3,185)
Inventories (Note 5)	25,446	24,779	236,993
Deferred tax assets (Note 10)	310	639	2,887
Other current assets	2,980	2,990	27,754
Total current assets	57,714	56,253	537,524
PROPERTY, PLANT AND EQUIPMENT—NET (Notes 6 and 7):			
Land	3,447	3,441	32,103
Buildings and structures	13,435	13,244	125,128
Machinery and equipment	4,030	3,844	37,533
Furniture and fixtures	10,647	10,418	99,161
Construction in progress	38	67	353
Total	31,598	31,015	294,290
Accumulated depreciation	(22,366)	(21,350)	(208,307)
Property, plant and equipment—net	9,232	9,664	85,983
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 12)	2,062	2,184	19,204
Investments in unconsolidated subsidiaries and associated companies (Note 12)	373	373	3,473
Goodwill	618	636	5,755
Asset for retirement benefits (Notes 2.k and 8)	408	319	3,799
Deferred tax assets (Note 10)	64	26	596
Insurance funds	674	686	6,277
Software (Note 6)	4,682	4,530	43,606
Other assets	942	1,047	8,773
Total investments and other assets	9,826	9,805	91,515
TOTAL	¥76,773	¥75,724	$715,032

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 12)	¥ 2,566	¥ 4,997	$ 23,898
Current portion of long-term debt (Notes 7 and 12)	159	243	1,480
Notes payable—trade (Note 12)	265	282	2,468
Accounts payable—trade (Note 12)	3,956	3,108	36,844
Electronically recorded obligations—operating (Note 12)	7,213	6,984	67,178
Income taxes payable	633	491	5,895
Accrued employees' bonuses	1,669	1,532	15,544
Accrued product warranty costs	1,194	1,483	11,120
Other current liabilities	5,497	6,762	51,196
Total current liabilities	23,157	25,887	215,674
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 12)	10,980	9,640	102,263
Liability for retirement benefits (Notes 2.k and 8)—Employees	2,773	2,562	25,826
Deferred tax liabilities (Note 10)	516	504	4,805
Long-term accounts payable	157	157	1,462
Other long-term liabilities	629	650	5,858
Total long-term liabilities	15,056	13,515	140,225
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 14)			
EQUITY (Note 9)**:**			
Common stock—authorized,			
120,000 thousand shares; issued,			
31,894 thousand shares for both 2018 and 2017	7,534	7,534	70,168
Capital surplus	10,074	10,074	93,825
Retained earnings	22,536	21,367	209,891
Treasury stock—at cost,	(202)	(201)	(1,881)
382 thousand shares in 2018 and 381 thousand shares in 2017			
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	689	832	6,417
Deferred gain (loss) on derivatives under hedge accounting	2	(70)	18
Foreign currency translation adjustments	(1,224)	(2,190)	(11,399)
Defined retirement benefit plans	(1,209)	(1,365)	(11,260)
Total	38,201	35,981	355,788
Noncontrolling interests	358	339	3,334
Total equity	38,559	36,321	359,122
TOTAL	¥76,773	¥75,724	$715,032

Consolidated Statement of Income

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥79,050	¥78,674	$736,239
COST OF SALES	50,816	52,171	473,279
Gross profit	28,233	26,503	262,950
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	26,241	24,968	244,397
Operating income	1,992	1,534	18,552
OTHER INCOME (EXPENSES):			
Interest and dividend income	158	79	1,471
Interest expense	(118)	(134)	(1,099)
Foreign exchange loss	(486)	(289)	(4,526)
Subsidy income	63	109	586
Gain on sales of property, plant and equipment	102	51	949
Gain on sales of investment securities	101	6	940
Loss on sales of property, plant and equipment	(1)	(6)	(9)
Loss on disposal of property, plant and equipment	(17)	(7)	(158)
Loss on impairment of long-lived assets (Note 6)	(58)	(48)	(540)
Surrender value of insurance	24	30	223
Other—net	240	142	2,235
Other income (expenses)—net	9	(66)	83
INCOME BEFORE INCOME TAXES	2,001	1,467	18,636
INCOME TAXES (Note 10)**:**			
Current	716	479	6,668
Deferred	24	(312)	223
Total income taxes	740	167	6,892
NET INCOME	1,260	1,300	11,735
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	23	37	214
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,236	¥ 1,262	$ 11,511

PER SHARE OF COMMON STOCK (Notes 2.r and 15)**:**	Yen		U.S. Dollars
	2018	2017	2018
Basic net income	¥ 39.25	¥ 40.06	$ 0.36
Cash dividends applicable to the year	10.00	8.00	0.09

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥1,260	¥1,300	$11,735
OTHER COMPREHENSIVE INCOME:			
Unrealized (loss) gain on available-for-sale securities	(142)	361	(1,322)
Deferred gain (loss) on derivatives under hedge accounting	72	(33)	670
Foreign currency translation adjustments	966	(1,769)	8,996
Defined retirement benefit plans	155	(43)	1,443
Total other comprehensive income (loss)	1,051	(1,485)	9,788
COMPREHENSIVE INCOME (LOSS)	¥2,311	¥ (184)	$21,523
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥2,287	¥ (222)	$21,300
Noncontrolling interests	23	37	214

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 1, 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
Changes in scope of consolidation				184						184		184
Net income attributable to owners of the parent				1,236						1,236		1,236
Cash dividends, ¥8.0 per share				(252)						(252)		(252)
Purchase of treasury stock	(0)				(0)					(0)		(0)
Net change in the year						(142)	72	966	155	1,051	18	1,069
BALANCE, FEBRUARY 28, 2018	**31,511**	**¥7,534**	**¥10,074**	**¥22,536**	**¥(202)**	**¥689**	**¥ 2**	**¥(1,224)**	**¥(1,209)**	**¥38,201**	**¥358**	**¥38,559**

	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 Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, FEBRUARY 28, 2017	$70,168	$93,825	$199,003	$(1,872)	$7,748	$(651)	$(20,396)	$(12,713)	$335,112	$3,157	$338,278
Changes in scope of consolidation			1,713						1,713		1,713
Net income attributable to owners of the parent			11,511						11,511		11,511
Cash dividends, $0.07 per share			(2,347)						(2,347)		(2,347)
Purchase of treasury stock				(0)					(0)		(0)
Net change in the year					(1,322)	670	8,996	1,443	9,788	167	9,956
BALANCE, FEBRUARY 28, 2018	**$70,168**	**$93,825**	**$209,891**	**$(1,881)**	**$6,417**	**$ 18**	**$(11,399)**	**$(11,260)**	**$355,788**	**$3,334**	**$359,122**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FURUNO ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,001	¥ 1,467	$ 18,636
Adjustments for:			
Income taxes—paid	(547)	(653)	(5,094)
Depreciation and amortization	3,225	2,924	30,036
Gain on sales of investment securities	(101)	(6)	(940)
Loss on impairment of long-lived assets	58	48	540
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease in trade receivables	243	1,454	2,263
(Increase) decrease in inventories	(407)	1,187	(3,790)
Decrease (increase) in asset for retirement benefits	181	(321)	1,685
Increase (decrease) in trade payables	1,201	(1,414)	11,185
(Decrease) increase in accrued product warranty costs	(295)	399	(2,747)
Increase in liability for retirement benefits	91	67	847
Other—net	(508)	1,264	(4,731)
Total adjustments	3,141	4,950	29,253
Net cash provided by operating activities	5,142	6,417	47,890
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	228	152	2,123
Purchases of property, plant and equipment	(1,295)	(1,613)	(12,061)
Purchases of intangible assets	(1,987)	(2,289)	(18,506)
Proceeds from sales of investment securities	155	12	1,443
Increase in other assets	(506)	(413)	(4,712)
Net cash used in investing activities	(3,404)	(4,152)	(31,703)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(2,508)	(1,389)	(23,358)
Proceeds from long-term debt	2,300	1,500	21,421
Repayments of long-term debt	(1,043)	(1,925)	(9,714)
Purchase of treasury stock	(0)	(1)	(0)
Dividends paid	(290)	(384)	(2,700)
Net cash used in financing activities	(1,542)	(2,201)	(14,361)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	427	(572)	3,976
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	624	(508)	5,811
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,124	10,441	94,290
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO NEW CONSOLIDATION	86	190	800
CASH AND CASH EQUIVALENTS, END OF YEAR	¥10,834	¥10,124	$100,903

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 2017 consolidated financial statements to conform to the classifications used in 2018.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥107.37 to $1, the approximate rate of exchange at February 28, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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, 2018 include the accounts of the Company and its 32 significant (31 in 2017) 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 4 (5 in 2017) unconsolidated subsidiaries and 2 (2 in 2017) 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 26 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 24 other subsidiaries' fiscal year-end dates are December 31.

FURUNO SHANGHAI CO., LTD., which was an unconsolidated subsidiary in the previous fiscal year, 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 in scope of consolidation" in the consolidated statement 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) 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**—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. 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. 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. The acquirer recognizes any 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. 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. 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 capital surplus as long as the parent retains control over its subsidiary.

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.

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, while the straight-line method is applied to building improvements and structures acquired on or after April 1, 2016.

Accumulated depreciation as of February 28, 2018 and 2017 was ¥22,366 million ($208,307 thousand) and ¥21,350 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. **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.

The Company accounts for liabilities 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.

Certain consolidated subsidiaries adopt a simplified method under which the retirement benefit amount required to be paid if all the employees retired on the balance sheet date is considered as the projected benefit obligations in computing liabilities for retirement benefits and net periodic benefit costs.

l. **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 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.

m. **Research and Development Costs**—Research and development costs are charged to income as incurred.

n. **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.

The Company applied ASBJ Guidance No. 26, “Guidance on Recoverability of Deferred Tax Assets,” effective March 1, 2017.

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

p. **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 “Noncontrolling interests” in a separate component of equity. Revenue and expense accounts of foreign consolidated subsidiaries are translated into yen at the average exchange rate.

q. **Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage exposures to fluctuations in foreign currency exchange and interest rates. Interest rate swaps are utilized to reduce the interest rate risks of long-term debt, and foreign currency forward contracts are utilized to reduce the foreign currency exchange risks of 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. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

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

r. **Per Share Information**—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

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.

3. SHORT-TERM INVESTMENTS

Short-term investments as of February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Time deposits other than cash equivalents	¥579	¥81	$5,392

4. INVESTMENT SECURITIES

Investment securities as of February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current:			
Marketable equity securities	¥1,803	¥1,942	$16,792
Government and corporate bonds	100	101	931
Other	159	139	1,480
Total	¥2,062	¥2,184	$19,204

The carrying amounts and aggregate fair values of investment securities at February 28, 2018 and 2017, were as follows:

	Millions of Yen			
February 28, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥936	¥ 866		¥1,803
Debt securities	65	34		100
Other	44	28	¥0	72
February 28, 2017				
Securities classified as:				
Available-for-sale:				
Equity securities	¥942	¥1,001	¥1	¥1,942
Debt securities	65	36		101
Other	44	19	0	63

	Thousands of U.S. Dollars			
February 28, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$8,717	$8,065		$16,792
Debt securities	605	316		931
Other	409	260	$0	670

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2018 and 2017, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Available-for-sale:			
Equity securities	¥86	¥76	$800

5. INVENTORIES

Inventories at February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Merchandise and finished products	**¥15,586**	¥15,767	**$145,161**
Work in process	**3,848**	2,735	**35,838**
Raw materials and supplies	**6,011**	6,276	**55,983**
Total	**¥25,446**	¥24,779	**$236,993**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 28, 2018 and 2017 and, as a result, recognized impairment losses of ¥58 million ($540 thousand) and ¥48 million, respectively, as other expenses. These impairment losses primarily related to the long-lived assets of the Marine Business due to continuing operating losses in the division for the year ended February 28, 2018 and the System Products Division and the Avionics and Defense Division due to continuing operating losses in the divisions and software for product development purpose in the Marine Electronic Products Division due to a significant decline in expected sales for the year ended February 28, 2017. Recoverable amounts of these assets were measured at net selling prices determined by the estimated sales prices of the respective assets or the assessed value of long-lived assets for property tax purposes.

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

Short-term bank loans at February 28, 2018 and 2017, consisted of notes to banks and bank overdrafts. The weighted-average interest rates applicable to the short-term bank loans were 0.43% and 0.24% at February 28, 2018 and 2017, respectively.

Long-term debt at February 28, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Loans from banks and insurance companies, due serially to 2028 with weighted-average interest rates from 0.61% to 0.69% (2018) and from 0.72% to 0.86% (2017)	**¥11,140**	¥9,883	**$103,753**
Less current portion	**(159)**	(243)	**(1,480)**
Long-term debt, less current portion	**¥10,980**	¥9,640	**$102,263**

Annual maturities of long-term debt at February 28, 2018, were as follows:

Year Ending February 28 or 29	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 159	$ 1,480
2020	3,480	32,411
2021	4,000	37,254
2022	500	4,656
2023	1,300	12,107
2024 and thereafter	1,700	15,833
Total	¥11,140	$103,753

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥12 million ($111 thousand) at February 28, 2018, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land and buildings, net of accumulated depreciation	¥122	$1,136
Total	¥122	$1,136

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 the 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.

8. 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, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Balance at beginning of year	**¥16,636**	¥17,052	**$154,940**
Current service cost	**519**	515	**4,833**
Interest cost	**165**	169	**1,536**
Actuarial losses (gains)	**115**	(42)	**1,071**
Benefits paid	**(1,034)**	(1,099)	**(9,630)**
Others	**38**	41	**353**
Balance at end of year	**¥16,441**	¥16,636	**$153,124**

(2) The changes in plan assets for the years ended February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Balance at beginning of year	**¥14,393**	¥14,595	**$134,050**
Expected return on plan assets	**336**	853	**3,129**
Actuarial losses	**(57)**	(428)	**(530)**
Contributions from the employer	**294**	279	**2,738**
Benefits paid	**(889)**	(907)	**(8,279)**
Balance at end of year	**¥14,077**	¥14,393	**$131,107**

(3) Reconciliations between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligations	¥13,668	¥14,073	$127,298
Plan assets	(14,077)	(14,393)	(131,107)
Total	(408)	(319)	(3,799)
Unfunded defined benefit obligations	2,773	2,562	25,826
Net liability arising from defined benefit obligations	¥ 2,364	¥ 2,243	$ 22,017

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥2,773	¥2,562	$25,826
Asset for retirement benefits	(408)	(319)	(3,799)
Net liability arising from defined benefit obligations	¥2,364	¥2,243	$22,017

(4) The components of net periodic benefit costs for the years ended February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥519	¥515	$4,833
Interest cost	165	169	1,536
Expected return on plan assets	(336)	(853)	(3,129)
Recognized actuarial losses	369	359	3,436
Amortization of prior service cost	(40)	(16)	(372)
Periodic benefit cost calculated by the simplified method	38	41	353
Others	31	24	288
Net periodic benefit costs	¥747	¥239	$6,957

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥ (40)	¥(16)	$ (372)
Actuarial gains (losses)	195	(26)	1,816
Total	¥155	¥(43)	$1,443

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥ (197)	¥ (237)	$ (1,834)
Unrecognized actuarial losses	1,406	1,602	13,094
Total	¥1,209	¥1,365	$11,260

(7) Plan assets

a. Components of plan assets

Plan assets as of February 28, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	**37%**	40%
Equity investments	**21**	22
Cash and cash equivalents	**0**	0
General account assets of life insurance	**37**	38
Other	**5**	
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, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	**1.0%**	1.0%
Expected rate of return on plan assets	**2.3%**	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, 2018 and 2017 was ¥288 million ($2,682 thousand) and ¥287 million, respectively.

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

10. 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 30.8% and 33.0% for the years ended February 28, 2018 and 2017, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	**2018**
Deferred tax assets:			
Unrealized profit	**¥1,311**	¥1,133	**$12,210**
Liability for retirement benefits	**374**	288	**3,483**
Loss on impairment of long-lived assets	**100**	112	**931**
Inventories	**827**	827	**7,702**
Investment securities	**193**	204	**1,797**
Accrued bonuses	**396**	390	**3,688**
Accrued product warranty costs	**348**	440	**3,241**
Tax loss carryforwards	**3,350**	3,616	**31,200**
Other	**546**	521	**5,075**
Less valuation allowance	**(7,042)**	(6,814)	**(65,586)**
Total	**¥ 407**	¥ 720	**$ 3,790**
Deferred tax liabilities:			
Accelerated depreciation in overseas subsidiaries	**¥ 61**	¥ 63	**$ 568**
Unrealized gain on available-for-sale securities	**240**	223	**2,235**
Undistributed earnings of overseas subsidiaries	**223**	206	**2,076**
Other	**25**	67	**232**
Total	**¥ 550**	¥ 560	**$ 5,122**
Net deferred tax (liabilities) assets	**¥ (143)**	¥ 160	**$ (1,331)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 28, 2018 and 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	**30.8%**	33.0%
Expenses not deductible for income tax purposes	**5.6**	6.0
Per capita inhabitant tax	**1.4**	1.9
Lower income tax rates applicable to income in certain foreign countries	**(3.3)**	(11.2)
Nontaxable dividends and other income	**(1.1)**	(0.4)
Undistributed earnings of overseas subsidiaries	**0.8**	(0.6)
Adjustment to deferred tax assets due to a change in tax rate	**(0.3)**	23.5
Valuation allowance for deferred tax assets	**14.8**	(48.7)
Other—net	**(11.7)**	7.9
Actual effective tax rate	**37.0%**	11.4%

As the Federal Tax Reform Act of the United States of America was enacted on December 22, 2017, the corporate income tax rate was changed from the fiscal year beginning on or after January 1, 2018. Accordingly, the effective statutory tax rate used for calculations of deferred tax assets and deferred tax liabilities of U.S. subsidiaries principally changed from 35.3% to 22.3%.

The effects of this change on the consolidated financial statements for the year ended February 28, 2018 were immaterial.

At February 28, 2018, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥12,748 million ($118,729 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
2019		
2020		
2021		
2022		
2023		
2024 and thereafter	¥12,748	$118,729
Total	¥12,748	$118,729

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,470 million ($41,631 thousand) and ¥4,253 million for the years ended February 28, 2018 and 2017, respectively.

12. 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 nine years 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 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, 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.q “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 a 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 default of the counterparties is kept at a 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 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 of 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 by 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 plans of 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. Please see Note 13 for fair value information for derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
February 28, 2018	Carrying Amount	Fair Value	Unrealized Gains
Cash and cash equivalents	¥10,834	¥10,834	
Short-term investments	579	579	
Notes receivable—trade	2,839		
Accounts receivable—trade	15,065		
Allowance for doubtful receivables	(342)		
Total receivables—trade	17,562	17,562	
Investment securities:			
Available-for-sale securities	1,976	1,976	
Total assets	¥30,953	¥30,953	
Notes payable—trade	¥ 265	¥ 265	
Accounts payable—trade	3,956	3,956	
Electronically recorded obligations—operating	7,213	7,213	
Total payables—trade	11,435	11,435	
Short-term bank loans	2,566	2,566	
Long-term debt, including current portion	11,140	11,217	¥77
Total liabilities	¥25,141	¥25,219	¥77
Derivatives (*1)	¥ (15)	¥ (15)	

February 28, 2017	Millions of Yen Carrying Amount	Fair Value	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)	

February 28, 2018	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gains
Cash and cash equivalents	**$100,903**	**$100,903**	
Short-term investments	**5,392**	**5,392**	
Notes receivable—trade	**26,441**		
Accounts receivable—trade	**140,309**		
Allowance for doubtful receivables	**(3,185)**		
Total receivables—trade	**163,565**	**163,565**	
Investment securities:			
Available-for-sale securities	**18,403**	**18,403**	
Total assets	**$288,283**	**$288,283**	
Notes payable—trade	**$ 2,468**	**$ 2,468**	
Accounts payable—trade	**36,844**	**36,844**	
Electronically recorded obligations—operating	**67,178**	**67,178**	
Total payables—trade	**106,500**	**106,500**	
Short-term bank loans	**23,898**	**23,898**	
Long-term debt, including current portion	**103,753**	**104,470**	**$717**
Total liabilities	**$234,152**	**$234,879**	**$717**
Derivatives (*1)	**$ (139)**	**$ (139)**	

*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 newly arranged.

The fair values of long-term debt with floating interest rates hedged using 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 similar transactions to be newly arranged or at the values presented by the financial institutions.

Derivatives

Please see Note 13 "DERIVATIVES."

The fair values of 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	**2018**	2017	**2018**
Unlisted equity securities	**¥460**	¥449	**$4,284**

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

	Millions of Yen			
February 28, 2018	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	**¥10,834**			
Short-term investments	**579**			
Notes receivable—trade	**2,839**			
Accounts receivable—trade	**15,065**			
Investment securities:				
Available-for-sale securities with contractual maturities:Debt securities—other			**¥100**	
Total	**¥29,319**		**¥100**	

February 28, 2018	Thousands of U.S. Dollars 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	$100,903			
Short-term investments	5,392			
Notes receivable—trade	26,441			
Accounts receivable—trade	140,309			
Investment securities:				
Available-for-sale securities with contractual maturities:Debt securities—other			$931	
Total	$273,065		$931	

Please see Note 7 for annual maturities of long-term debt.

13. 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 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, 2018 and 2017

(1) Hybrid financial instruments

February 28, 2018	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Debt including embedded derivatives:				
Long-term debt, cancelable before maturity	¥1,000	¥1,000	¥(5)	¥(5)

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

February 28, 2018	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Debt including embedded derivatives:				
Long-term debt, cancelable before maturity	$9,313	$9,313	$(46)	$(46)

(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, 2018 and 2017

(1) Currency-related derivatives

		Millions of Yen		
February 28, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling EUR	**Forecasted transactions denominated in foreign currency**	**¥403**		**¥420**

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

		Thousands of U.S. Dollars		
February 28, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling EUR	**Forecasted transactions denominated in foreign currency**	**$3,753**		**$3,911**

(2) Interest-related derivatives

		Millions of Yen		
February 28, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: Receivable floating rate/Payable fixed rate	**Long-term debt**	**¥2,600**	**¥2,600**	**Note 2**
Receivable floating rate/Payable fixed rate	**Long-term debt**	**¥2,000**	**¥2,000**	**¥(15)**

		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)

		Thousands of U.S. Dollars		
February 28, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: Receivable floating rate/Payable fixed rate	**Long-term debt**	**$24,215**	**$24,215**	**Note 2**
Receivable floating rate/Payable fixed rate	**Long-term debt**	**$18,627**	**$18,627**	**$(139)**

(Note 1) The fair values are determined using the prices obtained from the financial institutions.
(Note 2) The fair values of 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.

14. CONTINGENT LIABILITIES

At February 28, 2018, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans of its customers	¥43	$400
Guarantees of customers' account payables—trade	13	121
Total	¥57	$530

15. NET INCOME PER SHARE

The financial data for the computation of basic net income per share for the years ended February 28, 2018 and 2017, 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, 2018:				
Basic earnings per share (EPS)				
Net income available to common shareholders	¥1,236	31,512	¥39.25	$0.36
Year ended February 28, 2017:				
Basic earnings per share (EPS)				
Net income available to common shareholders	¥1,262	31,512	¥40.06	

Diluted EPS is not disclosed because the Company did not issue dilutive securities for the years ended February 28, 2018 and 2017.

16. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at February 28, 2018, was approved at the Company's shareholders' meeting held on May 24, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.00 ($0.05) per share	¥189	$1,760

17. 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 relevant business activities. Each subsidiary develops business activities from a management perspective 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.

   The major products in the “Marine” business are navigation equipment, fishing equipment and radio communication equipment, etc. The major products in the “Industrial” business are medical equipment, ITS equipment, GPS equipment, and avionics electronic equipment, etc. The major products in the “Wireless LAN/Handy Terminal” business are wireless LAN system and handy terminals, etc.

2. Methods of measurement for the amounts of sales, profit, 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 “operating income” in the consolidated statement of income.

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

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

	Millions of Yen							
	2018							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Sales:								
Sales to external customers	**¥63,405**	**¥11,876**	**¥3,450**	**¥78,731**	**¥ 318**	**¥79,050**		**¥79,050**
Intersegment sales or transfers	**0**	**52**	**206**	**258**	**499**	**758**	**¥ (758)**	
Total	**¥63,405**	**¥11,928**	**¥3,657**	**¥78,990**	**¥ 818**	**¥79,808**	**¥ (758)**	**¥79,050**
Segment profit	**¥ 777**	**¥ 599**	**¥ 569**	**¥ 1,946**	**¥ 43**	**¥ 1,990**	**¥ 2**	**¥ 1,992**
Segment assets	**44,978**	**11,428**	**1,789**	**58,197**	**1,125**	**59,322**	**17,450**	**76,773**
Other:								
Depreciation	**2,609**	**203**	**85**	**2,898**	**55**	**2,954**	**270**	**3,225**
Increase in property, plant and equipment and intangible assets	**2,461**	**325**	**171**	**2,958**	**22**	**2,981**	**55**	**3,036**

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

Thousands of U.S. Dollars **2018**	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
Sales:								
Sales to external customers	**$590,528**	**$110,608**	**$32,131**	**$733,268**	**$ 2,961**	**$736,239**		**$736,239**
Intersegment sales or transfers	**0**	**484**	**1,918**	**2,402**	**4,647**	**7,059**	**$ (7,059)**	
Total	**$590,528**	**$111,092**	**$34,059**	**$735,680**	**$ 7,618**	**$743,298**	**$ (7,059)**	**$736,239**
Segment profit	**$ 7,236**	**$ 5,578**	**$ 5,299**	**$ 18,124**	**$ 400**	**$ 18,534**	**$ 18**	**$ 18,552**
Segment assets	**418,906**	**106,435**	**16,662**	**542,022**	**10,477**	**552,500**	**162,522**	**715,032**
Other:								
Depreciation	**24,299**	**1,890**	**791**	**26,990**	**512**	**27,512**	**2,514**	**30,036**
Increase in property, plant and equipment and intangible assets	**22,920**	**3,026**	**1,592**	**27,549**	**204**	**27,763**	**512**	**28,276**

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” 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 is reconciled with operating income in the consolidated statement of income.

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					
2018					
Japan	North America	Europe	Asia	Other Regions	Total
¥31,258	**¥7,873**	**¥19,105**	**¥17,645**	**¥3,167**	**¥79,050**

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

Thousands of U.S. Dollars					
2018					
Japan	North America	Europe	Asia	Other Regions	Total
$291,124	**$73,325**	**$177,936**	**$164,338**	**$29,496**	**$736,239**

Note: Sales are classified by country or region based on the location of customers.

   (2) Property, plant and equipment

Millions of Yen					
2018					
Japan	North America	Europe	Asia	Other Regions	Total
¥7,060	**¥503**	**¥965**	**¥703**		**¥9,232**

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

Thousands of U.S. Dollars					
2018					
Japan	North America	Europe	Asia	Other Regions	Total
$65,753	**$4,684**	**$8,987**	**$6,547**		**$85,983**

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.

4. Information about loss on impairment of long-lived assets

	Millions of Yen							
	2018							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Loss on impairment	**¥58**			**¥58**		**¥58**		**¥58**

	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

	Thousands of U.S. Dollars							
	2018							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Loss on impairment	**$540**			**$540**		**$540**		**$540**

5. Information about amortization and unamortized balance of goodwill

	Millions of Yen							
	2018							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Amortization	**¥ 33**	**¥ 31**		**¥ 64**		**¥ 64**		**¥ 64**
Unamortized balance	**498**	**119**		**618**		**618**		**618**

	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

	Thousands of U.S. Dollars							
	2018							
	Reportable Segment							
	Marine	Industrial	Wireless LAN/ Handy Terminal	Total	Other	Total	Reconciliations	Consolidated
Amortization	**$ 307**	**$ 288**		**$ 596**		**$ 596**		**$ 596**
Unamortized balance	**4,638**	**1,108**		**5,755**		**5,755**		**5,755**

As of February 28, 2018

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
	FURUNO SHANGHAI CO., LTD.	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
	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)
	2014	2015	2016	2017	**2018**	**2018**
For the year:						
Net sales:	¥75,667	¥85,967	¥89,720	¥78,674	**¥79,050**	**$736,239**
Operating income	1,493	1,799	2,911	1,534	**1,992**	**18,552**
Income before income taxes and minority interests	2,335	50	3,348	1,467	**2,001**	**18,636**
Net income (loss)	(660)	(910)	2,624	1,262	**1,236**	**11,511**
Per share of common stock (Notes 2) (yen and U.S. dollars):						
Basic net income (loss)	(20.92)	(28.85)	83.27	40.06	**39.25**	**0.37**
Cash dividends applicable to the year	8.00	8.00	10.00	8.00	**10.00**	
Weighted average number of shares outstanding (thousands)	31,545	31,523	31,513	31,512	**31,512**	
Research and development cost	5,237	4,539	4,786	4,253	**4,470**	**41,631**
Capital expenditure	1,479	1,675	1,794	1,613	**1,295**	**12,061**
Depreciation and amortization	2,039	2,587	2,721	2,924	**3,225**	**30,036**
Net cash provided by operating activities	1,209	2,914	1,258	6,417	**5,142**	**47,890**
Net cash used in investing activities	(2,794)	(3,975)	(2,612)	(4,152)	**(3,404)**	**(31,703)**
Net cash provided by (used in) financing activities	3,230	(2,227)	(2,811)	(2,201)	**(1,542)**	**(14,361)**
At year-end:						
Total assets	¥80,075	¥83,796	¥78,464	¥75,724	**¥76,773**	**$715,032**
Interest-bearing debt	15,477	13,663	16,736	14,881	**13,706**	**127,652**
Shareholders' equity	36,703	36,861	36,182	35,981	**38,201**	**355,788**
Number of employees	2,815	2,930	2,905	2,894	**2,920**	
Overseas sales:						
North America	¥ 7,978	¥ 8,303	¥ 8,567	¥ 7,547	**¥ 7,873**	**$ 73,325**
Europe	17,062	19,610	19,628	16,886	**19,105**	**177,936**
Asia	18,143	22,926	24,647	17,438	**17,645**	**164,338**
Other	3,308	3,723	3,933	3,247	**3,167**	**29,496**
Total	46,491	54,562	56,777	45,118	**47,791**	**445,105**
Key ratio (%):						
Return on sales	(0.9)%	(1.1)%	2.92%	1.60%	**1.56%**	
Return on assets	3.1	3.5	4.10	1.90	**2.40**	
Return on equity	(1.9)	(2.5)	7.18	3.50	**3.33**	
Debt equity ratio	42.0	37.1	46.26	41.36	**35.88**	
Equity ratio	45.8	44.0	46.10	47.50	**49.80**	

Note: 1. U.S. dollar amounts have been converted from Japanese yen, for convenience only, at the rate of ¥107.37=U.S. $1, the approximate rate of exchange prevailing at February 28, 2018.
2. See Note 2.s and Note 16 of the Notes to the Consolidated Financial Statements.

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