

Futaba Corporation

FINANCIAL STATEMENTS 2026

Year Ended 31st March, 2026

Highlights of the Year

Year Ended 31st March, 2026

	Millions of Japanese Yen	
	2026	2025
Net Sales	42,983	48,117
Net Income (Loss) Attributable to Owners of the Parent	2,523	(281)
Net Income (Loss) per Share (Yen)	59.48	(6.63)
Cash Dividends	424	212

Corporate Data

As of 31st March, 2026

Corporate Name	FUTABA CORPORATION	
Founded	1948	
Principal Office	629 Oshiba, Mobara, Chiba Prefecture 297-8588, Japan	
Common Stock	Authorized	196,099,900 shares
	Issued	42,426,739 shares
Capitalized	¥22,559 million	
Shareholders	12,895	
Employees	2,384	

Futaba Corporation and Consolidated Subsidiaries

*Consolidated Financial Statements
for the Year Ended March 31, 2026,
and Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Futaba Corporation:

<Audit of Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements of Futaba Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2026, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2026, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Revenue recognition of Futaba Corporation	
Key audit matter description	Audit responses
Futaba Corporation (the "Company") manufactures and sells electronic systems products and machinery and tooling products. The Group's net sales were ¥42,982 million in the consolidated statement of income for the year ended March 31, 2026. The Company's net sales were the largest and quantitatively important for the Group's net sales. Since the Company manufactures and sells standard products as well as customer specific products in response to individual requests from customers, the number of products handled by the Company is diverse. Furthermore, the total of net sales consists of various types of products with small individual sales price since the selling price is often relatively small. In addition, a large amount of sales data is processed daily due to high volume of transactions. The process of sales transaction is highly automated and dependent on the core operating system, and the system is designed and built to connect each transaction and master data registered in various subsystems in the operating process. Specifically, although customer orders are mainly processed via the electronic data interchange and the shipping process is handled based on shipping documents generated from the system, some orders are input and processed manually. The sales amount is automatically calculated based on a standard unit price list that is manually entered, and product quantities ordered are preliminarily entered upon receiving a customer order and manually determined at the time of shipment. Finally, sales data that is automatically calculated in the core operating system is interfaced to the accounting system and sales transactions are automatically recorded.	In order to address the key audit matter, we performed the following procedures, among others: (1) Evaluation and testing internal controls • In addition to understanding the Company's process flows related to product sales, we evaluated the design and operating effectiveness of controls over entering sales related data, such as customer order, contract terms and master unit price of products in the core system, and controls over recognizing revenue based on the fact of shipment. • With assistance of our IT specialists, we obtained an understanding of the data process flow from the inception of sales transactions to recording in the accounting system, data processing and automated internal controls in IT systems, and we also evaluated the design and operating effectiveness of IT automated controls over the automated calculation of sales amount based on shipping volume and applicable sales unit price, and the interface between the core operating system and the accounting system. • We tested the design and operating effectiveness of general IT controls such as user access controls, system program change management controls and system operation controls of core systems related to product sales. (2) Substantive procedures to address the matter • We obtained an understanding of business unit performance and performed an analysis of relevant indicators, such as gross margin ratio to identify unusual trends and items. In addition, we analyzed the trends of daily recorded sales volume. As a result of those analysis, we inquired of management for sales transactions that presented unusual trends or movements deviated from our understanding of the Company business and the industry trends and performed detail substantive testing with supporting documents as deemed necessary.

We identified the occurrence, accuracy and cut-off of sales as a key audit matter because of the following reasons. The Company's product sales transactions are low in amount and high in volume. The operation flow, from processing customer orders to determining sales amount, is mainly performed within the core system, which also includes manual processing as a part of the flow. Therefore, as the frequency of entering data and the number of transactions increases, a lack of updating master data information and input error of basic transaction data and quantity to the system may be more likely to result in those sales being recorded based on inappropriate information.	• We sent and obtained written confirmation letters for a sample of account receivables selected by statistical sampling. Where there were differences identified, we performed further investigation and tested those differences. • For sales transaction selected by statistical sampling, we tested the occurrence, accuracy and cut-off of sales by performing detail substantive testing with supporting documents.
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Other Information

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

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

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

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

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

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

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Fee-Related Information>

Fees for audit and other services for the year ended March 31, 2026, which were charged by us and our network firms to Futaba Corporation and its subsidiaries were ¥159 million and ¥20 million, respectively.

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

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

Deloitte Touche Tohmatsu LLC
August 4, 2026

Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
<u>ASSETS</u>	<u>2026</u>	<u>2025</u>	<u>2026</u>
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 28,282	¥ 23,611	\$ 176,892
Marketable securities (Notes 3 and 16)	200	299	1,249
Short-term investments (Notes 4 and 16)	7,907	7,674	49,459
Receivables (Notes 12 and 16):			
Trade notes	684	919	4,280
Trade accounts	10,853	10,736	67,880
Other	727	190	4,544
Allowance for doubtful receivables	(1,005)	(803)	(6,285)
Electronically recorded monetary claims (Notes 12 and 16)	1,503	1,474	9,400
Inventories (Note 5)	11,982	13,968	74,943
Prepaid expenses and other current assets	942	888	5,898
Total current assets	<u>62,075</u>	<u>58,956</u>	<u>388,260</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 8)	9,191	8,974	57,484
Buildings and structures (Notes 6 and 8)	33,766	33,381	211,194
Machinery and equipment (Note 6)	46,030	44,320	287,901
Lease assets (Notes 6 and 15)	10	10	59
Construction in progress (Note 6)	140	113	876
Other (Note 6)	274	377	1,716
Total	89,411	87,175	559,230
Accumulated depreciation	<u>(72,573)</u>	<u>(70,430)</u>	<u>(453,914)</u>
Net property, plant and equipment	<u>16,838</u>	<u>16,745</u>	<u>105,316</u>
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries	20	20	125
Investment securities (Notes 3, 8 and 16)	17,313	13,324	108,291
Intangibles (Note 6)	497	645	3,110
Asset for retirement benefits (Note 9)	10,003	9,288	62,565
Deferred tax assets (Note 11)	192	232	1,202
Other investments (Note 8)	1,946	1,881	12,168
Total investments and other assets	<u>29,971</u>	<u>25,390</u>	<u>187,461</u>
TOTAL	<u>¥ 108,884</u>	<u>¥ 101,091</u>	<u>\$ 681,037</u>

Futaba Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	2026	2025	2026
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 8)	¥ 163	¥ 139	\$ 1,022
Payables (Notes 8 and 16):			
Trade notes	234	70	1,465
Trade accounts	1,850	1,823	11,572
Unconsolidated subsidiaries	20	16	124
Other	401	453	2,508
Short-term bank loans (Notes 7 and 16)		95	
Electronically recorded obligations (Note 16)		110	
Accrued expenses	2,539	2,492	15,875
Income taxes payable	146	182	914
Other current liabilities (Note 12)	959	1,155	6,000
Total current liabilities	6,312	6,535	39,480
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	341	467	2,132
Liability for retirement benefits (Note 9)	215	180	1,346
Retirement allowances for directors	22	18	138
Deferred tax liabilities (Note 11)	6,664	5,467	41,683
Other	130	112	811
Total long-term liabilities	7,372	6,244	46,110
CONTINGENT LIABILITIES			
EQUITY (Note 10):			
Common stock—authorized, 196,099,900 shares; issued, 42,426,739 shares in 2026 and 2025	22,559	22,559	141,097
Capital surplus	21,045	21,045	131,627
Retained earnings	23,917	21,818	149,596
Treasury stock—at cost, 11,614 shares in 2026 and 11,122 shares in 2025	(17)	(17)	(109)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	7,497	4,931	46,893
Foreign currency translation adjustments	5,625	3,682	35,182
Defined retirement benefit plans	3,168	3,150	19,814
Total	83,794	77,168	524,100
Noncontrolling interests	11,406	11,144	71,347
Total equity	95,200	88,312	595,447
TOTAL	¥ 108,884	¥ 101,091	\$ 681,037

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2026</u>	<u>2025</u>	<u>2026</u>
NET SALES (Notes 12 and 18)	¥42,983	¥48,117	\$ 268,843
COST OF SALES	<u>36,059</u>	<u>39,248</u>	<u>225,538</u>
Gross profit	6,924	8,869	43,305
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	<u>9,205</u>	<u>10,161</u>	<u>57,571</u>
Operating loss	<u>(2,281)</u>	<u>(1,292)</u>	<u>(14,266)</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,085	906	6,790
Rental income	192	261	1,201
Foreign exchange income (loss)—net	408	(45)	2,550
Gain on sales of property, plant and equipment	3,674	1,947	22,977
Gain on liquidation of subsidiaries and associates	553		3,460
Loss on sales of property, plant and equipment	(3)	(0)	(20)
Loss on disposals of property, plant and equipment	(9)	(1)	(54)
Restructuring loss (Notes 9 and 14)	(71)	(599)	(445)
Impairment loss (Note 6)	(530)	(322)	(3,318)
Extra retirement benefits (Note 9)	(23)	(46)	(144)
Other—net	<u>(66)</u>	<u>10</u>	<u>(407)</u>
Other income—net	<u>5,210</u>	<u>2,111</u>	<u>32,590</u>
INCOME BEFORE INCOME TAXES	<u>2,929</u>	<u>819</u>	<u>18,324</u>
INCOME TAXES (Note 11):			
Current	160	638	1,003
Refund	(5)	(356)	(29)
Deferred	<u>219</u>	<u>281</u>	<u>1,367</u>
Total income taxes	<u>374</u>	<u>563</u>	<u>2,341</u>
NET INCOME	2,555	256	15,983
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>32</u>	<u>537</u>	<u>203</u>
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 2,523</u>	<u>¥ (281)</u>	<u>\$ 15,780</u>
	<u>Japanese Yen</u>	<u>U.S. Dollars</u>	
AMOUNTS PER SHARE (Note 2.r):			
Net income (loss)	¥ 59.48	¥ (6.63)	\$ 0.37
Cash dividends applicable to the year	18.00	10.00	0.11

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2026</u>	<u>2025</u>	<u>2026</u>
NET INCOME	¥ 2,555	¥ 256	\$ 15,983
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gain on available-for-sale securities	2,592	160	16,213
Foreign currency translation adjustments	2,327	(2,745)	14,554
Defined retirement benefit plans	<u>(35)</u>	<u>1,076</u>	<u>(219)</u>
Total other comprehensive income (loss)	<u>4,884</u>	<u>(1,509)</u>	<u>30,548</u>
COMPREHENSIVE INCOME (LOSS)	<u>¥ 7,439</u>	<u>¥ (1,253)</u>	<u>\$ 46,531</u>
TOTAL COMPREHENSIVE INCOME (LOSS)			
ATTRIBUTABLE TO:			
Owners of the parent	¥ 7,050	¥ (829)	\$ 44,094
Noncontrolling interests	389	(424)	2,437

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2026

	Thousands Number of Shares of Common Stock Outstanding	Millions of Japanese Yen				
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, MARCH 31, 2024	42,416	¥22,559	¥21,047	¥22,311	¥(17)	¥65,900
Net loss attributable to owners of the parent				(281)		(281)
Cash dividends				(212)		(212)
Purchase of treasury stock	(0)				(0)	(0)
Change in ownership interest of the parent due to transactions with noncontrolling interests			(2)			(2)
Net change in the year						
BALANCE, MARCH 31, 2025	42,416	22,559	21,045	21,818	(17)	65,405
Net income attributable to owners of the parent				2,523		2,523
Cash dividends				(424)		(424)
Purchase of treasury stock	(1)				(0)	(0)
Net change in the year						
BALANCE, MARCH 31, 2026	<u>42,415</u>	<u>¥22,559</u>	<u>¥21,045</u>	<u>¥23,917</u>	<u>¥(17)</u>	<u>¥67,504</u>

	Millions of Japanese Yen					
	Accumulated Other Comprehensive Income					
	Unrealized Gain on Available- for-Sale Securities	Foreign Currency Translation Adjust- ments	Defined Retirement Benefit Plans	Total	Noncon- trolling Interests	Total Equity
BALANCE, MARCH 31, 2024	¥4,774	¥5,485	¥2,052	¥78,211	¥12,319	¥90,530
Net loss attributable to owners of the parent				(281)		(281)
Cash dividends				(212)		(212)
Purchase of treasury stock				(0)		(0)
Change in ownership interest of the parent due to transactions with noncontrolling interests				(2)		(2)
Net change in the year	<u>157</u>	<u>(1,803)</u>	<u>1,098</u>	<u>(548)</u>	<u>(1,175)</u>	<u>(1,723)</u>
BALANCE, MARCH 31, 2025	4,931	3,682	3,150	77,168	11,144	88,312
Net income attributable to owners of the parent				2,523		2,523
Cash dividends				(424)		(424)
Purchase of treasury stock				(0)		(0)
Net change in the year	<u>2,566</u>	<u>1,943</u>	<u>18</u>	<u>4,527</u>	<u>262</u>	<u>4,789</u>
BALANCE, MARCH 31, 2026	<u>¥7,497</u>	<u>¥5,625</u>	<u>¥3,168</u>	<u>¥83,794</u>	<u>¥11,406</u>	<u>¥95,200</u>

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2026

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Subtotal
BALANCE, MARCH 31, 2025	\$ 141,097	\$ 131,627	\$ 136,470	\$ (107)	\$ 409,087
Net income attributable to owners of the parent			15,780		15,780
Cash dividends			(2,654)		(2,654)
Purchase of treasury stock				(2)	(2)
Net change in the year					
BALANCE, MARCH 31, 2026	<u>\$ 141,097</u>	<u>\$ 131,627</u>	<u>\$ 149,596</u>	<u>\$ (109)</u>	<u>\$ 422,211</u>

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjust-ments	Defined Retirement Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2025	\$ 30,845	\$ 23,028	\$ 19,702	\$ 482,662	\$ 69,706	\$ 552,368
Net income attributable to owners of the parent				15,780		15,780
Cash dividends				(2,654)		(2,654)
Purchase of treasury stock				(2)		(2)
Net change in the year	16,048	12,154	112	28,314	1,641	29,955
BALANCE, MARCH 31, 2026	\$ 46,893	\$ 35,182	\$ 19,814	\$ 524,100	\$ 71,347	\$ 595,447

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2026</u>	<u>2025</u>	<u>2026</u>
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,929	¥ 819	\$ 18,324
Adjustments for:			
Income taxes—paid	(285)	(695)	(1,780)
Income taxes—refund	116	331	727
Depreciation and amortization	1,007	1,066	6,296
Impairment loss	530	322	3,318
Foreign exchange gain	(400)	(316)	(2,505)
Gain on sales and disposal of property, plant and equipment	(3,662)	(1,946)	(22,903)
Restructuring loss	71	599	445
Restructuring paid	(150)	(1,133)	(936)
Increase (decrease) in defined retirement benefit plans	(9)	1,685	(54)
Changes in assets and liabilities:			
Increase (decrease) in provision for doubtful receivables	34	(73)	214
Increase in asset for retirement benefits	(683)	(1,603)	(4,269)
Increase (decrease) in liability for retirement benefits	22	(198)	137
Increase (decrease) in accrued bonuses	5	(31)	29
Decrease in trade receivables	738	2,978	4,614
Decrease in inventories	2,618	3,333	16,374
Decrease in trade payables	(222)	(635)	(1,389)
Gain on liquidation of subsidiaries and associates	(553)		(3,460)
Other—net	(336)	121	(2,108)
Total adjustments	<u>(1,159)</u>	<u>3,805</u>	<u>(7,250)</u>
Net cash provided by operating activities	<u>1,770</u>	<u>4,624</u>	<u>11,074</u>
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	2,424	2,364	15,160
Purchases of property, plant and equipment	(902)	(1,084)	(5,642)
Proceeds from sale of intangible assets	1,075		6,727
Purchases of intangible assets	(61)	(81)	(380)
Purchases of investment securities	(500)	(594)	(3,128)
Proceeds from sales and redemption of investment securities	300	307	1,876
(Increase) decrease in short-term investments and marketable securities—net	109	(1,303)	684
Payments for long-term deposits	(849)	(877)	(5,309)
Proceeds from long-term deposits	849		5,309
Other—net	<u>(1)</u>	<u>(83)</u>	<u>(13)</u>
Net cash provided by (used in) investing activities	<u>2,444</u>	<u>(1,351)</u>	<u>15,284</u>
FORWARD	<u>¥ 4,214</u>	<u>¥ 3,273</u>	<u>\$ 26,358</u>

Futaba Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2026

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)
	<u>2026</u>	<u>2025</u>	<u>2026</u>
FORWARD	¥ 4,214	¥ 3,273	\$ 26,358
FINANCING ACTIVITIES:			
Proceeds from short-term loans payable	414	587	2,588
Repayments of short-term bank loans	(517)	(621)	(3,227)
Repayment of lease obligations	(179)	(207)	(1,118)
Repurchases of treasury stock	(0)	(0)	(2)
Dividends paid	(425)	(213)	(2,659)
Dividends paid to noncontrolling shareholders	(127)	(697)	(795)
Net cash used in financing activities	<u>(834)</u>	<u>(1,151)</u>	<u>(5,213)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>1,291</u>	<u>172</u>	<u>8,069</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,671	2,294	29,214
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23,611</u>	<u>21,317</u>	<u>147,678</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥28,282</u>	<u>¥23,611</u>	<u>\$ 176,892</u>

See notes to consolidated financial statements.

Futaba Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2026

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 IFRS Accounting 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 2025 consolidated financial statements to conform to the classifications used in 2026.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Futaba Corporation (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 ¥159.88 to \$1, the approximate rate of exchange at March 31, 2026. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of March 31, 2026, include the accounts of the Company and its 23 (24 in 2025) significant subsidiaries (together, the "Group"). FUTABA DENSHI Corp (S) Pte. Ltd. has been excluded from the scope of consolidation during current fiscal year as a result of the liquidation.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in unconsolidated subsidiary, FUTABA Business System Co., Ltd is stated at cost. If the equity method of accounting had been applied to the investments in the subsidiary, the effect on the accompanying consolidated financial statements would not be material.

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

- 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 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 IFRS Accounting 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 through other comprehensive income; (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; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

- 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. 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 and Cash Equivalents**—Cash and cash equivalents include cash on hand, highly liquid bank accounts and investments, generally with original maturities of three months or less, which are readily convertible into known amounts of cash and are exposed to insignificant risk of changes in value.
- e. Inventories**—Finished goods and work in process are stated at the lower of cost determined by the average cost method or net selling value, and raw materials and supplies are stated at the lower of cost determined by the moving-average cost method or net selling value for the Company and its consolidated domestic subsidiaries. Inventories are stated at the lower of cost determined by the moving-average cost method or market value for its consolidated foreign subsidiaries.
- f. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities, which are not classified as trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- g. Property, Plant and Equipment**—Property, plant and equipment are stated at cost.

Depreciation of buildings of the Company and its consolidated subsidiaries is computed by the straight-line method.

Depreciation of other property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method, while the straight-line method or the declining-balance method is applied to other property, plant and equipment of consolidated foreign subsidiaries.

The range of useful lives is principally from 3 to 47 years for buildings and structures and 4 to 12 years for machinery and equipment.

- h. Goodwill**—Goodwill is amortized using the straight-line method over a period of five to eight years.
- i. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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. Retirement and Pension Plans**—The Company and certain consolidated subsidiaries have funded defined benefit pension plans, unfunded retirement benefit pension plans, and defined contribution pension plans covering substantially all of their employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. 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 are recognized in profit or loss over 10 years no longer than the expected average remaining service period of the employees. Furthermore, several consolidated subsidiaries apply the simplified method based on Japanese GAAP.

Retirement allowances for directors are recorded as a liability at the amount that would be required if all directors retired at each balance sheet date.

- k. Accounting Policy for Significant Revenue and Expenses**—In recognizing revenue, the Group identifies performance obligations based on contracts with customers for product sales and service operations in the electronic systems and machinery and tooling which are the Group's main businesses. The Group normally recognizes revenue when it determines that it has satisfied its performance obligations at the following points in time.

The Group operates businesses in electronic systems and machinery and tooling. For sales of these products, revenue is recognized at the time of shipment for domestic transactions, as the period from shipment to the transfer of control to the customer is typically short. For export transactions, revenue is primarily recognized based on the bill of lading, as control of the assets is transferred to the customer in accordance with the Incoterms and other conditions.

Additionally, electronic systems transactions related to the manufacture and sale of customer-specific products result in the creation of assets that cannot be repurposed for other uses. The Group has the enforceable right to collect payment for the completed portions of work performed. Accordingly, the Group recognizes revenue over time.

Revenue is measured at consideration promised in the contract with customer, less discounts, rebates, returns and other items. In addition, the consideration is normally collected approximately within a year from satisfying the performance obligation and it does not contain a significant financing component.

- l. Research and Development Costs**—Research and development costs are charged to income as incurred.
- m. Leases**—Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet.
- n. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

- o. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward 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 are shown as "Foreign currency translation adjustments" and "Noncontrolling interests" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate for the period.
- q. Derivatives and Hedging Activities**—The Group uses derivative financial instruments, such as foreign exchange forward contracts, to manage foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement 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.

Foreign currency forward contracts employed to hedge foreign currency exposures for export sales and import purchases are measured at fair value and the unrealized gains/losses are recognized in income. Deposits, trade receivables and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rates if the forward contracts qualify for hedge accounting.

- 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.

The weighted-average number of shares used in the computation was 42,415,428 shares for 2026 and 42,416,036 shares for 2025.

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

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

s. New Accounting Pronouncements

Accounting Standard for Leases

—“Accounting Standard for Leases” (ASBJ Statement No.34, issued on September 13, 2024)

—“Implementation Guidance on Accounting Standard for Leases” (ASBJ Guidance No.33 issued on September 13, 2024)

(1) Overview

As part of efforts to align Japanese GAAP with international accounting standards, the ASBJ has been considering the development of lease accounting standards that require lessees to recognize assets and liabilities for all leases, based on international accounting standards. The basic policy follows the single accounting model of IFRS 16. However, only the main provisions of IFRS 16 will be applied, rather than adopting all of the provisions. The new lease accounting standard aims to be simple and convenient, and generally requires no

modification even if the provisions of IFRS 16 are applied in nonconsolidated financial statements.

For lessee accounting, the single accounting model will be applied, under which depreciation expenses for right-of-use assets and interest expenses for lease liabilities are recognized for all leases, regardless of whether the lease would previously have been classified as a finance lease or an operating lease, as in IFRS 16.

(2) *Date of adoption*

The accounting standard will be adopted from the beginning of the fiscal year ending March 2028.

(3) *Impact of the adoption of the accounting standard*

The impact of adopting this accounting standard on the consolidated financial statements is currently being assessed.

Accounting Standard for Subsequent Events

—“Accounting Standard for Subsequent Events” (ASBJ Statement No.41, issued on January 9, 2026)

—“Implementation Guidance on Accounting Standard for Subsequent Events” (ASBJ Guidance No.35 issued on January 9, 2026)

(1) *Overview*

The "Accounting Standard for Subsequent Events," etc. set out accounting treatment and disclosure requirements for subsequent events. In developing these standards, priority was given to establishing comprehensive accounting standards addressing the definition of subsequent events, accounting treatment, disclosure, and other matters. Its basic policy was to transfer to the ASBJ the accounting-related content set out in Practical Guideline No. 1 of Auditing Standards Committee Statement No. 560, "Audit Treatment Concerning Subsequent Events," issued by the Auditing and Assurance Standards Committee of the Japanese Institute of Certified Public Accountants, while in principle carrying over that content. The standards also revise the wording, clarify the evaluation period for subsequent events, and newly require notes on approval for the issuance of financial statements.

(2) *Date of adoption*

The accounting standard will be adopted from the beginning of the fiscal year ending March 2028.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2026 and 2025, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2026	2025	2026
Current—Government and corporate bonds	¥ 200	¥ 299	\$ 1,249
Total	¥ 200	¥ 299	\$ 1,249
Non-current:			
Marketable equity securities	¥15,608	¥11,794	\$ 97,623
Government and corporate bonds	854	776	5,343
Trust fund investments and other	851	754	5,325
Total	¥17,313	¥13,324	\$108,291

The costs and aggregate fair values of marketable and investment securities at March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2026</u>				
Securities classified as—				
Available-for-sale:				
Equity securities	¥4,398	¥11,037	¥ 0	¥ 15,435
Debt securities	1,102		48	1,054
Other	200			200
<u>March 31, 2025</u>				
Securities classified as—				
Available-for-sale:				
Equity securities	¥4,389	¥ 7,233		¥ 11,622
Debt securities	1,102		¥ 27	1,075
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2026</u>				
Securities classified as—				
Available-for-sale:				
Equity securities	\$ 27,507	\$ 69,037	\$ 0	\$ 96,544
Debt securities	6,891		299	6,592
Other	1,251			1,251

The information for available-for-sale securities which were sold during the years ended March 31, 2026 and 2025, is as follows

For 2026

There were no available-for-sale securities sold during the year ended March 31, 2026.

For 2025

<u>March 31, 2025</u>	<u>Millions of Japanese Yen</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale—Equity securities	<u>¥ 1</u>	<u>¥ 1</u>	<u>—</u>
Total	<u>¥ 1</u>	<u>¥ 1</u>	<u>—</u>

There was no impairment loss on available-for-sale securities during the year ended March 31, 2026. Impairment loss ¥5 million was recorded for unlisted stocks classified as “Available-for-sale—Equity securities” with no available market value during the year ended March 31, 2025. For unlisted stocks, if the fair value has declined by 50% or more compared to the acquisition cost due to a deterioration in the financial condition, the recoverability of such fair value is individually assessed, and impairment losses are recognized accordingly.

4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2026 and 2025, consisted of time deposits of ¥7,907 million (\$49,459 thousand) and ¥7,674 million, respectively.

5. INVENTORIES

Inventories at March 31, 2026 and 2025, consisted of the following:

	<u>Millions of Japanese Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Finished goods	¥ 3,189	¥ 4,047	\$ 19,944
Work in process	1,846	2,054	11,543
Raw materials and supplies	<u>6,947</u>	<u>7,867</u>	<u>43,456</u>
Total	<u>¥ 11,982</u>	<u>¥ 13,968</u>	<u>\$ 74,943</u>

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2026 and 2025. As a result, the Group recognized an impairment loss of ¥530 million (\$3,318 thousand) and ¥322 million for the years ended March 31, 2026 and 2025, respectively, as further described below:

For 2026

Description	Classification	Location	Millions of Japanese Yen	Thousands of U.S. Dollars
Facilities for machinery and tooling	Machinery, software, etc.	Chosei County, etc., Japan	¥ 269	\$1,681
Head office, etc.	Equipment, software, etc.	Chosei County, etc., Japan	75	469
Facilities for electronic systems	Other tangible fixed assets and machinery	Huntsville, etc., USA	73	455
Facilities for electronic systems	Structures, other intangible fixed assets, etc.	Kaohsiung City, Taiwan	63	397
Facilities for machinery and tooling	Machinery and other intangible fixed assets	Incheon Metropolitan City, South Korea	21	132
Facilities for machinery and tooling	Equipment, other intangible fixed assets, etc.	Shenzhen City, China	10	60
Facilities for electronic systems	Other tangible fixed assets and equipment	Shanghai City, China	9	55
Facilities for machinery and tooling	Software and equipment	Tokyo, Japan	7	44
Facilities for electronic systems	Other tangible fixed assets and equipment	Hwaseong Gyeonggi-do, South Korea	1	9
Facilities for electronic systems	Equipment	Hong Kong	1	7
Facilities for machinery and tooling	Buildings and Machinery	Iwate City, Japan	1	7
Facilities for electronic systems	Buildings	Chosei County, Japan	0	2
Total			<u>¥ 530</u>	<u>\$3,318</u>

Considering the current business environment, the business forecast, and the recoverability of the relevant assets, the Group wrote down the carrying value of the facilities for head office, machinery and tooling, and electronic systems to their recoverable amounts.

The recoverable amounts of those facilities were measured at their net sale value or value in use. The net sale value was calculated by using the estimated disposal value. The value in use was determined to be zero because no future cash flow is expected.

A breakdown of impairment loss for the fiscal year ended March 31, 2026, is as follows:

<u>Classification</u>	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Machinery and equipment	¥ 185	\$ 1,160
Software	119	745
Other tangible fixed assets	67	417
Furniture and fixtures	59	366
Buildings and structures	50	316
Other intangible fixed assets	21	134
Construction in progress	17	103
Land	<u>12</u>	<u>77</u>
Total	<u>¥ 530</u>	<u>\$ 3,318</u>

For 2025

Description	Classification	Location	Millions of Japanese Yen
Facilities for electronic systems	Construction in progress, buildings, etc.	Huntsville, etc., USA	¥ 117
Facilities for electronic systems	Machinery, other intangible fixed assets, etc.	Kaohsiung City, Taiwan	39
Facilities for machinery and tooling	Machinery	Incheon Metropolitan City, South Korea	38
Head office, etc.	Other investments, machinery, etc.	Chosei County, etc., Japan	35
Facilities for machinery and tooling	Machinery, construction in progress, etc.	Chosei County, etc., Japan	33
Facilities for machinery and tooling	Machinery, equipment, etc.	Shenzhen City, China	25
Facilities for machinery and tooling	Machinery, buildings, etc.	Ho Chi Minh City, Viet Nam	19
Facilities for machinery and tooling	Software and equipment	Tokyo, Japan	8
Facilities for machinery and tooling	Equipment, buildings, etc.	Hwaseong Gyeonggi-do, South Korea	4
Facilities for electronic systems	Machinery	Huizhou City, China	2
Facilities for electronic systems	Other tangible fixed assets and equipment	Anyang Gyeonggi-do, South Korea	2
Facilities for electronic systems	Equipment	Shanghai City, China	0
Total			<u>¥ 322</u>

Considering the current business environment, the business forecast, and the recoverability of the relevant assets, the Group wrote down the carrying value of the facilities for head office, machinery and tooling, and electronic systems to their recoverable amounts.

The recoverable amounts of those facilities were measured at their net sale value or value in use. The net sale value was calculated by using the estimated disposal value. The value in use was determined to be zero because no future cash flow is expected.

A breakdown of impairment loss for the fiscal year ended March 31, 2025, is as follows:

<u>Classification</u>	<u>Millions of Japanese Yen</u>
Machinery and equipment	¥ 146
Construction in progress	60
Buildings and structures	42
Furniture and fixtures	35
Other intangible fixed assets	19
Other investments	12
Software	6
Other tangible fixed assets	2
Land	0
Total	<u>¥ 322</u>

7. SHORT-TERM BANK LOANS

For 2026

There are no short-term bank loans at March 31, 2026.

For 2025

The annual interest rates applicable to the short-term bank loans at March 31, 2025, was 3.80%.

8. LONG-TERM DEBT AND ASSETS PLEDGED AS COLLATERAL

Long-term debt on March 31, 2026 and 2025, consisted of the following:

	<u>Millions of Japanese Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Long-term lease obligation	¥504	¥606	\$3,154
Less current portion	<u>(163)</u>	<u>(139)</u>	<u>(1,022)</u>
Long-term debt, less current portion	<u>¥341</u>	<u>¥467</u>	<u>\$2,132</u>

Annual maturities of long-term debt as of March 31, 2026, for the next five years and thereafter were as follows:

<u>Year Ending March 31</u>	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
2027	¥163	\$1,022
2028	111	692
2029	80	502
2030	56	352
2031	25	156
2032 and thereafter	<u>69</u>	<u>430</u>
Total	<u>¥504</u>	<u>\$3,154</u>

The carrying amounts of assets pledged as collateral for trade accounts payable of ¥94 million (\$590 thousand) and other of ¥31 million (\$193 thousand) at March 31, 2026, were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Land	¥1,073	\$ 6,713
Buildings and structures—net	594	3,713
Investment securities	<u>271</u>	<u>1,693</u>
Total	<u>¥1,938</u>	<u>\$12,119</u>

9. RETIREMENT AND PENSION PLANS

Under the employees retirement benefit plans of the Company covering substantially all of the employees of the Company and its domestic subsidiaries, employees terminating their employment are entitled, under most circumstances, to either lump-sum payments or annuity payments, determined based on the current basic rate of pay, length of service, conditions under which the termination occurs and certain other factors. Those employees terminating their employment after 20 or more years of service with the Company are entitled to either lump-sum payments or annuity payments, at their option, and employees with more than 2 years but less than 20 years of service are entitled only to receive lump-sum payments upon retirement.

Certain consolidated foreign subsidiaries also have funded or unfunded retirement benefit plans covering substantially all of their employees. With minor exceptions, employees are entitled to receive lump-sum payments upon termination of employment based on the conditions of termination.

The Company and certain consolidated subsidiaries adopted a defined contribution pension plan as part of their employees' retirement benefit plan. Certain domestic subsidiaries use the Smaller Enterprise Retirement Allowance Mutual Aid Plan or Specific Retirement Allowance Mutual Aid Plan as their defined contribution pension plan.

- (1) The changes in defined benefit obligation for the years ended March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Balance at beginning of year	¥19,343	¥23,809	\$ 120,983
Current service cost	221	251	1,385
Interest cost	420	232	2,625
Actuarial (gains) losses	603	(2,150)	3,771
Benefits paid	(1,865)	(2,574)	(11,666)
Others	<u>172</u>	<u>(225)</u>	<u>1,079</u>
Balance at end of year	<u>¥18,894</u>	<u>¥19,343</u>	<u>\$ 118,177</u>

(2) The changes in plan assets for the years ended March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Balance at beginning of year	¥28,451	¥31,206	\$ 177,949
Expected return on plan assets	733	786	4,586
Actuarial gains (losses)	863	(807)	5,397
Contributions from the employer	271	236	1,698
Benefits paid	(1,833)	(2,336)	(11,466)
Return of retirement benefit trust assets		(360)	
Others	197	(274)	1,232
Balance at end of year	<u>¥28,682</u>	<u>¥28,451</u>	<u>\$ 179,396</u>

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2026 and 2025, was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Funded defined benefit obligation	¥18,679	¥19,165	\$ 116,831
Plan assets	<u>(28,682)</u>	<u>(28,451)</u>	<u>(179,396)</u>
Total	(10,003)	(9,286)	(62,565)
Unfunded defined benefit obligation	<u>215</u>	<u>178</u>	<u>1,346</u>
Net asset arising from defined benefit obligation	<u>¥ (9,788)</u>	<u>¥ (9,108)</u>	<u>\$ (61,219)</u>

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Liability for retirement benefits	¥ 215	¥ 180	\$ 1,346
Asset for retirement benefits	<u>(10,003)</u>	<u>(9,288)</u>	<u>(62,565)</u>
Net asset arising from defined benefit obligation	<u>¥(9,788)</u>	<u>¥(9,108)</u>	<u>\$ (61,219)</u>

(4) The components of net periodic benefit costs for the years ended March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Service cost	¥ 221	¥ 251	\$ 1,385
Interest cost	420	232	2,625
Expected return on plan assets	(733)	(786)	(4,585)
Recognized actuarial losses (gains)	(266)	372	(1,666)
Others		4	
Net periodic benefit costs	<u>¥(358)</u>	<u>¥ 73</u>	<u>\$ (2,241)</u>

In addition to the net periodic benefit costs stated above, extra retirement benefits of ¥1 million (\$5 thousand) and ¥38 million were recorded as operating expenses for the years ended March 31, 2026 and 2025, respectively. Furthermore, extra retirement benefits of ¥23 million (\$144 thousand) and ¥46 million were recorded as other expenses for the years ended March 31, 2026 and 2025, respectively. Additionally, special retirement benefits of ¥0 million (\$2 thousand) and ¥435 million were recorded as restructuring loss for the years ended March 31, 2026 and 2025, respectively.

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Actuarial gains	¥ 17	¥1,651	\$ 107
Total	<u>¥ 17</u>	<u>¥1,651</u>	<u>\$ 107</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Unrecognized actuarial gains	¥4,676	¥4,659	\$ 29,246
Total	<u>¥4,676</u>	<u>¥4,659</u>	<u>\$ 29,246</u>

- (7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2026 and 2025, consisted of the following:

	<u>2026</u>	<u>2025</u>
Debt investments	18%	18%
Equity investments	16	14
General accounts	42	44
Others	<u>24</u>	<u>24</u>
Total	<u>100%</u>	<u>100%</u>

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined 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 March 31, 2026 and 2025, were set forth as follows:

	<u>2026</u>	<u>2025</u>
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

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. The Board of Directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. However, the Company does not meet all the above criteria.

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. 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% for each of the years ended March 31, 2026 and 2025.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2026 and 2025, are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Deferred tax assets:			
Inventories	¥ 531	¥ 409	\$ 3,323
Accrued bonuses to employees	204	202	1,277
Depreciation	296	232	1,849
Liability for retirement benefits	110	156	685
Allowance for doubtful accounts	372	323	2,328
Loss on impairment of long-lived assets	4,456	5,027	27,869
Tax loss carryforwards	12,806	12,972	80,095
Other	375	329	2,354
Total deferred tax assets	<u>19,150</u>	<u>19,650</u>	<u>119,780</u>
Net of deferred tax liabilities in the same tax jurisdiction	<u>(393)</u>	<u>(338)</u>	<u>(2,458)</u>
Valuation allowance related to tax loss carryforwards	(12,806)	(12,972)	(80,095)
Valuation allowance related to total deductible temporary difference, etc.	<u>(5,759)</u>	<u>(6,108)</u>	<u>(36,025)</u>
Valuation allowance	<u>(18,565)</u>	<u>(19,080)</u>	<u>(116,120)</u>
Deferred tax assets—net	<u>192</u>	<u>232</u>	<u>1,202</u>
Deferred tax liabilities:			
Undistributed earnings of subsidiaries	10	13	65
Reserve for advanced depreciation of non-current assets	283	283	1,768
Asset for retirement benefits	3,080	2,873	19,266
Unrealized gain on available-for-sale securities	3,370	2,202	21,080
Other	314	434	1,962
Total deferred tax liabilities	<u>7,057</u>	<u>5,805</u>	<u>44,141</u>
Net of deferred tax assets in the same tax jurisdiction	<u>(393)</u>	<u>(338)</u>	<u>(2,458)</u>
Deferred tax liabilities—net	<u>6,664</u>	<u>5,467</u>	<u>41,683</u>
Net deferred tax liabilities	<u>¥ 6,472</u>	<u>¥ 5,235</u>	<u>\$ 40,481</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2026, with the corresponding figures for 2025, is as follows:

	<u>2026</u>	<u>2025</u>
Normal effective statutory tax rate	30 %	30 %
Expenses not deductible for tax purposes	1	5
Unrecognized tax effects on unrealized gains	0	13
Valuation allowance for deferred tax assets	(32)	(68)
Expiration of loss carryforwards	30	130
Foreign tax credit	1	11
Effects of tax rates change	(4)	(37)
Different tax rates applied to foreign subsidiaries	(7)	(20)
Gain on reversal of foreign currency translation adjustments resulting from liquidation of foreign subsidiary	(6)	
Other—net	<u>(0)</u>	<u>5</u>
Actual effective tax rate	<u>13 %</u>	<u>69 %</u>

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2026 and 2025, were as follows:

Millions of Japanese Yen							
	Within 1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 Years	Over 3 Years to 4 Years	Over 4 Years to 5 Years	Over 5 Years	Total
<u>March 31, 2026</u>							
Tax loss carryforward	¥ 895	¥ 329	¥1,217	¥2,045	¥2,539	¥5,781	¥12,806
Valuation allowance	(895)	(329)	(1,217)	(2,045)	(2,539)	(5,781)	(12,806)
Deferred tax assets							
<u>March 31, 2025</u>							
Tax loss carryforward	¥ 885	¥ 987	¥320	¥1,235	¥2,015	¥7,530	¥12,972
Valuation allowance	(885)	(987)	(320)	(1,235)	(2,015)	(7,530)	(12,972)
Deferred tax assets							

Thousands of U.S. Dollars							
	Within 1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 Years	Over 3 Years to 4 Years	Over 4 Years to 5 Years	Over 5 Years	Total
<u>March 31, 2026</u>							
Tax loss carryforward	\$5,600	\$2,055	\$7,608	\$12,790	\$15,882	\$36,160	\$80,095
Valuation allowance	(5,600)	(2,055)	(7,608)	(12,790)	(15,882)	(36,160)	(80,095)
Deferred tax assets							

The amounts deducted from deferred tax assets (valuation allowance) have significant changes. The main reason is increase in tax loss carryforward.

12. REVENUE

(1) *Disaggregation of Revenue*

Information that classifies revenues from contracts with customers is shown in Note 22, "Segment Information."

(2) *Basic Information to Understand Revenues from Contracts with Customers*

Information that provides a basis for understanding revenues from contracts with customers is shown in Note 2.k, "Accounting policy for significant revenue and expenses."

(3) *Contract Balances*

Receivables from contracts with customers and contract liabilities at the beginning and end of the year are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Receivables from contracts with customers:			
Balance at beginning of year	¥13,130	¥16,846	\$82,122
Balance at end of year	13,040	13,130	81,560
Contract assets:			
Balance at beginning of year			
Balance at end of year	196		1,225
Contract liabilities:			
Balance at beginning of year	452	128	2,828
Balance at end of year	462	452	2,888

Receivables from contracts with customers are included in "Trade notes," "Trade accounts" and "Electronically recorded monetary claims," while contract assets are included in "Prepaid expenses and other current assets," and contract liabilities are included in "Other current liabilities" in the consolidated financial statements.

The amount of revenue recognized for the years ended March 31, 2026 and 2025, that was included in the balance of contract liabilities at the beginning of year were ¥452 million (\$2,828 thousand) and ¥128 million, respectively.

(4) *Transaction Prices Allocated to Remaining Performance Obligations*

The Group has no material transaction whose remaining performance obligation exceeds one year. Within the consideration for the contracts with the customers, there is no material amount not included in the transaction prices.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,322 million (\$8,268 thousand) and ¥1,268 million for the years ended March 31, 2026 and 2025, respectively.

14. RESTRUCTURING LOSS

For 2026

Restructuring loss of ¥71 million (\$445 thousand) was recorded as a result of the restructuring of the Group's business for the year ended March 31, 2026. These mainly consist of legal fees incurred in connection with the sale of property by the manufacturing subsidiary located in China for machinery and tooling.

For 2025

Restructuring loss of ¥599 million was recorded as a result of the restructuring of the Group's business for the year ended March 31, 2025. These mainly consist of special retirement benefits of the manufacturing subsidiaries located in China for machinery and tooling.

15. LEASES

Finance Leases

As Lessee

The Group leases certain computer equipment, machinery and other assets. Total lease payments under finance leases for the years ended March 31, 2026 and 2025, were ¥179 million (\$1,118 thousand) and ¥207 million, respectively.

Operating Leases

There are no obligations under noncancelable operating leases for the years ended March 31, 2026 and 2025.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly safe and reliable short-term cash deposits and marketable and investment securities which are believed to be beneficial for the business and fund management. In accordance with the Group's financing policy, funding is mainly procured as required by capital investment plans. In addition, the Company has entered into a commitment line contract in the form of a relative contract as a means of procuring short-term working capital. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts. Marketable and investment securities, composed mainly of bonds and stocks of companies with which the Group has business relationships, are exposed to the risk of market price fluctuations.

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

Derivatives mainly include foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 17 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables based on internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to debt securities, the Group manages its exposure to credit risk by limiting its funding to high credit rated bonds in accordance with its internal guidelines. With reference to derivatives, it is reasonable to assume that there is a little credit risk to be recognized as the Group only deals with high credit rating financial institutions. Please see Note 17 for details about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2026.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged partially by foreign currency forward contracts.

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

The basic principles of derivative transactions are approved by management meetings based on the internal guidelines which prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliation of the derivative transactions are made by the corporate accounting department, and the transactions data is reported to the management meeting on a monthly basis. We manage the risk so that it does not exceed a certain range by reporting.

Funding liquidity risk management

Funding liquidity risk is the risk of being unable to make payments when due. The Company compares planned and actual results on a timely basis in accordance with its cash management plan. In addition, the Company manages liquidity risk by entering into the commitment line contract in the form of a relative contract to secure flexible and stable working capital.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, short-term investments, receivables, electronically recorded monetary claims, payables, electronically recorded obligations and short-term bank loans are not disclosed because their maturities are short and the carrying values approximate fair value.

(a) Fair value of financial instruments

	Millions of Japanese Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>March 31, 2026</u>			
Marketable and investment securities	¥ 16,689	¥ 16,689	
<u>March 31, 2025</u>			
Marketable and investment securities	¥ 12,697	¥ 12,697	
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>March 31, 2026</u>			
Marketable and investment securities	\$104,387	\$104,387	
<u>Marketable and Investment Securities</u>			

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥192	¥192	\$1,203
Investments in limited partnership	651	754	4,074

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Japanese Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2026</u>				
Cash and cash equivalents	¥28,282			
Short-term investments	7,907			
Receivables	12,264			
Electronically recorded monetary claims	1,503			
Marketable and investment securities:				
Government bonds			¥300	
Corporate bonds	199	¥600		
Other			651	
Total	<u>¥50,155</u>	<u>¥600</u>	<u>¥951</u>	<u> </u>

<u>March 31, 2025</u>				
Cash and cash equivalents	¥23,611			
Short-term investments	7,674			
Receivables	11,845			
Electronically recorded monetary claims	1,474			
Marketable and investment securities:				
Government bonds			¥ 300	
Corporate bonds	300	¥500		
Other			754	
Total	<u>¥44,904</u>	<u>¥500</u>	<u>¥1,054</u>	<u> </u>

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2026</u>				
Cash and cash equivalents	\$ 176,892			
Short-term investments	49,459			
Receivables	76,704			
Electronically recorded monetary claims	9,400			
Marketable and investment securities:				
Government bonds			\$1,877	
Corporate bonds	1,251	\$3,753		
Other			4,074	
Total	<u>\$ 313,706</u>	<u>\$3,753</u>	<u>\$5,951</u>	<u> </u>

Please see Note 8 for annual maturities of long-term debt and Note 15 for the obligations under noncancelable operating leases.

(6) Financial Instruments Categorized by Fair Value Hierarchy

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

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

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

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

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

(a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

<u>March 31, 2026</u>	<u>Millions of Japanese Yen</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities:				
Stocks	¥ 15,435			¥ 15,435
Government and municipal bonds	271			271
Corporate bonds		¥ 783		783
Others			¥ 200	200
Total assets	<u>¥ 15,706</u>	<u>¥ 783</u>	<u>¥ 200</u>	<u>¥ 16,689</u>
<u>March 31, 2025</u>				
Securities:				
Stocks	¥ 11,622			¥ 11,622
Government and municipal bonds	285			285
Corporate bonds		¥ 790		790
Total assets	<u>¥ 11,907</u>	<u>¥ 790</u>		<u>¥ 12,697</u>
<u>March 31, 2026</u>	<u>Thousands of U.S. Dollars</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities:				
Stocks	\$ 96,544			\$ 96,544
Government and municipal bonds	1,693			1,693
Corporate bonds		\$ 4,899		4,899
Others			\$ 1,251	1,251
Total assets	<u>\$ 98,237</u>	<u>\$ 4,899</u>	<u>\$ 1,251</u>	<u>\$ 104,387</u>

(b) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

There are no material financial instruments for the year ended March 31, 2026.

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and Investment Securities

Listed stocks, government bonds and corporate bonds are valued using market prices. Since listed stocks and government bonds are traded in active markets, their fair value is classified as Level 1 fair value. On the contrary, corporate bonds held by the Group are classified as Level 2 fair value because they are not frequently traded in the market and are not considered market prices in an active market. Others include Stock Acquisition Rights of unlisted stocks, and the fair values are measured by using significant unobservable inputs and are classified as Level 3 fair values.

The following is information on Level 3 fair value of the financial assets and liabilities measured at the fair values in the consolidated balance sheet.

Reconciliation of the beginning balance to the end balance, and gain (loss) on valuation recognized in gain (loss) for the year ended March 31, 2026, was as follows:

	Millions of Japanese Yen	
	<u>Investment Securities</u>	
	<u>Available-for-Sale Securities</u>	
	<u>Stock Acquisition Rights of unlisted stocks</u>	<u>Total</u>
<u>March 31, 2026</u>		
Balance at beginning of the year		
Gain and other comprehensive income for the year:		
Recognized in gain		
Recognized in other comprehensive income		
Purchase, sale, issuance and settlement	¥ 200	¥ 200
Balance at end of the year	<u>¥ 200</u>	<u>¥ 200</u>
Of the amount recognized in gain for the year, unrealized gain on valuation on financial instruments held at the balance sheet		

	Thousands of U.S. Dollars	
	<u>Investment Securities</u>	
	<u>Available-for-Sale Securities</u>	
	<u>Stock Acquisition Rights of unlisted stocks</u>	<u>Total</u>
<u>March 31, 2026</u>		
Balance at beginning of the year		
Gain and other comprehensive income for the year:		
Recognized in gain		
Recognized in other comprehensive income		
Purchase, sale, issuance and settlement	\$1,251	\$1,251
Balance at end of the year	<u>\$1,251</u>	<u>\$1,251</u>
Of the amount recognized in gain for the year, unrealized gain on valuation on financial instruments held at the balance sheet		

The Company calculates the fair value of stock acquisition rights of unlisted stocks on the assumption that the most recent transaction price remains valid for a certain period following the transaction. This assumption is performed by the responsible personnel and approved by the appropriate manager.

17. 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 principally uses foreign currency forward contracts within the limits of the amounts of deposits, trade receivables and trade payables denominated in foreign currencies. The Group does not use any derivative contracts with terms longer than one year. Further, the Group does not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the risk of loss resulting from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount. The execution and control of the derivatives are managed by the finance department. The performances and positions of the derivative transactions are monitored by the accounting department and reported to the Board of Directors so that those risk positions can be appropriately controlled.

Derivative Transactions to Which Hedge Accounting Is Not Applied

There is no balance of derivatives for the years ended March 31, 2026 and 2025, respectively.

Derivative Transactions to Which Hedge Accounting Is Applied

There is no balance of derivatives for the years ended March 31, 2026 and 2025, respectively.

18. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2026 and 2025, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2026</u>	<u>2025</u>	<u>2026</u>
Unrealized gain on available-for-sale securities:			
Gains arising during the year	<u>¥3,758</u>	<u>¥ 343</u>	<u>\$ 23,505</u>
Amount before income tax effect	<u>3,758</u>	<u>343</u>	<u>23,505</u>
Income tax effect	<u>(1,166)</u>	<u>(183)</u>	<u>(7,292)</u>
Total	<u>¥2,592</u>	<u>¥ 160</u>	<u>\$ 16,213</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	<u>¥2,733</u>	<u>¥(2,661)</u>	<u>\$ 17,093</u>
Reclassification adjustments to profit or loss	<u>(553)</u>	<u> </u>	<u>(3,460)</u>
Amount before income tax effect	<u>2,180</u>	<u>(2,661)</u>	<u>13,633</u>
Income tax effect	<u>147</u>	<u>(84)</u>	<u>921</u>
Total	<u>¥2,327</u>	<u>¥(2,745)</u>	<u>\$ 14,554</u>
Defined retirement benefit plans:			
Adjustments arising during the year	<u>¥ 236</u>	<u>¥ 1,240</u>	<u>\$ 1,475</u>
Reclassification adjustments to profit or loss	<u>(267)</u>	<u>372</u>	<u>(1,666)</u>
Amount before income tax effect	<u>(31)</u>	<u>1,612</u>	<u>(191)</u>
Income tax effect	<u>(4)</u>	<u>(536)</u>	<u>(28)</u>
Total	<u>¥ (35)</u>	<u>¥ 1,076</u>	<u>\$ (219)</u>
Total other comprehensive income (loss)	<u>¥4,884</u>	<u>¥(1,509)</u>	<u>\$30,548</u>

19. MATERIAL CONTRACT

Commitment Line Contract

At the Board of Directors' meeting held on February 9, 2024, approval was granted to enter into a commitment line contract. The Company entered into the contract on March 1, 2024. With respect to this contract, we exercised the second one-year extension option and extended the term until February 26, 2027:

Outline of the commitment line contract after exercising the extension option

(1) Recipient of the contract	The Chiba Bank, Ltd.
(2) Contract type	Commitment line contract in relative form
(3) Maximum amount of loan	¥5,000 million (\$31,273 thousand)
(4) Commitment term	From March 1, 2024 to February 26, 2027 (2 extension options for a year)
(5) Collateral availability	Unsecured and unguaranteed
(6) Purpose of using funds	Working capital
(7) Financial covenants	The total equity on the Company's balance sheet and the Group's consolidated balance sheet after March 31, 2024, must remain at least 75% of the total equity on the Company's balance sheet and the Group's consolidated balance sheet as of March 31, 2023.

20. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2026, was approved at the Company's shareholders' meeting held on June 26, 2026:

	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends, ¥18 (\$0.113) per share	¥763	\$4,775

b. Dissolution of Consolidated Subsidiaries

It was approved to dissolve a consolidated subsidiary, FUTABA International Trading (Shanghai) Co., Ltd. ("FTS"), at the Board of Directors' meeting held on May 20, 2026.

(1) Purpose of the dissolution

FTS has primarily engaged in the procurement and sale of electronic systems products, with a focus on the Chinese market. However, due to a decline in sales volume resulting from the discontinuation of the VFD (Vacuum Fluorescent Display) and out-cell touch sensor businesses, the Company decided to dissolve FTS following a review of the Group's operational structure.

(2) *Outline of the subsidiary to be dissolved*

Company name	FUTABA International Trading (Shanghai) Co., Ltd.
Location	Room 418, NO.473 Fute West 1st Road, Pilot Free Trade Zone, Shanghai, China
Representative	Chairman Vincent Wen
Business	Sales of electronic systems products
Common stock	RMB 1,655,000 (\$239 thousand)
Date of establishment	June 22, 2001
Shareholders	FUTABA (Hong Kong) Corporation, Ltd. 100%
Number of employees	6 employees at March 31, 2026
Relationship through out the Group	
Capital relationship	FTS is a wholly owned subsidiary of FUTABA (Hong Kong) Corporation, Ltd.
Personnel relationship	Two employees of the Company have been appointed to the directors of FTS.
Business relationship	There are products trading between the Company and FTS.
Status of related party	FTS is a consolidated company of the Company.

(3) *Schedule for the dissolution*

- (a) Date of resolution at the Board of Directors' meeting: May 20, 2026
- (b) Date of business suspension for FTS: December 31, 2026 (tentative)
- (c) Completion of liquidation: End of June 2027 (tentative)

The liquidation will be completed as soon as the necessary procedures are completed in accordance with local laws and regulations.

(4) *Impact of the dissolution on profit and loss*

The Company is currently assessing the financial impact of the dissolution. If any matters requiring disclosure arise in the future, the Company will promptly announce them.

c. The Overhaul of the Group's Core IT Systems to Strengthen the Operational Foundation

It was approved to overhaul the Group's core IT systems at the Board of Directors' meeting held on June 5, 2026.

(1) Purpose of the investment

As the Company continues to face challenging financial performance amid the transition of the Group's business structure, the Company expects that it will continue to post an operating loss for the year ending March 2027. Under these circumstances, the decision to proceed with this investment was extremely difficult for directors. However, the Group's current core systems are becoming increasingly difficult to maintain due to their age, and the costs associated with them are rising year by year. Furthermore, in order to ensure that the Group's business portfolio review and structural reforms yield tangible results, it is essential to establish a common operational and data infrastructure across the Group. In light of these circumstances, the Company has decided to proceed with this investment in a planned and steady manner, viewing it as a turning point to rebuild future competitiveness and restore its revenue base.

(2) Overview of the investment

The Company plans to implement a phased renewal of its core systems over approximately 6 years and expects to incur total expenditures of approximately ¥4,200 million (\$26,270 thousand), including operating costs.

21. RELATED PARTY DISCLOSURES

For 2026

There are no related party transactions for the year ended March 31, 2026.

For 2025

Corporate pension for employees, and others

Transaction of the Company with related parties for the year ended March 31, 2025, was as follows:

Type of related parties:	Corporate pension
Name of related parties or person:	Retirement benefit trust
Detail of relationship:	Plan assets under retirement benefit trust
Detail of transaction:	Refund of assets from the trust
Transaction amount:	¥360 million

22. 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 financial information is separately available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the electronic systems and machinery and tooling segments. The electronic systems segment consists of composite modules, radio control equipment for industrial and hobby, robotics products for drones and servos and OLEDs (Organic Light-Emitting Diodes). The machinery and tooling segment consists of press die set components, moldbase components, precision plates and equipment for automation.

(2) *Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets 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."

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Millions of Japanese Yen				
	Reportable Segment			Reconcil- iations	Consol- idated
	Electronic Systems	Machinery and Tooling	Total		
<u>2026</u>					
Sales:					
Japan	¥ 6,346	¥12,218	¥ 18,564		¥ 18,564
America	5,255	55	5,310		5,310
Europe	1,562	2	1,564		1,564
Asia and others	<u>2,205</u>	<u>15,321</u>	<u>17,526</u>		<u>17,526</u>
Revenue from contracts of customers	15,368	27,596	42,964		42,964
Revenue from others	<u>19</u>	<u></u>	<u>19</u>		<u>19</u>
Sales to external customers	15,387	27,596	42,983		42,983
Intersegment sales or transfers	<u>28</u>	<u></u>	<u>28</u>	¥ (28)	
Total	<u>¥15,415</u>	<u>¥27,596</u>	<u>¥ 43,011</u>	<u>¥ (28)</u>	<u>¥ 42,983</u>
Segment loss	¥ (1,323)	¥ (959)	¥ (2,282)	¥ 1	¥ (2,281)
Segment assets	54,077	54,808	108,885	(1)	108,884
Other:					
Depreciation	311	696	1,007		1,007
Impairment losses of assets	147	308	455	75	530
Increase in property, plant and equipment and intangible assets	545	512	1,057		1,057
<u>2025</u>					
Sales:					
Japan	¥ 8,312	¥13,238	¥21,550		¥ 21,550
America	4,507	68	4,575		4,575
Europe	1,775	2	1,777		1,777
Asia and others	<u>2,860</u>	<u>17,336</u>	<u>20,196</u>		<u>20,196</u>
Revenue from contracts of customers	17,454	30,644	48,098		48,098
Revenue from others	<u>19</u>	<u></u>	<u>19</u>		<u>19</u>
Sales to external customers	17,473	30,644	48,117		48,117
Intersegment sales or transfers	<u>19</u>	<u>1</u>	<u>20</u>	¥ (20)	
Total	<u>¥17,492</u>	<u>¥30,645</u>	<u>¥48,137</u>	<u>¥ (20)</u>	<u>¥ 48,117</u>
Segment loss	¥ (921)	¥ (371)	¥ (1,292)	¥ (0)	¥ (1,292)
Segment assets	51,375	49,717	101,092	(1)	101,091
Other:					
Depreciation	348	718	1,066		1,066
Impairment losses of assets	160	127	287	35	322
Increase in property, plant and equipment and intangible assets	540	680	1,220		1,220

	Thousands of U.S. Dollars				
	Reportable Segment			Reconcil- iations	Consol- idated
	Electronic Systems	Machinery and Tooling	Total		
<u>2026</u>					
Sales:					
Japan	\$ 39,694	\$ 76,417	\$ 116,111		\$ 116,111
America	32,872	342	33,214		33,214
Europe	9,768	15	9,783		9,783
Asia and others	13,789	95,830	109,619		109,619
Revenue from contracts of customers	96,123	172,604	268,727		268,727
Revenue from others	116		116		116
Sales to external customers	96,239	172,604	268,843		268,843
Intersegment sales or transfers	174	1	175	\$ (175)	
Total	<u>\$ 96,413</u>	<u>\$ 172,605</u>	<u>\$ 269,018</u>	<u>\$ (175)</u>	<u>\$ 268,843</u>
Segment loss	\$ (8,274)	\$ (5,998)	\$ (14,272)	\$ 6	\$ (14,266)
Segment assets	338,236	342,804	681,040	(3)	681,037
Other:					
Depreciation	1,944	4,352	6,296		6,296
Impairment losses of assets	925	1,924	2,849	469	3,318
Increase in property, plant and equipment and intangible assets	3,411	3,200	6,611		6,611

(4) Information about Products and Services

Information about products and services is omitted as the same information is disclosed within the segment information.

(5) Information about Geographical Areas

a. Sales

2026

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia and Others</u>	<u>Total</u>
¥18,583	¥5,310	¥1,564	¥17,526	¥42,983

2025

¥21,569	¥4,575	¥1,777	¥20,196	¥48,117
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2026

Thousands of U.S. Dollars				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia and Others</u>	<u>Total</u>
\$ 116,227	\$ 33,214	\$ 9,783	\$ 109,619	\$ 268,843

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

Sales to South Korea out of sales to Asia and others for the years ended March 31, 2026 and 2025, were ¥11,849 million (\$74,112 thousand) and ¥13,653 million, respectively.

b. Property, plant and equipment

2026

Millions of Japanese Yen				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
¥ 2,723	¥ 613	¥ 0	¥13,502	¥16,838

2025

¥ 2,730	¥585	¥ 0	¥ 13,430	¥ 16,745
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2026

Thousands of U.S. Dollars				
<u>Japan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
\$ 17,033	\$3,836	\$ 0	\$ 84,447	\$105,316

Plant and equipment located in South Korea out of property, plant and equipment located in Asia for the years ended March 31, 2026 and 2025, were ¥10,597 million (\$66,278 thousand) and ¥10,601 million, respectively.

(6) Information about Major Customers

Information about major customers is omitted as no customer accounts for more than 10% of the net sales in the consolidated statement of income.

(7) Information about Impairment Losses

2026

	Millions of Japanese Yen			
	<u>Electronic Systems</u>	<u>Machinery and Tooling</u>	<u>Elimination/Corporate</u>	<u>Total</u>
Impairment losses of assets	¥ 147	¥ 308	¥ 75	¥ 530

2025

Impairment losses of assets	¥ 160	¥ 127	¥ 35	¥ 322
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2026

	Thousands of U.S. Dollars			
	<u>Electronic Systems</u>	<u>Machinery and Tooling</u>	<u>Elimination/ Corporate</u>	<u>Total</u>
Impairment losses of assets	\$ 925	\$ 1,924	\$ 469	\$ 3,318
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Board of Directors

President and Representative Director	Motoaki Arima
Directors	Toshihide Kimizuka
	Masaharu Tomita
	Takemitsu Kunio
	Masako Tanaka
Directors, Audit and Supervisory Committee Members	Tadashi Ohmura
	Tatsuya Ikeda
	Akihiro Ishihara

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