

THIRD QUARTER BRIEF REPORT OF FINANCIAL RESULTS [IFRS] (Consolidated)  
 (Year ending March 31, 2020)

February 5, 2020

Registered

Company Name: MINEBEA MITSUMI Inc. Common Stock Listings: Tokyo and Nagoya

Code No: 6479 URL: <https://www.minebeamitsumi.com/>

Representative: Yoshihisa Kainuma Representative Director, CEO & COO

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Quarterly report filing date: February 13, 2020 Phone: (03) 6758-6711

Expected date of payment for dividends: —

Preparation of supplementary explanation material for quarterly financial results : Yes

Holding of presentation meeting for quarterly financial results : Yes (For Analyst)

(Amounts less than one million yen have been rounded.)

1. Business Performance (April 1, 2019 through December 31, 2019)

(1) Consolidated Results of Operations (Year-to-date) (%: Changes from corresponding period of previous fiscal year)

	Net sales (millions of yen)	% Change	Operating income (millions of yen)	% Change	Profit before income taxes (millions of yen)	% Change
Nine months ended Dec. 31, 2019	751,548	7.5	46,093	(29.1)	46,066	(28.7)
Nine months ended Dec. 31, 2018	698,938	6.4	65,039	4.1	64,609	5.3

	Profit for the period (millions of yen)	% Change	Profit for the period attributable to owners of the parent (millions of yen)	% Change	Comprehensive income for the period (millions of yen)	% Change
Nine months ended Dec. 31, 2019	36,056	(29.8)	35,204	(31.0)	36,360	(25.5)
Nine months ended Dec. 31, 2018	51,352	5.4	51,033	5.2	48,820	(26.9)

	Earnings per share, basic (yen)	Earnings per share, diluted (yen)
Nine months ended Dec. 31, 2019	84.81	82.97
Nine months ended Dec. 31, 2018	121.83	119.17

(2) Consolidated Financial Position

	Total assets (millions of yen)	Total equity (millions of yen)	Total equity attributable to owners of the parent (millions of yen)	Equity ratio attributable to owners of the parent (%)
As of Dec. 31, 2019	912,940	428,923	420,987	46.1
As of Mar. 31, 2019	742,127	407,260	399,703	53.9

2. Dividends

	Annual dividends				
	End of first quarter (yen)	End of second quarter (yen)	End of third quarter (yen)	Year-end (yen)	For the year (yen)
Year ended Mar. 31, 2019	—	14.00	—	14.00	28.00
Year ending Mar. 31, 2020	—	14.00	—		
Year ending Mar. 31, 2020 (Forecast)				—	—

(Notes) Changes from the latest dividend forecast: None

We will finalize the amount of year-end dividend in light of our performance for this fiscal year with the aim of achieving a consolidated-basis dividend payout ratio of around 20%.

3. Prospect for Consolidated Forecast for the Fiscal Year (April 1, 2019 through March 31, 2020)

(%: Changes from corresponding period of previous fiscal year)

	Net sales (millions of yen)	% Change	Operating income (millions of yen)	% Change
Year ending Mar. 31, 2020	1,000,000	13.0	67,000	(7.0)

	Profit for the period attributable to owners of the parent (millions of yen)	% Change	Earnings per share, basic (yen)
Year ending Mar. 31, 2020	52,000	(13.5)	125.31

(Notes) Changes from the latest consolidated results forecast: None

\* Notes

(1) Changes in significant subsidiaries during the period (Changes in certain subsidiaries resulting in change in the scope of consolidation): Yes

Anew: 2 companies U-Shin Ltd., U-Shin Slovakia s.r.o.

(2) Changes in accounting policies, or changes in accounting estimates

1. Changes in accounting policies required by IFRS: Yes

2. Changes in accounting policies other than 1: None

3. Changes in accounting estimates: None

(3) Number of shares outstanding (Common stock)

1. Number of shares outstanding at the end of each period (Including treasury stock)

As of December 31, 2019: 427,080,606 shares

As of March 31, 2019: 427,080,606 shares

2. Number of treasury shares at the end of each period

As of December 31, 2019: 12,460,992 shares

As of March 31, 2019: 11,949,033 shares

3. Average number of shares (Quarterly cumulative period)

Nine months ended December 31, 2019: 415,073,353 shares

Nine months ended December 31, 2018: 418,864,164 shares

\* These quarterly financial results are not subject to quarterly review procedures by a certified public accountant or an audit corporation.

\* Explanation for appropriate use of financial forecasts and other special remarks

(Caution Concerning Forward-Looking Statements)

The aforementioned forecasts are based on the information available as of the date when this information is disclosed as well as on the assumptions as of the disclosing date of this information related to unpredictable parameters that will most likely affect our future business performance. As such, this is not intended for the Company to give assurance that the said forecast number would be achieved. In other words, our actual performances are likely to differ greatly from these estimates depending on a variety of factors that will take shape from now on. As for the assumptions used for these forecasts and other related items, please refer to “1. Qualitative information related to the financial results for the quarter,” “(3) Explanation of Consolidated Forecast and Other Forecasts” on page 5 of the documents attached hereunder. (Investor Briefing Materials for Analysts)

Investor briefing materials will be made available via our corporate website (<https://www.minebeamitsumi.com/>) on Wednesday, February 5, 2020.

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1. Qualitative information related to the financial results for the quarter

(1) Explanation of Operating Results

During the first nine months of the fiscal year (April 1, 2019 to December 31, 2019), the Japanese economy declined in response to sluggish automotive sales both in Japan and overseas, deceleration of overseas economies, and other such factors. In the United States, the stock market recorded record highs in response to progress on trade negotiations between the United States and China, but uncertainty over the future has increased due to concerns about a worsening of the situation in the Middle East, including Iran. There are signs that business confidence has leveled off in the European manufacturing industry, but it will likely take some time to turn around the slow growth. In Asia, there are signs that the Chinese economy has bottomed out as a result of government policies, but uncertainty remains about trade friction with the United States, so the economy remains sluggish.

Working against this backdrop, the MinebeaMitsumi Group concentrated on cutting costs, creating high-value-added products, developing new technologies, and enhancing its marketing approach to boost profitability further.

As a result, net sales were up 52,610 million yen (7.5%) year on year to 751,548 million yen. Operating income was down 18,946 million yen (-29.1%) year on year to 46,093 million yen, profit before income taxes was down 18,543 million yen (-28.7%) to 46,066 million yen, and profit for the period attributable to owners of the parent was down 15,829 million yen (-31.0%) to 35,204 million yen.

U-Shin Ltd. was made a subsidiary through a tender offer on April 10, 2019. The company has been included in the scope of consolidation as of the date of the business integration. This includes the company's profits and losses from the date of the business integration on.

Performance by segment was as follows:

In conjunction with the acquisition of U-Shin Ltd., the U-Shin business is disclosed as a reporting segment as of the first quarter. Additionally, the battery module products that were included under the MITSUMI business were transferred to the Electronic devices and components business. Accordingly, segment information has been updated to reflect this change in company organization.

The segment information disclosed for the third quarter of the previous year has been prepared based on the post-change reportable segments.

The main products in our Machined components segment include our anchor product line, ball bearings, in addition to mechanical components such as rod-end bearings used primarily in aircraft and hard disk drive (HDD) pivot assemblies, etc. as well as fasteners for aircraft. Sales of ball bearings were down both in volume and amount due to decreased demand from fan motors despite solid demand in the automobile and air conditioner market. Rod-end bearing sales increased owing to favorable orders in the small and medium aircraft market. Pivot assembly sales were down both in volume and amount due to shrinking of the HDD market.

As a result, net sales were down 6,373 million yen (-4.5%) year on year to 136,429 million yen, and operating income was down 6,567 million yen (-17.7%) to 30,496 million yen.

The core products of our Electronic devices and components segment include electronic devices (devices such as LED backlights for LCDs, sensing devices (measuring components), etc.), HDD spindle motors, stepping motors, DC motors, air movers, and special devices. Demand for our LED backlights for LCDs that offer a technological advantage in thin devices remained strong. Sales of stepping motors and other motors were down due to decreased demand associated with sluggishness in the automobile market.

As a result, net sales were down 11,379 million yen (-3.8%) year on year to 290,390 million yen, while operating income was down 1,798 million yen (-10.8%) to 14,839 million yen.

The main products in the MITSUMI business segment are semiconductor devices, optical devices, mechanical components, high frequency components and power supply components. Although camera actuators performed well, sales were down due to the decrease in game consoles and other mechanical components.

As a result, net sales were down 24,065 million yen (-9.5%) year on year to 229,821 million yen, and operating income was down 8,854 million yen (-38.0%) to 14,454 million yen.

The main products in the U-Shin business segment are key sets, door latches, door handles, and other automotive components as well as industrial machinery components and housing equipment components (such as building and house locks). Operations related to automotive components were substantially reduced due to the impact of deceleration in the automotive market in China and Europe, etc. Demand for industrial machinery components was also stagnant due to market deceleration in China.

As a result, net sales were 94,267 million yen, and operating income was 2,731 million yen.

Machines produced in-house are the main products in our Other business segment. Net sales were up 160 million yen (33.2%) year on year to 641 million yen, and the operating loss increased 956 million yen year on year to total 1,118 million yen.

In addition to the figures noted above, 15,309 million yen in corporate expenses, etc. not belonging to any particular segment is indicated as adjustments. The total amount of adjustments was 11,807 million yen for the third quarter of the previous fiscal year.

## (2) Explanation of Financial Position

### 1. Assets, liabilities and equity

Our Group sees “strengthening our financial position” as a top priority and is taking various steps, such as efficient controlling capital investments, asset management, and reducing interest-bearing debt.

Total assets at the end of the third quarter were 912,940 million yen, up 170,813 million yen from the end of the previous fiscal year. The main reason for this uptick was an increase in trade and other receivables, inventories and property, plant and equipment.

Total liabilities at the end of the third quarter were 484,017 million yen, up 149,150 million yen from the end of the previous fiscal year. The main reason for this was an increase in trade and other payables and bonds and borrowings.

Equity came to 428,923 million yen, bringing the equity ratio attributable to owners of the parent down 7.8 percentage points from the end of the previous fiscal year to 46.1%.

### 2. Cash flows

Cash and cash equivalents at the end of the third quarter were 124,026 million yen, up 1,594 million yen from the end of the previous fiscal year.

Cash flows from various business activities during of the first nine months of the fiscal year and relevant factors were as follows:

Net cash flows provided by operating activities came to 52,706 million yen (compared to 68,519 million yen in the same period of the previous year). This was primarily due to increases and decreases in profit before income taxes, depreciation and amortization, trade and other receivables, and inventories. Net cash flows used in investing activities came to 36,398 million yen (compared to 45,123 million yen in the same period of the previous year). This was primarily due to purchase of property, plant and equipment, etc. Net cash flows used in financing activities came to 9,830 million yen (compared to 3,285 million yen in the same period of the previous year). This was primarily due to repayments of long-term borrowings and dividends paid, despite proceeds from long-term borrowings.

### (3) Explanation of Consolidated Forecast and Other Forecasts

Although profit for the first three quarters exceeded expectations, the picture of global economy, including the impact of the new coronavirus and fluctuating exchange rates, is becoming unclear increasingly. As it is not possible to predict the impact of these factors on our business performance at present, we have remained our full-year business forecast unchanged. We will keep a close eye on developments and announce any major changes in our business forecasts.

Sharing profits with our shareholders is job one at MinebeaMitsumi. That is why our basic dividend policy gives priority to enhancing equity efficiency and improving returns to our shareholders. Dividends, while reflecting performance, are determined in light of the overall business environment and with an eye to maintaining a stable and continuous distribution of profits.

Working in line with our basic policy, we paid the interim dividend of 14 yen per share. We also made a purchase of treasury stock in the amount of 1,176 million yen, and will finalize the amount of year-end dividend in light of our performance for this fiscal year with the aim of achieving a consolidated-basis dividend payout ratio of around 20%.

2. Condensed Quarterly Consolidated Financial Statements and Major Notes  
(1) Condensed Quarterly Consolidated Statements of Financial Position

(Amount: millions of yen)

	As of March 31, 2019	As of December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	122,432	124,026
Trade and other receivables .....	151,349	207,575
Inventories .....	141,385	175,894
Other financial assets .....	21,045	21,798
Other current assets.....	9,343	20,392
<b>Total current assets.....</b>	<b>445,554</b>	<b>549,685</b>
<b>Non-current assets</b>		
Property, plant and equipment.....	244,388	290,629
Goodwill .....	8,284	15,579
Intangible assets .....	9,375	9,423
Other financial assets .....	14,635	23,080
Deferred tax assets.....	16,650	19,761
Other non-current assets.....	3,241	4,783
<b>Total non-current assets.....</b>	<b>296,573</b>	<b>363,255</b>
<b>Total assets.....</b>	<b>742,127</b>	<b>912,940</b>

(Amount: millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables .....	109,344	160,844
Bonds and borrowings .....	86,642	100,528
Other financial liabilities .....	1,983	7,851
Income taxes payable .....	5,448	5,751
Provisions .....	200	4,306
Other current liabilities .....	31,848	38,584
Total current liabilities .....	235,465	317,864
Non-current liabilities		
Bonds and borrowings .....	75,400	126,077
Other financial liabilities .....	5,138	14,699
Net defined benefit liabilities .....	14,577	21,264
Provisions .....	1,196	696
Deferred tax liabilities .....	1,754	1,657
Other non-current liabilities .....	1,337	1,760
Total non-current liabilities .....	99,402	166,153
Total liabilities .....	334,867	484,017
Equity		
Common stock .....	68,259	68,259
Capital surplus .....	137,464	135,945
Treasury stock .....	(19,448)	(20,629)
Retained earnings .....	202,172	225,641
Other components of equity .....	11,256	11,771
Total equity attributable to owners of the parent .....	399,703	420,987
Non-controlling interests .....	7,557	7,936
Total equity .....	407,260	428,923
Total liabilities and equity .....	742,127	912,940

(2) Condensed Quarterly Consolidated Statements of Income  
and Condensed Quarterly Consolidated Statements of Comprehensive Income  
(Condensed Quarterly Consolidated Statements of Income)

Nine months ended December 31

(Amount: millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales .....	698,938	751,548
Cost of sales .....	562,981	626,473
Gross profit .....	135,957	125,075
Selling, general and administrative expenses .....	70,755	80,827
Other income .....	1,948	2,732
Other expenses .....	2,111	887
Operating income .....	65,039	46,093
Finance income .....	1,112	1,423
Finance expenses .....	1,542	1,450
Profit before income taxes .....	64,609	46,066
Income taxes .....	13,257	10,010
Profit for the period .....	51,352	36,056
Profit for the period attributable to:		
Owners of the parent .....	51,033	35,204
Non-controlling interests .....	319	852
Profit for the period .....	51,352	36,056
Earnings per share (EPS)		
Basic (Yen) .....	121.83	84.81
Diluted (Yen) .....	119.17	82.97

Three months ended December 31

(Amount: millions of yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Net sales .....	249,570	267,650
Cost of sales .....	194,639	218,252
Gross profit .....	54,931	49,398
Selling, general and administrative expenses .....	22,782	26,695
Other income .....	571	494
Other expenses .....	1,596	139
Operating income .....	31,124	23,058
Finance income .....	237	462
Finance expenses .....	1,028	515
Profit before income taxes .....	30,333	23,005
Income taxes .....	6,039	3,879
Profit for the period .....	24,294	19,126
Profit for the period attributable to:		
Owners of the parent .....	24,177	18,991
Non-controlling interests .....	117	135
Profit for the period .....	24,294	19,126
Earnings per share (EPS)		
Basic (Yen) .....	57.92	45.77
Diluted (Yen) .....	56.63	44.75

## (Condensed Quarterly Consolidated Statements of Comprehensive Income)

Nine months ended December 31

(Amount: millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit for the period.....	51,352	36,056
Other comprehensive income		
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax:		
Net changes in revaluation of equity instruments measured at fair value through other comprehensive income.....	(1,562)	994
Remeasurement of defined benefit plans.....	(1,434)	(197)
Sub-total	(2,996)	797
Components of other comprehensive income that will be reclassified to profit or loss, net of tax:		
Foreign exchange differences on translation of foreign operations .....	607	(509)
Cash flow hedges.....	(143)	16
Sub-total	464	(493)
Other comprehensive income, net of tax.....	(2,532)	304
Comprehensive income for the period.....	48,820	36,360
Comprehensive income attributable to:		
Owners of the parent.....	48,358	35,608
Non-controlling interests.....	462	752
Comprehensive income for the period.....	48,820	36,360

Three months ended December 31

(Amount: millions of yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Profit for the period.....	24,294	19,126
Other comprehensive income		
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax:		
Net changes in revaluation of equity instruments measured at fair value through other comprehensive income.....	(922)	1,542
Remeasurement of defined benefit plans.....	(1,434)	(197)
Sub-total	(2,356)	1,345
Components of other comprehensive income that will be reclassified to profit or loss, net of tax:		
Foreign exchange differences on translation of foreign operations .....	(9,372)	10,380
Cash flow hedges.....	(86)	(3)
Sub-total	(9,458)	10,377
Other comprehensive income, net of tax.....	(11,814)	11,722
Comprehensive income for the period.....	12,480	30,848
Comprehensive income attributable to:		
Owners of the parent.....	12,503	30,531
Non-controlling interests.....	(23)	317
Comprehensive income for the period.....	12,480	30,848

## (3) Condensed Quarterly Consolidated Statements of Changes in Equity

(Amount: millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	
					Foreign currency translation	Cash flow hedge
Balance as of April 1, 2018	68,259	134,615	(9,496)	154,778	4,280	99
Profit for the period				51,033		
Other comprehensive income					464	(143)
Comprehensive income for the period	—	—	—	51,033	464	(143)
Purchase of treasury stock		(64)	(10,634)			
Disposal of treasury stock		1,193	246			
Dividends				(11,329)		
Transactions with non-controlling interests		125				
Share-based payment transactions		(13)	13			
Transfer from other components of equity to retained earnings				(1,434)		
Total transactions with owners	—	1,241	(10,375)	(12,763)	—	—
Balance as of December 31, 2018	68,259	135,856	(19,871)	193,048	4,744	(44)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total		
	Net changes in revaluation of equity instruments measured at fair value through other comprehensive income	Remeasurement of defined benefit plans	Subtotal			
Balance as of April 1, 2018	3,556	—	7,935	356,091	7,130	363,221
Profit for the period				51,033	319	51,352
Other comprehensive income	(1,562)	(1,434)	(2,675)	(2,675)	143	(2,532)
Comprehensive income for the period	(1,562)	(1,434)	(2,675)	48,358	462	48,820
Purchase of treasury stock				(10,698)		(10,698)
Disposal of treasury stock				1,439		1,439
Dividends				(11,329)	(32)	(11,361)
Transactions with non-controlling interests				125	(228)	(103)
Share-based payment transactions				0		0
Transfer from other components of equity to retained earnings			1,434	1,434	—	—
Total transactions with owners	—	1,434	1,434	(20,463)	(260)	(20,723)
Balance as of December 31, 2018	1,994	—	6,694	383,986	7,332	391,318

(Amount: millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	
					Foreign currency translation	Cash flow hedge
Balance as of April 1, 2019	68,259	137,464	(19,448)	202,172	8,387	(76)
Profit for the period				35,204		
Other comprehensive income					(409)	16
Comprehensive income for the period	—	—	—	35,204	(409)	16
Purchase of treasury stock			(1,181)			
Dividends				(11,624)		
Increase of consolidated subsidiaries						
Transactions with non-controlling interests		(1,519)				
Transfer to retained earnings				(111)		
Total transactions with owners	—	(1,519)	(1,181)	(11,735)	—	—
Balance as of December 31, 2019	68,259	135,945	(20,629)	225,641	7,978	(60)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total		
	Net changes in revaluation of equity instruments measured at fair value through other comprehensive income	Remeasurement of defined benefit plans	Subtotal			
Balance as of April 1, 2019	2,945	—	11,256	399,703	7,557	407,260
Profit for the period				35,204	852	36,056
Other comprehensive income	994	(197)	404	404	(100)	304
Comprehensive income for the period	994	(197)	404	35,608	752	36,360
Purchase of treasury stock				(1,181)		(1,181)
Dividends				(11,624)	(22)	(11,646)
Increase of consolidated subsidiaries				—	5,906	5,906
Transactions with non-controlling interests				(1,519)	(6,257)	(7,776)
Transfer to retained earnings	(86)	197	111	—		—
Total transactions with owners	(86)	197	111	(14,324)	(373)	(14,697)
Balance as of December 31, 2019	3,853	—	11,771	420,987	7,936	428,923

## (4) Condensed Quarterly Consolidated Statements of Cash Flows

(Amount: millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities:		
Profit before income taxes .....	64,609	46,066
Depreciation and amortization .....	26,227	35,103
Share-based payment expenses .....	(362)	—
Interest income and dividends income .....	(975)	(1,314)
Interest expenses .....	814	1,168
Loss (gain) on sale and disposal of property, plant and equipment .....	(519)	(584)
Decrease (increase) in trade and other receivables .....	(22,336)	(24,157)
Decrease (increase) in inventories .....	(5,791)	(17,408)
Increase (decrease) in trade and other payables .....	32,089	22,031
Other .....	(12,300)	1,759
Subtotal	81,456	62,664
Interest received .....	805	990
Dividends received .....	147	301
Interest paid .....	(1,294)	(902)
Income taxes paid .....	(12,595)	(10,347)
Net cash flows provided by operating activities	68,519	52,706
Cash flows from investing activities:		
Decrease (increase) in time deposits .....	(2,489)	(2,117)
Purchase of property, plant and equipment .....	(42,741)	(36,999)
Proceeds from sales of property, plant and equipment .....	1,341	5,038
Purchase of intangible assets .....	(800)	(838)
Purchase of securities .....	(1,249)	(1,655)
Proceeds from sale and redemption of securities .....	1,070	1,548
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation .....	—	47
Purchase of investments in subsidiaries resulting in change in scope of consolidation .....	—	(1,822)
Other .....	(255)	400
Net cash flows used in investing activities	(45,123)	(36,398)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings .....	23,488	(8,025)
Proceeds from long-term borrowings .....	1,100	50,220
Repayments of long-term borrowings .....	(7,101)	(29,253)
Redemption of bonds .....	—	(100)
Acquisition of non-controlling interests .....	(103)	(7,693)
Proceeds from disposal of treasury stock .....	1,439	—
Purchase of treasury stock .....	(10,698)	(1,181)
Dividends paid .....	(11,329)	(11,624)
Dividends paid to non-controlling interests .....	(32)	(22)
Repayments of lease liabilities .....	(49)	(2,152)
Other .....	0	—
Net cash flows used in financing activities	(3,285)	(9,830)
Effect of exchange rate changes on cash and cash equivalents	97	(4,884)
Increase (decrease) in cash and cash equivalents	20,208	1,594
Cash and cash equivalents at beginning of period	88,777	122,432
Cash and cash equivalents at end of period	108,985	124,026

- (5) Notes on Condensed Quarterly Consolidated Financial Statements  
 (Notes on Going Concern Assumptions)  
 Not applicable.

(Change in Accounting Policy)

The significant accounting policies applied by our Group in this condensed quarterly consolidated financial statements are the same as those for the previous fiscal year, except for the following.

Income tax related to the condensed quarterly consolidated financial statements is calculated based on the estimated average annual effective tax rate.

Our Group has applied the following standards since April 1, 2019.

	IFRS	Outline of establishment and amendment
IFRS 16	Leases	Amendment of accounting for leases

This standard abolishes the classification into finance leases and operating leases that was prescribed in the previous standards document for leases, IAS 17 Leases, and requires the lessee to recognize right-of-use assets and lease liabilities from the commencement date of every lease. However, the standard also provides for exemptions to the recognition of short-term leases and leases of low-value assets, and our group has elected to apply these exemption provisions.

When applying the standard, our group has chosen an approach, approved as a transitional measure, whereby the cumulative impact of the application is recognized at the date of application. In addition, for the application of the standard, as a practical expedient our group is not required to reassess whether an agreement existing on the date of application contains a lease, and makes use of practical expedients permitted for leases that were previously classified as operating leases.

The difference between non-cancelable operating lease agreements (discounted at incremental borrowing rate) disclosed under IAS 17 at the end of the previous fiscal year and the lease liabilities recognized in the condensed quarterly consolidated statements of financial position on the date of application is principally calculated by deducting minimum lease payments, such as short-term leases, from lease liabilities under operating leases agreement, such as buildings, whose periods exceed the non-cancelable period.

As a result of applying the standard, property, plant and equipment, other financial liabilities (current) and other financial liabilities (non-current) on the date of application increased by 9,142 million yen, 2,890 million yen and 9,510 million yen respectively.

In condensed quarterly consolidated statements of cash flows, lease related cash flows had been classified as cash flows from operating activities. However, under the implementation of IFRS 16, lease transactions, except short-term and low value leases and including payments for lease liabilities which were presented as finance leases, are classified in cash flows from financing activities as “Repayments of lease liabilities”

Accounting policies (leases) in accordance with this standard are as follows.

(Lessee side)

Lease liabilities in a lease transaction are measured on the commencement day of the lease at the present value of remaining lease payments, discounted by the lessee’s incremental borrowing rate. Initial measurement of right-of-use assets shall be performed by adjusting the initial measurement of the lease liability on the commencement date by initial direct costs, etc., and by adding costs associated with the obligation to restore the asset to its original condition, as required by the lease agreement. Right-of-use assets shall be depreciated systematically over the lease term. Our group shall determine the lease term as the non-cancelable period of a lease, together with the periods covered by an option to extend a lease if it is reasonably certain that the lessee will exercise that option, and the periods covered by an option to terminate a lease if it is reasonably certain that the lessee will not exercise that option.

Lease payments shall be allocated between finance costs and the repayable portion of the remaining balance of the lease liability, so as to produce a constant periodic rate of interest on the remaining balance of the lease liability. Finance costs shall be classified and shown on the consolidated statements of income as a depreciation charge for the right-of-use asset.

With regard to whether an agreement is, or contains, a lease, even if the agreement does not have the legal form of lease, our group arrives at a judgment based on the substance of the agreement.

Moreover, for leases in which the lease term ends within 12 months, or leases for which the underlying asset is of low value, lease payments for the lease in question may be recognized as expenses on either a straight-line basis or some other systematic basis over the lease term.

(Lessor side)

Leases are classified as either operating leases or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and economic rewards associated with ownership of the underlying asset, and as an operating lease if it does not transfer substantially all the risks and economic rewards associated with ownership of the underlying asset. The assessment of whether a lease is a finance lease or an operating lease is dependent not on the form of the agreement, but on the substance of the transaction.

Furthermore, when classifying a sublease, the intermediate lessor shall perform the classification with reference to the right-of-use asset arising from the head lease.

## (Segment Information)

Information related to sales and income (loss) by reportable segments  
(Nine months ended December 31, 2018)

(Amount: millions of yen)

	Reportable segment				Other *1	Adjustments *2	Consolidated
	Machined components	Electronic devices and components	MITSUMI business	U-Shin business			
Net sales							
Net sales to customers	142,802	301,769	253,886	—	481	—	698,938
Net sales to other segment	4,233	4,915	3,677	—	2,442	(15,267)	—
Total	147,035	306,684	257,563	—	2,923	(15,267)	698,938
Segment profit (loss)	37,063	16,637	23,308	—	(162)	(11,807)	65,039
Finance income	—	—	—	—	—	—	1,112
Finance expenses	—	—	—	—	—	—	1,542
Profit before income taxes	—	—	—	—	—	—	64,609

(Nine months ended December 31, 2019)

(Amount: millions of yen)

	Reportable segment				Other *1	Adjustments *2	Consolidated
	Machined components	Electronic devices and components	MITSUMI business	U-Shin business			
Net sales							
Net sales to customers	136,429	290,390	229,821	94,267	641	—	751,548
Net sales to other segment	4,115	4,234	1,403	—	2,061	(11,813)	—
Total	140,544	294,624	231,224	94,267	2,702	(11,813)	751,548
Segment profit (loss)	30,496	14,839	14,454	2,731	(1,118)	(15,309)	46,093
Finance income	—	—	—	—	—	—	1,423
Finance expenses	—	—	—	—	—	—	1,450
Profit before income taxes	—	—	—	—	—	—	46,066

(Notes) \*1. The classification of "Other" refers to business units not included in the reportable segments. Their products are mainly machines made in-house.

\*2. The amount of the adjustment is as follows.

Adjustments to segment profit (loss) are corporate expenses such as general and administrative expenses in addition to research and development expenses that do not belong to the reportable segments. In the first nine months of the fiscal year, retirement benefit expenses of 2,790 million yen is included as a result of the revision of the Labor Protection Act in Thailand.

3. The changes of reportable segments are as follows.

The U-Shin business is disclosed as a reporting segment from the first quarter. Additionally, the battery module products that were included under the MITSUMI business were transferred to the Electronic devices and components business. Accordingly, segment information has been updated to reflect this change in company organization.

The segment information disclosed for the first nine months of the previous year has been prepared based on the post-change reportable segments.