May 29, 2009

Earnings Report for the Fiscal Year ended March 31, 2009

Company name:	**Futaba Industrial Co. Ltd.**
Listed on:	1st sections of TSE and NSE
Stock code:	7241
URL:	http://www.futabasangyo.com
Representative:	Shunro Ito, President
Contact:	Masumi Ishikawa, Managing Director
Phone:	+81 (0)5-6431-2211

Scheduled dates:

Ordinary general meeting of shareholders:	June 26, 2009
Commencement of dividend payments:	–
Submission of financial statements:	June 30, 2009

(Amounts in millions are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Year ended March 31, 2009 (April 1, 2008 – March 31, 2009)

(1) Operating Results

(Percentage figures represent changes versus the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended March 31, 2009	385,892	(13.8)	(13,585)	–	(18,587)	–	(38,054)	–
Year ended March 31, 2008	447,825	13.4	4,907	–	1,745	498.8	(13,061)	–

	Net income per share	Net income per share – diluted	Return on equity*	Return on assets†	Operating income to net sales
	yen	yen	%	%	%
Year ended March 31, 2009	(543.93)	–	(63.5)	(6.4)	(3.5)
Year ended March 31, 2008	(186.75)	–	(14.0)	0.5	1.1

*Return on equity = Net income / Shareholders' capital
†Return on assets = Ordinary income / Total assets
For reference: Equity in income of non-consolidated subsidiaries and affiliates:
Year ended March 31, 2009: (255) million yen
Year ended March 31, 2008: (670) million yen

(2) Financial Condition

	Total assets	Net assets	Ratio of net assets to total assets	Net assets per share
	million yen	million yen	%	yen
March 31, 2009	257,525	46,375	14.3	524.81
March 31, 2008	322,103	94,219	25.8	1,189.28

For reference: Shareholders' capital:
March 31, 2009: 36,715 million yen
March 31, 2008: 83,206 million yen

(3) Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year end
	million yen	million yen	million yen	million yen
Year ended March 31, 2009	15,015	(50,251)	36,010	12,475
Year ended March 31, 2008	34,813	(49,962)	16,462	13,781

2. Dividends

Record date or period	Dividend per share					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends / Net assets (consolidated)
	End Q1	End Q2	End Q3	Fiscal year end	Full year			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended March 31, 2008	–	15.00	–	15.00	30.00	2,098	–	2.2
Year ended March 31, 2009	–	15.00	–	0.00	15.00	1,049	–	1.7
Year ending March 31, 2010 (forecast)	–	0.00	–	0.00	0.00		–	

3. Forecast of Consolidated Earnings for the Year ending March 31, 2010 (April 1, 2009 – March 31, 2010)

(Percentage figures represent changes versus the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Six months ended September 30, 2009	140,000	–	(5,500)	–	(7,000)	–	(7,000)	–	(100.05)
Full year	310,000	–	(9,000)	–	(13,000)	–	(13,000)	–	(185.82)

4. Other Information

1) Reclassification of material subsidiaries during the fiscal year (scope of consolidation): None

2) Changes in accounting principles, procedures, and methods of presentation used in the preparation of consolidated financial statements:
(1) Changes in accord with revisions to accounting standards: Yes
(2) Changes other than (1) above: Yes

3) Number of shares issued (common stock)
(1) Number of shares issued at end of period (treasury stock included):
March 31, 2009: 70,049,627 shares
March 31, 2008: 70,049,627 shares
(2) Number of shares held in treasury at end of period:
March 31, 2009: 90,202 shares
March 31, 2008: 86,045 shares

For reference:

1. Overview of Non-consolidated Financial Results (April 1, 2008 – March 31, 2009)

(1) Operating Results

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended March 31, 2009	272,745	(16.1)	(17,134)	–	(17,909)	–	(41,284)	–
Year ended March 31, 2008	325,040	11.9	(2,972)	–	(3,841)	–	(16,198)	–

	Net income per share	Net income per share – diluted
	yen	yen
Year ended March 31, 2009	(590.10)	–
Year ended March 31, 2008	(231.60)	–

(2) Financial Condition

	Total assets	Net assets	Ratio of net assets to total assets	Net assets per share
	million yen	million yen	%	yen
March 31, 2009	158,311	30,617	19.3	437.65
March 31, 2008	206,382	77,549	37.6	1,108.42

Note: Shareholders' capital: March 31, 2009: 30,617 million yen
March 31, 2008: 77,549 million yen

2. Forecast of Non-consolidated Earnings for the Year ending March 31, 2010 (April 1, 2009 – March 31, 2010)

(Percentage figures represent changes versus the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Six months ended September 30, 2009	100,000	–	(5,500)	–	(6,000)	–	(6,000)	–	(85.76)
Full year	220,000	–	(9,500)	–	(11,000)	–	(11,000)	–	(157.23)

1. Operating Results and Financial Condition

(1) Analysis of operating results

The automobile industry, our primary source of customers, experienced a large year-over-year decline in total domestic vehicle sales as consumers postponed major purchases in the face of an economic downturn, and with exports slowing sharply from autumn 2008 onwards, total domestic vehicle production was significantly lower than in the previous fiscal year.

Our Information and Environmental Equipment Parts segment saw a further decline in domestic production of copiers, the segment's mainstay area, as manufacturers continued to shift production to China at a time when the economic slowdown was stifling overall demand.

The Futaba group suffered a significant decline in orders as a consequence of these declines in its customers' domestic and overseas production, but we responded to these adverse developments by boosting production efficiency and yield rates through various refinements and improvements to our production lines while also working to reduce overheads and other fixed costs.

As a result of these efforts, we booked consolidated sales of ¥385.8 billion for the fiscal year ended March 31, 2009, a decline of just 13.8% versus the previous fiscal year despite the sizeable fall in orders. Sales of automobile components and parts fell 13.3% to ¥369.2 billion, while sales of information and environmental equipment parts dropped 21.0% to ¥16.6 billion. Asia was the only region in which sales increased (up 1.5% to ¥42.9 billion), while we booked sales of ¥275.5 billion in Japan (down 16.1%), ¥41.8 billion in North America (down 20.8%), and ¥46.6 billion in Europe (down 12.8%). Sales destined for overseas markets—which accounted for 35.4% of total sales—declined 11.9% versus the previous fiscal year to ¥136.5 billion, which was primarily due to the decline in sales of our European and North American operations.

Despite our best efforts to boost efficiency and cut costs and expenses, we ended on an operating loss of ¥13.5 billion and an ordinary loss of ¥18.5 billion. Fixed asset impairment charges and other extraordinary losses subtracted further from the bottom line, resulting in a net loss of ¥38.0 billion.

The outlook for the Japanese economy during the fiscal year ending March 31, 2010, is far from bright, with deteriorating corporate earnings likely to generate further pressure on capital expenditures, consumer spending expected to remain somewhat sluggish, and exports likely to decline even further if the global economy continues to slow. We expect our major clients to maintain relatively low levels of production over the year as a whole, although the situation may start to improve slightly from the fiscal second half (October onward). We will work through the difficult operating environment by taking group-wide action to boost our sales capabilities and production efficiency while reducing capital spending and other outlays, and we currently expect these efforts to translate into consolidated sales of ¥310 billion (down 19.6% versus the fiscal year ended

March 31, 2009), an operating loss of ¥9.0 billion (down ¥4.5 billion), an ordinary loss of ¥13.0 billion (down ¥5.5 billion), and a net loss of ¥8.0 billion (down ¥30.0 billion).

(2) Analysis of financial condition

Total consolidated assets as of March 31, 2009 were ¥257.5 billion, down 20.0% from March 31, 2008, reflecting declines in trade receivables and inventory assets attributable to reduced sales and write-downs of investment securities due to falling stock prices. Total liabilities declined 7.3% to ¥211.1 billion as trade notes and accounts payable fell significantly from a year earlier, while total shareholders' capital fell 55.9% to ¥36.7 billion due largely to declines in retained earnings and net unrealized gains on other securities, as a result of which net assets (including minority interests) as of March 31, 2009 stood at ¥46.3 billion, down 50.8% from a year earlier.

Cash and cash equivalents declined ¥1.3 billion over the fiscal year to ¥12.4 billion. Contributions to cash flow were as follows.

Cash flows from operating activities

Operating activities provided net cash of ¥15.0 billion, down ¥19.7 billion (56.9%) versus the previous fiscal year as a consequence of losses and a large decline in trade notes and accounts payable.

Cash flows from investing activities

Investing activities used net cash of ¥50.2 billion, up just ¥0.2 billion (0.6%) versus the previous fiscal year despite proactive capital spending both at home and abroad, including an expansion of our Tahara plant, investment in dies and molds to cover new orders, and the introduction of welding machines aimed at boosting production capacity.

Cash flows from financing activities

Financing activities provided net cash of ¥36.0 billion, up ¥19.5 billion (118.7%) versus the previous fiscal year on the back of increases in short-term and long-term borrowings.

We plan to reduce our domestic and overseas capital spending in the year ending March 31, 2010, and we therefore expect net inflows from operating activities to be sufficient to cover net outflows associated with investing activities. We intend to borrow additional funds to finance the upcoming redemption of convertible bonds issued, but we will continue to make every effort to boost capital efficiency and thereby put the Futaba group on sound financial footing.

The following table shows various cash flow indicators for the past five fiscal years.

For reference: Cash flow indicators

	Fiscal year ended March 31,				
	2005	2006	2007	2008	2009
Capital ratio (%)	56.4	45.4	32.6	25.8	14.3
Capital ratio based on market capitalization (%)	50.9	66.9	63.2	49.8	7.7
Debt repayment period (years)	1.05	2.85	3.35	2.70	9.19
Interest coverage ratio (times)	51.5	27.0	14.6	12.8	4.9

Capital ratio: Capital / Net assets
Capital ratio based on market capitalization: Market capitalization / Net assets
Debt repayment period: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest payments
Note: All figures are based on consolidated accounting data.
For “operating cash flow” we use “cash flow from operating activities.” For “interest-bearing debt” we use the sum of all balance-sheet liabilities on which interest is payable. For “interest payments” we use “interest expenses” as shown in our consolidated statements of income.

(3) Business and other risks

Sales by our Automotive Parts Business account for the vast majority of the Futaba group’s total sales and rely heavily on sales to Toyota Motor Corporation. As such, the group’s earnings may be significantly affected by developments in the automotive industry as a whole and by changes to Toyota’s production levels and purchasing policies in particular.

Changes in the supply/demand balance for key production inputs may also affect the group’s earnings performance despite our best efforts to secure stable supplies of sufficiently high-quality, low-cost materials.

Our overseas expansion efforts may also impact on the group’s business results by exposing the Futaba group to the possibility of unexpected changes in laws, regulations, and/or tax regimes, social disruption, and other country- or region-specific circumstances, with exchange rate and interest rate fluctuations also a potential concern.

Reputation risk must also be taken into consideration. For example, while we make every effort to ensure that our products are of sufficiently high quality, we cannot entirely rule out the possibility that a product recall or significant defect could do substantial damage to our earnings results.

Our reserves for employees’ retirement benefits are based on various actuarial assumptions and assumed rates of return, and it is possible that these reserves may ultimately prove insufficient if our assumptions turn out to have been incorrect or partially flawed.

In November 2007 a Futaba Industrial employee provided a subsidiary with ¥1,500 million in improper financial support, writing five ¥300 million accommodation bills of exchange without due authority. These bills were subsequently recovered and destroyed via a paper shredder, at which time the employee in question claimed that the remaining 45 unused bills had also been destroyed. We have filed a public peremptory notice in relation to this matter, but have yet to be provided with any definitive evidence that the remaining 45 bills were in fact destroyed, and could therefore be exposed to damages if a bona fide holder of one or more written bills comes forward.

Our business performance could also be significantly impacted by an earthquake in the Tokai region or other natural disaster, depending on its scale.

We recognize that the above summary of business-related risks is by no means exhaustive, and we will continue to make every effort to mitigate risk factors wherever possible while also striving to minimize their potential impact.

2. Management Policies

(1) Management targets

Futaba's efforts to boost enterprise value focus on key indicators such as sales, operating and ordinary profit margins, and return on equity (ROE).

Our financial standing has suffered a major blow as a consequence of asset impairment charges booked during the fiscal year ended March 31, 2009 and our December 2008 restatement of financial results for previous fiscal years, which entailed additional asset impairment charges and required that installation and calibration costs be recorded as period costs rather than fixed assets. The prevailing business climate is by no means conducive to a rapid recovery, but we are currently drafting a medium-term business plan (covering the period through March 2012) with a view to restoring the company to a more profitable and financially sound footing as quickly as possible.

(2) Medium- to long-term management strategies

Increasingly globalized production, higher fuel prices, and urgent environmental issues mean that automakers the world over must now compete more fiercely than ever before to develop new technologies and thereby protect or increase their market share. Our major clients have responded to these challenges by strengthening their development capabilities and forging new alliances while simultaneously working with suppliers to keep costs as low as possible, and our Automotive Parts Business has been striving to accommodate our clients' evolving needs by establishing a global supply network, developing new environmentally friendly technologies, boosting our cost competitiveness, and improving quality wherever possible.

Our long-term management objectives lie in boosting enterprise value while maintaining a secure financial base, and we will continue to strive for world-leading product attributes, manufacturing technologies, and cost competitiveness by developing new products and technologies while undertaking the various reforms that are required to improve our production and capital efficiency.

We also intend to strengthen our internal controls as a matter of the highest priority with a view to preventing any recurrence of compliance-related problems (such as the unauthorized provision of financial support) and other issues that forced us to restate our financial results for previous fiscal years. Our other key management priorities are as outlined below.

Key priorities:
(a) Strengthen internal controls (to win back the trust of stakeholders)
(b) Respond flexibly to environmental changes (protect what needs to be protected, but change what needs to be changed)
(c) Improve communication skills (a more open corporate culture)
(d) Shore up sales and profits (drastic reforms to our earnings structure)

(3) Major issues to be addressed

On March 19, 2009, the Tokyo Stock Exchange (TSE) notified us (Futaba Industrial) that it had removed the designation of *security under supervision (under examination)* from our stock and the designation of *security under supervision (under confirmation)* from our convertible bonds. The TSE also requested that we provide it with an Improvement Report, which we subsequently submitted on April 3, 2009. Futaba Industrial's stock was placed on the TSE's *Securities on Alert* list effective March 20, 2009, which means that we will be required to submit a written affirmation on our internal control systems, etc., to the TSE for each full year that we remain on the list. We intend to make every effort to comply with the TSE's requirements so as to have our stock removed from the *Securities on Alert* list after the minimum period of one year.

Revisions to the Financial Instruments and Exchange Act that took effect from the fiscal year ended March 31, 2009 require companies to exercise tighter internal controls and governance over financial reporting. We are already working to meet these additional legislative requirements by strengthening our internal controls and governance systems with a view to eventually restoring our damaged reputation in the marketplace.

It was while undertaking these initiatives that we discovered that loans had been improperly extended to Futaba affiliate Business Design Laboratory Co. We believe the underlying cause was insufficient acknowledgment of compliance issues. We are now making every effort to ensure that a lapse of this nature is never repeated by bolstering our Internal Auditing and Legal Departments and implementing all other organizational reforms necessary to ensure appropriate internal controls and a full and proper regard for various compliance-related issues.

Because we booked large net losses in each of the past four fiscal years, Futaba is now in breach of covenants with regard to a number of syndicated loans extended to Futaba Group companies. Our major lenders have indicated their intention to provide support for our efforts to refinance these loans, but with a number of bank loans still to be refinanced and a convertible bond issue falling due for redemption in the relatively near future, it is vital that we improve our earnings performance as rapidly as possible so as to rectify our position.

Major segment-specific issues are as follows.

Automotive Parts Business

Our clients in the auto industry have responded to a dramatic downturn in demand by launching a number of new environmentally friendly models offering improved fuel efficiency, but the outlook for overall auto demand remains far from promising, and automakers are therefore being forced to build production systems that enable them to adapt deftly to demand changes to ensure that they can remain profitable even in the face of diminished demand.

Japan’s auto industry is engaged in a global battle for market share, with worldwide competition equally fierce in areas such as technology development and cost reduction. We are working to further boost our manufacturing efficiency and establish closer ties with overseas companies with a view to better satisfying our current clients and making Futaba more appealing to potential new customers. And we are striving to make the various cost reductions needed to remain competitive in the rapidly developing mini- and super-mini car sector.

Futaba is also developing a number of proprietary technologies aimed at reducing CO_2 emissions and complying with various other environmental regulations, regarding such challenges as a source of new business opportunities.

Information and Environmental Equipment Parts Business

Our clients in the information equipment sector continue to shift their production bases to China, and we have therefore been working to secure access to local manufacturing infrastructure while making every effort to further expand our customer base.

We are also working with a number of other firms to develop various energy-related equipment parts with a view to launching commercially viable technologies for preventing global warming at the soonest possible opportunity.

Note:
According to the Tokyo Stock Exchange’s Rules & Regulations, a listed stock will be designated as “on alert” when the listed company falls into both of the following categories:

(1) The possibility arises that the listed company may have been delisted for making a false statement, etc., but was not delisted because the Tokyo Stock Exchange (TSE) conducted an examination and concluded that the statement, etc., had no material effect on the market.

(2) The TSE concludes that it is highly necessary for the company to improve its internal control system, etc.

After a stock has been designated as “on alert,” the company will be required to submit a written affirmation on the internal control system, etc., to the TSE every year. The “on alert” designation will be removed from the stock when the TSE concludes that there is no deficiency in the company’s internal control system, etc., based on the written affirmation.
However, the company will be delisted if the TSE concludes that there are still deficiencies in its internal control system, etc., after the company submits the written affirmation on its internal control system three times.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of March 31, 2008	As of March 31, 2009
Assets		
Current assets		
Cash and deposits	13,918	12,479
Trade notes and accounts receivable	68,860	42,861
Merchandise	4,527	3,288
Work in process	21,124	11,868
Raw materials and supplies	3,199	3,320
Deferred tax assets	181	7
Other	9,707	9,848
Allowance for doubtful accounts	(22)	(31)
Total current assets	121,495	83,642
Fixed assets		
Property, plant and equipment		
Buildings and structures	54,309	53,521
Accumulated depreciation	(22,933)	(23,878)
Buildings and structures, net	31,375	29,642
Machinery, equipment and vehicles	190,980	180,143
Accumulated depreciation	(108,961)	(112,426)
Machinery, equipment and vehicles, net	82,018	67,717
Tools, furniture and fixtures	102,783	110,393
Accumulated depreciation	(84,973)	(93,990)
Tools, furniture and fixtures, net	17,809	16,403
Land	14,832	14,789
Construction in progress	26,928	22,615
Other	–	471
Accumulated depreciation	–	(51)
Other, net	–	419
Total property, plant and equipment	172,965	151,588
Intangible fixed assets		
Memberships (sports facilities, resort facilities)	15	10
Other	492	500
Total intangible fixed assets	507	511
Investments and other assets		
Investment securities	23,075	17,114
Long-term loans	373	435
Deferred tax assets	415	778
Other	3,307	3,516
Allowance for doubtful accounts	(36)	(63)
Total investments and other assets	27,135	21,782
Total fixed assets	200,607	173,882
Total assets	322,103	257,525

Liabilities		
Current liabilities		
Trade notes and accounts payable	67,977	33,465
Short-term borrowings	36,248	73,467
Current portion of long-term borrowings	3,418	4,044
Current portion of bonds	10,000	14,722
Income taxes payable	3,971	500
Deferred tax liabilities	–	297
Reserve for directors' bonuses	100	1
Consumption tax payable	591	313
Accrued expenses	10,084	7,559
Other	15,320	13,613
Total current liabilities	147,712	147,985
Fixed liabilities		
Bonds with stock purchase warrant	14,722	–
Long-term borrowings	42,911	45,762
Deferred tax liabilities	11,598	7,499
Reserve for employees' retirement benefits	8,409	8,100
Reserve for directors' retirement benefits	257	116
Negative goodwill	91	–
Equity in loss of non-consolidated subsidiaries and affiliates	1,560	843
Other	620	841
Total fixed liabilities	80,172	63,163
Total liabilities	227,884	211,149
Net assets		
Shareholders' capital		
Common stock	11,820	11,820
Additional paid-in capital	13,321	13,321
Retained earnings	48,304	9,376
Treasury stock	(139)	(145)
Total shareholders' capital	73,307	34,372
Valuation and translation adjustments		
Net unrealized gains (losses) on other securities	7,935	4,377
Foreign currency translation adjustment	1,963	(2,034)
Total valuation and translation adjustments	9,899	2,342
Minority interests	11,013	9,660
Total net assets	94,219	46,375
Total liabilities and net assets	322,103	257,525

(2) Consolidated Statements of Income

	Millions of yen	
	Year ended March 31, 2008	Year ended March 31, 2009
Net sales	447,825	385,892
Cost of sales	422,496	380,586
Gross profit	25,329	5,305
Selling, general and administrative expenses	20,422	18,890
Operating income (loss)	4,907	(13,585)
Non-operating income		
Interest	353	220
Dividend income	451	450
Other	1,404	1,410
Total non-operating income	2,209	2,080
Non-operating expenses		
Interest expense	2,715	3,066
Valuation losses on derivative instruments	–	172
Equity in loss of non-consolidated subsidiaries and affiliates	670	255
Foreign exchange loss	1,059	2,304
Other	926	1,283
Total non-operating expenses	5,371	7,082
Ordinary income (loss)	1,745	(18,587)
Extraordinary gains		
Reversal of allowance for doubtful accounts	6	2
Gain on sale of investment securities	48	–
Subsidy for attracting enterprises	126	74
Valuation gains on derivative instruments	108	200
Gain on redemption of investment securities	25	–
Reversal of reserve for directors' retirement benefits	–	143
Total extraordinary gains	315	419
Extraordinary losses		
Provision for allowance for doubtful accounts	–	26
Valuation loss on investment securities	320	262
Impairment loss	1,923	17,205
Loss on sale of investment securities	–	63
Other	8	754
Total extraordinary losses	2,251	18,313
Income (loss) before income taxes and minority interests	(191)	(36,480)
Income taxes, inhabitants tax, and enterprise taxes	7,987	1,273
Income tax adjustments	1,929	(1,294)
Total tax	9,916	(20)
Minority interests in equity of consolidated subsidiaries	2,954	1,594
Net income (loss)	(13,061)	(38,054)

(3) Consolidated Statements of Changes in Shareholders' Capital

	Millions of yen	
	Year ended March 31, 2008	Year ended March 31, 2009
Shareholders' capital		
Common stock		
Balance at end of previous year	11,760	11,820
Changes during the period		
Share issuance	59	–
Total changes during the period	59	–
Balance at end of year	11,820	11,820
Additional paid-in capital		
Balance at end of previous year	13,261	13,321
Changes during the period		
Share issuance	60	–
Disposal of treasury stock	0	(0)
Total changes during the period	60	(0)
Balance at end of year	13,321	13,321
Retained earnings		
Balance at end of previous year	63,284	48,304
Changes during the period		
Cash dividends	(2,097)	(2,098)
Net income	(13,061)	(38,054)
Effects of changes in scope of equity method's application	–	1,992
Other	179	–
Total changes during the period	(14,979)	(38,161)
Balance at end of year	48,304	9,376
Treasury stock		
Balance at end of previous year	(122)	(139)
Changes during the period		
Disposal of treasury stock	0	4
Purchase of treasury stock	(18)	(10)
Total changes during the period	(17)	(5)
Balance at end of year	(139)	(145)
Total shareholders' capital		
Balance at end of previous year	88,183	73,307
Changes during the period		
Share issuance	120	–
Cash dividends	(2,097)	(2,098)
Net income	(13,061)	(38,054)
Disposal of treasury stock	1	4
Purchase of treasury stock	(18)	(10)
Effects of changes in scope of equity method's application	–	1,992
Other	179	–
Total changes during the period	(14,876)	(38,166)
Balance at end of year	73,307	34,372
Valuation and translation adjustments		
Net unrealized gain (loss) on other securities		
Balance at end of previous year	11,932	7,935
Changes during the period		
Net change in items other than shareholders' capital during the period	(3,996)	(3,558)
Total changes during the period	(3,996)	(3,558)
Balance at end of year	7,935	4,377
Foreign currency translation adjustments		
Balance at end of previous year	2,994	1,963

Changes during the period		
Net change in items other than shareholders' capital during the period	(1,030)	(3,997)
Total changes during the period	(1,030)	(3,997)
Balance at end of year	1,963	(2,034)
Total valuation and translation adjustments		
Balance at end of previous year	14,926	9,899
Changes during the period		
Net change in items other than shareholders' capital during the period	(5,027)	(7,556)
Total changes during the period	(5,027)	(7,556)
Balance at end of year	9,899	2,342
Minority interests		
Balance at end of previous year	6,590	11,013
Changes during the period		
Net change in items other than shareholders' capital during the period	4,422	(1,352)
Total changes during the period	4,422	(1,352)
Balance at end of year	11,013	9,660
Total net assets		
Balance at end of previous year	109,701	94,219
Changes during the period		
Share issuance	120	–
Cash dividends	(2,097)	(2,098)
Net income	(13,061)	(38,054)
Disposal of treasury stock	1	4
Purchase of treasury stock	(18)	(10)
Effects of changes in scope of equity method's application	–	1,992
Other	179	–
Net change in items other than shareholders' capital during the period	(605)	(8,909)
Total changes during the period	(15,481)	(47,076)
Balance at end of year	94,219	46,375

(4) Consolidated Cash Flow Statements

	Millions of yen	
	Year ended March 31, 2008	Year ended March 31, 2009
Cash flows from operating activities		
Loss before income taxes and minority interests	(191)	(36,480)
Depreciation and amortization	34,875	34,626
Impairment loss	1,923	17,205
Increase (decrease) in allowance for doubtful accounts	(56)	39
Increase (decrease) in reserve for directors' bonuses	1	(98)
Increase (decrease) in reserve for employees' retirement benefits	(163)	92
Increase (decrease) in reserve for directors' retirement benefits	7	(141)
Interest and dividend income	(805)	(670)
Interest expense	2,715	3,066
Equity in (gain) loss of non-consolidated subsidiaries and affiliates	670	255
(Gain) loss on sale of property, plant and equipment	(80)	4
Loss on disposal of property, plant and equipment	283	1,078
(Gain) loss on sale of marketable securities	–	63
(Gain) loss on redemption of marketable securities	(71)	–
Valuation (gain) loss on marketable securities	534	592
(Increase) decrease in trade accounts receivable	4,098	22,232
(Increase) decrease in inventories	(2,765)	9,119
Increase (decrease) in trade accounts payable	3,930	(30,107)
Increase (decrease) in consumption tax payable	444	(299)
Other	(836)	5,328
Subtotal	44,513	25,907
Interest and dividend income received	879	689
Interest expense paid	(2,707)	(3,090)
Income taxes paid	(7,872)	(8,491)
Net cash provided by operating activities	34,813	15,015
Cash flows from investing activities		
Increase in time deposits	(17)	–
Proceeds from withdrawal of time deposits	–	133
Acquisition of property, plant and equipment	(51,439)	(50,187)
Proceeds from sale of property, plant and equipment	381	126
Proceeds from sale/redemption of investment securities	1,874	1,736
Issuance of loans receivable	(1,231)	(1,465)
Collection of loans	753	155
Other	(184)	(751)
Net cash used in investing activities	(49,962)	(50,251)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	10,355	42,667
Proceeds from long-term borrowings	8,229	8,794
Repayment of long-term borrowings	(1,354)	(3,315)
Redemption of bonds	–	(10,000)
Payments for stock repurchases	(18)	(10)
Proceeds from disposition of treasury stock	1	4
Dividends paid	(2,097)	(2,098)
Cash dividends paid to minority shareholders	(1)	(1)
Proceeds from stock issued to minority shareholders	1,348	–
Other	–	(30)
Net cash provided by financing activities	16,462	36,010
Effect of foreign exchange rate changes on cash and cash equivalents	(849)	(2,080)
Increase (decrease) in cash and cash equivalents	464	(1,305)
Cash and cash equivalents at beginning of period	13,317	13,781
Cash and cash equivalents at end of period	13,781	12,475

(5) Notes on the Going-concern Assumption

April 1, 2008 – March 31, 2009

Our restatement of past earnings announced on May 29, 2009 resulted in Futaba Industrial booking consolidated net losses of ¥13,096 million for the year ended March 31, 2006, ¥33,827 million for the year ended March 31, 2007, ¥13,061 million for the year ended March 31, 2008, and ¥38,054 million for the year ended March 31, 2009. These losses put Futaba in breach of the operating loss covenant for syndicated loans with outstanding principal totaling ¥10,000 million as of March 31, 2009, while net asset covenants have been breached in relation to syndicated loans extended to consolidated subsidiaries Futaba Imari Corp. (outstanding principal of ¥9,900 million as of March 31, 2009) and Futaba Hiraizumi Corp. (outstanding principal of ¥2,220 million as of March 31, 2009). These breaches have cast material doubt over the going-concern assumption.

We are currently engaged in negotiations with a view to refinancing the syndicated loans for which covenants have been breached, and our major lenders have expressed their intention to provide support in this regard as well as ongoing support in relation to the refinancing of existing bank borrowings and an upcoming convertible bond redemption.

We are working to rectify the situation that resulted in Futaba having to restate its earnings for previous fiscal years by bolstering our accounting and management frameworks with the help of consultants and accounting experts provided by Toyota Motor Corporation while taking additional action to bolster our internal auditing systems and other internal controls. We are also striving to improve our earnings performance as rapidly as possible based on a medium-term business plan outlining detailed strategies for reducing costs of materials, personnel expenses, and various other expenses, boosting sales of existing products, and developing and promoting attractive new products. However, there is still material uncertainty as to whether the targets outlined in this plan can be achieved.

Our consolidated financial statements are premised on the assumption that Futaba Corporation and its subsidiaries will be able to continue as going concerns, and therefore do not reflect the potential impact of the aforementioned doubts and uncertainty.