

# **FINANCIAL STATEMENTS**

**YEARS ENDED 31ST MARCH, 2018 AND 2017**

**WITH**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**



**2-1-11, Tagawa Yodogawa-ku**

**Osaka, Japan**

**DAIHEN CORPORATION**  
**Consolidated Balance Sheets**  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 4 and 6) .....	¥14,430	¥14,433	\$135,825
Receivables —			
Trade notes and accounts receivable (Note 6 and 15)			
Unconsolidated subsidiaries and affiliates .....	1,035	398	9,742
Other .....	38,623	34,881	363,545
Loans and other accounts .....	2,667	3,412	25,104
Allowance for doubtful accounts .....	(45)	(41)	(424)
	42,280	38,650	397,967
Inventories (Note 5) .....	40,531	34,754	381,504
Deferred tax assets (Note 12) .....	2,187	2,239	20,585
Other current assets .....	2,284	1,294	21,499
Total current assets .....	101,712	91,370	957,380
<b>Property, plant and equipment (Notes 8 and 10):</b>			
Land .....	9,328	9,174	87,801
Buildings and structures .....	42,144	35,037	396,687
Machinery and equipment .....	50,203	47,059	472,543
Lease assets .....	1,171	1,077	11,022
Construction in progress .....	2,308	5,210	21,725
Total .....	105,154	97,557	989,778
Accumulated depreciation .....	(64,995)	(62,239)	(611,775)
Net property, plant and equipment .....	40,159	35,318	378,003
<b>Intangible assets:</b>			
Software .....	1,831	1,746	17,234
Other intangible assets .....	364	364	3,256
Total intangible assets .....	2,177	2,110	20,490
<b>Investments and other assets:</b>			
Investment securities (Note 6 and 7) .....	11,253	9,970	105,921
Investments in unconsolidated subsidiaries and affiliates (Note 6) .....	6,520	6,284	61,370
Deferred tax assets (Note 12) .....	307	336	2,890
Net defined benefit asset (Note 14) .....	6,341	5,587	59,686
Other .....	967	817	9,102
Allowance for doubtful accounts .....	(89)	(83)	(838)
Total investments and other assets .....	25,299	22,911	238,131
Total assets .....	¥169,347	¥151,709	\$1,594,004

*See accompanying Notes to Consolidated Financial Statements.*

**DAIHEN CORPORATION**  
**Consolidated Balance Sheets**  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term loans (Notes 6, 10 and 11) .....	¥12,085	¥8,599	\$113,752
Long-term debt due within one year (Notes 7, 11 and 12) .....	4,477	4,835	42,140
Trade notes and accounts payable— (Notes 7)			
Unconsolidated subsidiaries and affiliates .....	519	409	4,885
Other .....	34,126	29,362	321,216
Accrued employees' bonuses .....	3,303	3,107	31,090
Accrued directors' and corporate auditors' bonuses .....	111	105	1,045
Allowance for loss on construction contracts .....	69	100	650
Income taxes payable .....	1,753	1,270	16,500
Other current liabilities .....	6,879	5,866	64,750
<b>Total current liabilities</b> .....	<b>63,322</b>	<b>53,653</b>	<b>596,028</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6, 10 and 11) .....	16,477	15,819	155,092
Net defined benefit liability (Note 14) .....	1,726	1,690	16,246
Reserve for directors' and corporate auditors' retirement benefits .....	34	91	320
Asset retirement obligation .....	76	98	715
Deferred tax liabilities (Note 12) .....	3,614	2,921	34,017
Provision for construction expenses related to earthquake resistance renovation .....	842	1,025	7,926
Provision for product safety measures .....	40	68	377
Other noncurrent liabilities .....	1,109	1,059	10,439
<b>Total long-term liabilities</b> .....	<b>23,918</b>	<b>22,771</b>	<b>225,132</b>
<b>Total liabilities</b> .....	<b>87,240</b>	<b>76,424</b>	<b>821,160</b>
<b>Contigent liabilities (Note 15)</b>			
<b>NET ASSETS (Note 17)</b>			
<b>Shareholders' equity:</b>			
Common stock — .....	10,596	10,596	99,736
Authorized - 540,000 thousand shares in 2018 and 2017			
Issued - 135,516 thousand shares in 2018 and 2017			
Capital surplus .....	10,009	10,009	94,211
Retained earnings .....	50,849	45,718	478,624
Treasury stock, at cost			
— 9,982 thousand shares in 2018			
— 9,943 thousand shares in 2017 .....	(3,075)	(3,038)	(28,944)
<b>Accumulated other comprehensive income:</b>			
Net unrealized holding gains and losses on available-for-sale securities .....	5,201	4,282	48,955
Net deferred gains and losses on hedges .....	(3)	3	(28)
Foreign currency translation adjustments .....	2,707	2,125	25,480
Remeasurements of defined benefit plans .....	431	247	4,057
<b>Total accumulated other comprehensive income</b> .....	<b>8,336</b>	<b>6,657</b>	<b>78,464</b>
<b>Non-controlling interests</b> .....	<b>5,392</b>	<b>5,343</b>	<b>50,753</b>
<b>Total net assets</b> .....	<b>82,107</b>	<b>75,285</b>	<b>772,844</b>
<b>Total liabilities and net assets</b> .....	<b>¥169,347</b>	<b>¥151,709</b>	<b>\$1,594,004</b>

*See accompanying Notes to Consolidated Financial Statements.*

**DAIHEN CORPORATION**  
**Consolidated Statements of Income**  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 8) .....	¥149,449	¥134,870	\$1,202,157
Cost of sales (Note 5, 8 and 14) .....	102,449	90,505	806,712
Gross profit .....	47,000	44,365	395,445
Selling, general and administrative expenses (Note 14) .....	36,945	35,600	317,854
Operating income .....	10,055	8,705	77,591
Other income (expenses):			
Interest and dividend income .....	307	276	2,890
Interest expense .....	(393)	(263)	(3,699)
Foreign currency exchange gain (loss) .....	(13)	(272)	(122)
Gain on sales of property, plant and equipment and intangible assets .....	4	129	37
Share of profit of entities accounted for using equity method .....	129	91	1,214
Other, net .....	156	332	1,468
Expenses related to product accident (Note 16) .....	(141)	—	(1,327)
Total other income (expenses) .....	49	303	461
Income before income taxes .....	10,104	9,008	95,105
Income taxes (Note 12):			
Current .....	2,833	2,338	26,666
Deferred .....	296	(71)	2,786
Profit .....	¥6,975	¥6,741	\$65,653
Profit attributable to non-controlling interests .....	144	488	1,355
Profit attributable to owners of parent .....	6,831	6,253	64,298
Per share of common stock:	Yen		U.S. dollars (Note 1)
Net income per share .....	¥54.41	¥49.58	\$0.51
Cash dividends applicable to the year .....	¥15.00	¥12.00	\$0.14

*See accompanying Notes to Consolidated Financial Statements.*

**DAIHEN CORPORATION**  
**Consolidated Statement of Comprehensive Income**  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥6,975	¥6,741	\$65,653
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities -----	887	1,140	8,349
Net deferred gains and losses on hedges -----	(6)	3	(56)
Foreign currency translation adjustments -----	581	(712)	5,469
Remeasurment of defined benefit plans -----	210	628	1,976
Share of other comprehensive income of affiliates accounted for using equity method -----	58	(41)	546
Total other comprehensive income (Note 3) -----	1,730	1,018	16,284
Comprehensive income -----	¥8,705	¥7,759	\$81,937
Attributable to:			
Owners of parent -----	¥8,510	¥7,233	\$80,102
Non-controlling interests -----	195	526	1,835

*See accompanying Notes to Consolidated Financial Statements.*

**DAIHEN CORPORATION**  
**Consolidated Statement of Changes in Net Assets**  
Years ended March 31, 2018 and 2017

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non- controlling interests	Total
Restarted Balance at March 31, 2016	135,516	¥10,596	¥10,034	¥41,245	¥(2,026)	¥3,199	¥(0)	¥2,824	¥(346)	¥4,950	¥70,476
Profit attributable to owners of parent	—	—	—	6,253	—	—	—	—	—	—	6,253
Treasury stock, net	—	—	0	—	(1,012)	—	—	—	—	—	(1,020)
Cash dividends paid - ¥12.0 per share	—	—	—	(1,780)	—	—	—	—	—	—	(1,780)
Purchase of shares of consolidated subsidiaries	—	—	(25)	—	—	—	—	—	—	—	(25)
Net changes in items other than shareholders' equity	—	—	—	—	—	1,083	3	(699)	593	393	1,373
<b>Balance at March 31, 2016</b>	<b>135,516</b>	<b>¥10,596</b>	<b>¥10,009</b>	<b>¥45,718</b>	<b>¥(3,038)</b>	<b>¥4,282</b>	<b>¥3</b>	<b>¥2,125</b>	<b>¥247</b>	<b>¥5,343</b>	<b>¥75,285</b>
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restarted Balance at March 31, 2017	135,516	¥10,596	¥10,009	¥45,718	¥(3,038)	¥4,282	¥3	¥2,125	¥247	¥5,343	¥75,285
Profit attributable to owners of parent	—	—	—	6,831	—	—	—	—	—	—	6,831
Treasury stock, net	—	—	0	—	(37)	—	—	—	—	—	(37)
Cash dividends paid - ¥15.0 per share	—	—	—	(1,700)	—	—	—	—	—	—	(1,780)
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	(25)
Net changes in items other than shareholders' equity	—	—	—	—	—	919	(6)	582	184	49	1,728
<b>Balance at March 31, 2018</b>	<b>135,516</b>	<b>¥10,596</b>	<b>¥10,009</b>	<b>¥50,849</b>	<b>¥(3,075)</b>	<b>¥5,201</b>	<b>¥(3)</b>	<b>¥2,707</b>	<b>¥431</b>	<b>¥5,392</b>	<b>¥82,107</b>

Thousands of U.S. dollars (Note 1)

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non- controlling interests	Total
Balance at March 31, 2017	\$99,736	\$94,211	\$430,328	\$(28,596)	\$40,305	\$28	\$20,002	\$2,325	\$50,292	\$708,631
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restarted Balance at March 31, 2017	\$99,736	\$94,211	\$430,328	\$(28,596)	\$40,305	\$28	\$20,002	\$2,325	\$50,292	\$708,631
Profit attributable to owners of parent	—	—	64,298	—	—	—	—	—	—	64,298
Treasury stock, net	—	—	—	(348)	—	—	—	—	—	(348)
Cash dividends paid - ¥0.11 per share	—	—	(16,002)	—	—	—	—	—	—	(16,002)
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	8,650	(56)	5,478	1,732	461	16,265
<b>Balance at March 31, 2018</b>	<b>\$99,736</b>	<b>\$94,221</b>	<b>\$478,624</b>	<b>\$(28,944)</b>	<b>\$48,955</b>	<b>\$(28)</b>	<b>\$25,480</b>	<b>\$4,057</b>	<b>\$50,753</b>	<b>\$772,844</b>

See accompanying Notes to Consolidated Financial Statements.

**DAIHEN CORPORATION**  
**Consolidated Statements of Cash Flows**  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes .....	¥10,104	¥9,008	\$95,105
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation .....	4,902	4,504	46,141
Amortization of goodwill .....	4	4	38
Increase (decrease) in allowance for doubtful accounts .....	10	(8)	94
Increase (decrease) in accrued employees' bonuses .....	192	2	1,807
Increase (decrease) in provision for loss on construction contracts .....	(31)	(58)	(292)
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation .....	(183)	(53)	(1,723)
Increase (decrease) in provision for product safety measures .....	(27)	(14)	(254)
Increase (decrease) in net defined benefit liability .....	(107)	(119)	(1,007)
Decrease (increase) in net defined benefit asset .....	(346)	(209)	(3,257)
Interest and dividend income .....	(307)	(276)	(2,890)
Interest expense .....	393	263	3,699
Share of loss (profit) of entities accounted for using equity method .....	(129)	(91)	(1,214)
Loss (gain) on sales of property, plant and equipment .....	—	(129)	—
Decrease (increase) in trade notes and accounts receivable .....	(4,082)	(2,633)	(38,422)
Decrease (increase) in inventories .....	(5,335)	(2,124)	(50,216)
Increase (decrease) in trade notes and accounts payable .....	4,569	4,824	43,006
Other, net .....	(1,303)	(198)	(12,358)
Subtotal .....	8,314	12,693	78,257
Interest and dividends received .....	306	277	2,880
Interest paid .....	(237)	(268)	(2,231)
Income taxes paid .....	(2,440)	(2,030)	(22,967)
Net cash provided by operating activities .....	5,943	10,672	55,939
Cash flows from investing activities:			
Decrease in time deposits .....	(107)	(33)	(1,007)
Increase in time deposits .....	33	0	311
Purchases of property, plant and equipment .....	(8,695)	(6,548)	(81,843)
Proceeds from sales of property, plant and equipment .....	36	157	339
Purchases of intangible assets .....	(624)	(549)	(5,873)
Proceeds from sales of intangible assets .....	1	111	9
Purchases of investment securities .....	(7)	(6)	(66)
Proceeds from sales of investment in securities .....	1	83	9
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(76)	—	(715)
Net decrease (increase) in short-term loans receivable .....	1,493	(216)	14,053
Other, net .....	(62)	24	(584)
Net cash used in investing activities .....	(8,007)	(6,977)	(75,367)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans .....	3,405	704	32,050
Proceeds from long-term loans .....	5,000	5,000	47,063
Repayment of long-term loans .....	(4,650)	(4,050)	(43,769)
Repayment of lease obligations .....	(195)	(190)	(1,835)
Purchase of treasury stock .....	(37)	(1,012)	(348)
Cash dividends paid .....	(1,698)	(1,778)	(15,983)
Other, net .....	(146)	(160)	(1,374)
Net cash provided by (used in) financing activities .....	1,679	(1,486)	15,804
Effect of exchange rate changes on cash and cash equivalents .....	252	(363)	2,372
Net increase (decrease) in cash and cash equivalents .....	(133)	1,846	(1,252)
Cash and cash equivalents at beginning of year .....	13,804	11,958	129,932
Cash and cash equivalents at end of year (Note 4) .....	¥13,671	¥13,804	\$128,680

*See accompanying Notes to Consolidated Financial Statements.*

# **DAIHEN CORPORATION**

## **Notes to Consolidated Financial Statements**

### **1. Basis of presenting consolidated financial statements**

The accompanying consolidated financial statements of DAIHEN Corporation (the “Company”) and its consolidated subsidiaries (together the “Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018 (actually March 30, 2018), which was ¥106.24 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### **2. Summary of significant accounting policies**

#### **(1) Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. Investments in the remaining subsidiaries and affiliates are stated at cost.

There were 28 consolidated subsidiaries as of March 31, 2018 and 2017 and 3 companies accounted for using the equity method as of March 31, 2018 and 2017. In 2018 and 2017, there were 12 consolidated subsidiaries consolidated using a fiscal period ending December 31, which differs from the March 31 fiscal year-end of the Company. Any material effects occurring during the January 1 to March 31 periods have been adjusted for in the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to noncontrolling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

#### **(2) Cash and cash equivalents**

In preparing the consolidated statements of cash flows, the Companies consider cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase to be cash and cash equivalents.

#### **(3) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided for in an amount sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based upon the actual rate of historical bad debts. For certain doubtful accounts, the uncollectible amount is individually estimated.



#### (4) Securities

The Companies classify securities as either (a) equity securities issued by subsidiaries and affiliated companies or (b) all other securities (“available-for-sale securities”). Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available fair market value are stated at moving average cost.

If the market value of available-for-sale securities declines significantly and is not expected to recover, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss incurred in the period. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for using the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly and is not expected to recover. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### (5) Inventories

Inventories are stated at the lower of cost or net realizable value. Finished goods and work-in-process are stated at the lower of the cost using the gross average method or net realizable value. Raw materials, supplies and merchandise are stated principally at last purchase cost or net realizable value.

#### (6) Property, plant and equipment (except lease assets)

Property, plant and equipment are stated at cost. Depreciation is provided primarily using the declining balance method, except for buildings, structures and machinery and equipment which are in the plant in Mie prefecture, buildings (except for facilities attached to buildings) which have been acquired after April 1 1998 and facilities attached to buildings and structures which have been acquired after April 1, 2016, which are depreciated by the straight-line method. The useful life of an asset is determined in accordance with the Corporation Tax Law.

#### (7) Intangible assets (except for lease assets)

Software for internal use is amortized using the straight-line method over the estimated useful life of 5 years. Software for sale is amortized using the estimated sales method. Other intangible assets are amortized using the straight-line method over the useful life determined in accordance with the Corporation Tax Law.

#### (8) Lease assets

Lease assets with respect to finance leases that do not transfer ownership of the leased property are depreciated using the straight-line method, with the assumption that the useful life of the asset is the term of the lease and that the residual value is zero.

#### (9) Goodwill

Goodwill is amortized by the straight-line method over 5 years.

#### (10) Bonuses

As of the balance sheet date, accrued employees’ bonuses are recorded in the amount of the estimated bonuses attributable to the respective fiscal year. Accrued bonuses to directors and corporate auditors also are provided for based on the estimated amounts attributable to the respective fiscal year.

#### (11) Allowance for loss on construction contracts

Allowance for loss on construction contracts is provided with respect to construction projects for which eventual losses can be reasonably estimated.

(12) Reserve for employees' severance and retirement benefits

In determining retirement benefit obligations, the estimated amount of retirement benefits is attributed to periods of service on the benefit formula basis.

Differences generated from changes in actuarial assumptions are charged or credited to income in an amount allocated on a straight-line method over 15 years, which is shorter than the average remaining service period of the employees, beginning with the term following that when the differences are generated.

In calculating the liability for employees' severance and retirement benefits and retirement benefit expenses, some consolidated subsidiaries adopt a simple method in which the amount required to be paid if all the employees retired voluntarily at the fiscal year end is regarded as retirement benefit obligation.

(13) Reserve for directors' and corporate auditors' retirement benefits

Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. The reserve for directors' and corporate auditors' retirement benefits is provided for in the amount deemed to be paid in accordance with the internal rules as if the directors and corporate auditors had retired at the fiscal year-end.

(14) Provision for construction expenses related to earthquake resistance renovation

An allowance for the estimated removal costs is provided with respect to anti-earthquake reinforcement work for the building and plant in the Juso head office and Mie plant.

(15) Provision for product safety measures

The Company provides for the estimated future payments for inspections of and repairs on our products, electric water heaters, manufactured and sold at one of the consolidated subsidiaries, Kyuhen Co., Inc.

(16) Income taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carry-forwards and the expected future tax consequences of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(17) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income.

Income and expense items denominated in foreign currencies are translated using the rate on the date of the transaction. Related exchange gains and losses are credited or charged to income as incurred.

For the financial statements of overseas subsidiaries and affiliates, assets, liabilities, revenues and expenses are translated at the foreign exchange rates prevailing at each balance sheet date, while net assets accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

(18) Recognition of construction revenue

When the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method, otherwise the completed contract method is applied. The percent, or portion, of the contract completed as of the end of the reporting period is measured by the proportion of the cost incurred during the period to the estimated total cost.

(19) Research and development expenses

Research and development expenses, which are charged to income as incurred, amounted to ¥5,696 million (\$53,620 thousand) and ¥5,441 million in 2018 and 2017, respectively.

(20) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize gains and losses resulting from changes in the fair value, except when derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains and losses resulting from changes in the fair value of the derivative financial instruments until the related losses and gains on the hedged items are recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

(21) Per share information

Computations of net income per share of common stock are based on the weighted average number of shares of common stock outstanding during the fiscal year. Diluted net income per share for the year ended March 31, 2018 and 2017 is not shown because there were no dilutive common stock equivalents.

Declarations of dividends and appropriations of retained earnings are approved at the general meeting of shareholders held after the end of the fiscal year. These dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal year. However, dividends per share shown in the accompanying consolidated statements of income reflect dividends applicable to the respective period.

(22) Changes in Accounting Policy

Year ended March 31, 2017

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (Practice Issue Task Force No. 32, June 17, 2016 (hereinafter, “PITF No. 32”)) applicable from the current fiscal year and changed the depreciation method for facilities attached to buildings and structures acquired from April 1, 2016 from the declining balance method to the straight line method. The effect of the change on earnings was immaterial.

(23) Accounting standard issued but not yet applied

-“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018 (“Guidance No. 28”))

-“Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (“Guidance No. 26”))

(1) Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of nonconsolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as ‘Type 1’ according to the guidance.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of application

No effects are expected.

-“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)

-“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1 : Identify contract(s) with customers.

Step2 : Identify the performance obligations in the contract. Step3 : Determine the transaction price.

Step4 : Allocate the transaction price to the performance obligation in the contract.

Step5 : Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application

The Company and its consolidated domestic subsidiaries are in the process of determining the effects of these new standards on the consolidated financial statements.

(25) Additional Information

Year ended March 31, 2017

The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (“Guidance No. 26”)) applicable from the current fiscal year.

### 3. Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gains and losses on securities			
Arising during the year	¥1,298	¥1,696	\$12,218
Reclassification adjustments	(0)	(55)	(0)
Subtotal, before tax	1,298	1,641	14,627
Tax effects	(411)	(501)	(3,869)
Subtotal, net of tax	¥887	¥1,140	\$8,349
Net deferred gains and losses on hedges			
Arising during the year	¥(5)	¥5	\$(47)
Reclassification adjustments	(2)	0	(37)
Subtotal, before tax	(9)	5	(84)
Tax effects	3	(2)	5
Subtotal, net of tax	¥(6)	¥3	\$(56)
Foreign currency translation adjustments			
Arising during the year	¥581	¥(712)	\$5,469
Remeasurements of defined benefit plans			
Arising during the year	¥445	¥752	\$4,188
Reclassification adjustments	(143)	152	(1,346)
Subtotal, before tax	302	904	2,842
Tax effects	(92)	(276)	(866)
Subtotal, net of tax	¥210	¥628	\$1,976
Share of other comprehensive income of associates accounted for using the equity method			
Arising during the year	¥58	¥(41)	\$546
Total other comprehensive income	¥1,730	¥(1,018)	\$16,284

#### 4. Statements of Cash Flows

(1) Cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets at March 31, 2018 and 2017 were reconciled as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Cash and time deposits	¥14,430	¥14,433	\$135,825
Time deposits with maturities exceeding three months	(759)	(629)	(7,145)
Cash and cash equivalents	<u>¥13,671</u>	<u>¥13,804</u>	<u>\$128,680</u>

#### 5. Inventories

1) Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Merchandise and finished goods	¥14,394	¥13,073	\$135,486
Work-in-process	10,463	9,438	98,125
Raw materials and supplies	15,674	12,243	147,534
	<u>¥40,531</u>	<u>¥34,754</u>	<u>\$381,504</u>

(2) The write-down of book values for inventories held for sale in the course of business due to decreased profitability for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Cost of sales	¥318	¥(47)	\$2,993

## 6. Financial instruments and related disclosures

### (1) Qualitative information on financial instruments

#### (a) Policies for using financial instruments

The Company's policy on cash investments is to invest mainly in short-term bank deposits. The Companies raise funds necessary for operating and investing activities through loans from banks and other financial institutions. Company policy requires that the Companies utilize derivatives only to mitigate the risks described below and not to conduct speculative transactions for trading purposes.

#### (b) Details of financial instruments used and exposures to risks

Trade notes and trade accounts receivable are exposed to credit risks associated with customers. Trade receivables denominated in foreign currencies generated through global business operations are exposed to the risk of fluctuations in exchange rates, mitigated through foreign exchange forward contracts. Investment securities, consisting mainly of stocks held primarily to build and maintain good business relationships with business partners including financial institutions, are exposed to the risk of fluctuations in stock prices.

Most trade notes and accounts payable are due within one year. Some of these are exposed to foreign exchange rate fluctuation risk generated through the import of raw materials denominated in foreign currencies, which is mitigated principally through foreign exchange forward contracts. Loans are used primarily to raise short-term funds for operating activities, and long-term funds are used for investing activities. The final maturity of long-term debt is nine years after the fiscal year-end. Certain long-term debt subject to floating interest rates is exposed to interest rate fluctuation risk, which is mitigated through derivatives such as interest swap contracts.

Derivative transactions consist primarily of foreign exchange forward contracts to hedge exchange rate fluctuation risk related to trade receivables and payables and interest swap contracts to hedge interest rate fluctuation risk related to long-term debt. "Derivative financial instruments and hedging transactions" in Note 9, "Summary of significant accounting policies," explains the Companies' hedge accounting policy in detail, including methods, hedged items and recognition of gain or loss on hedged positions.

#### (c) Policies and processes for managing risk

##### (i) Credit risk management (risk arising from nonperformance of contracts by customers and counterparties)

The Company's business administrations in each operating division have established a regular screening system to monitor the creditworthiness of major customers and conduct collection date control and review outstanding balances for each customer in accordance with the Company's regulations for credit management. These processes enable early detection and reduction of potential credit risk associated with customers' financial difficulties. The consolidated subsidiaries follow the same practices under their regulations for credit management.

For derivatives and deposits, the Companies enter into contracts only with highly rated financial institutions in order to minimize counterparty risk. The maximum credit risk at March 31, 2018 was represented by the book value of the financial instruments exposed to credit risk on the consolidated balance sheet.

##### (ii) Market risk management (the risks arising from fluctuations in exchange rates, interest rates and other indicators)

The Companies use foreign exchange forward contracts in respect to trade receivables and trade payables denominated in foreign currencies to mitigate exchange rate fluctuation risk, which is monitored monthly for each currency. Monitoring foreign exchange markets closely, the Company applies foreign exchange forward contracts to expected export transactions.

The Companies use interest swap contracts to mitigate the floating interest expense risk of long-term debt. For investment securities, the Companies manage the risk of fluctuations in stock prices by periodically assessing stock prices and the financial positions of the issuers. The Companies evaluate whether to continue holding such investments, taking into account their fair values and the business relationship with the issuers. The chief of the accounting division at the Companies' headquarters trades derivatives according to the Company's policies, which also establish authority for trading and trade limits.

(iii) Liquidity risk management (the risk that the Companies may not be able to meet their obligations by scheduled due dates)

The Company minimizes liquidity risk through the accounting division's timely preparation of cash flow plans based on reports from each division, business unit and major subsidiary.

(d) Supplemental information on fair values

The fair value of financial instruments is based on the quoted market price if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 9, "Derivative financial instruments and hedging transactions," are not necessarily indicative of the actual market risk involved in the derivative transactions themselves.

(2) Fair values of financial instruments

(a) Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2018 and 2017 are set forth in the table below. Certain financial instruments were excluded from the tables as their fair values were not available.

Year ended March 31, 2018	Millions of yen		
	Book value	Fair value	Difference
Cash and time deposits	¥14,430	¥14,430	¥—
Trade notes and accounts receivable	39,658	39,658	—
Investment securities	10,739	10,739	—
Total asset	¥64,827	¥64,827	¥—
Trade notes and accounts payable	¥34,645	¥34,645	¥—
Short-term loans	12,085	12,085	—
Long-term loans	20,359	20,347	(12)
Total liabilities	¥67,089	¥67,077	¥(12)
Derivatives (*)	¥(5)	¥(5)	¥—

Year ended March 31, 2018	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Cash and time deposits	\$135,825	\$135,825	\$—
Trade notes and accounts receivable	373,287	373,287	—
Investment securities	101,082	101,082	—
Total assets	\$610,194	\$610,194	\$—
Trade notes and accounts payable	\$326,101	\$326,101	\$—
Short-term loans	113,752	113,752	—
Long-term loans	191,632	191,519	(113)
Total liabilities	\$631,485	\$631,372	\$(113)
Derivatives (*)	\$(47)	\$(47)	\$—



Year ended March 31, 2017	Millions of yen		
	Book value	Fair value	Difference
Cash and time deposits	¥14,433	¥14,433	¥—
Trade notes and accounts receivable	35,279	35,279	—
Investment securities	9,456	9,456	—
Total asset	¥59,168	¥59,168	¥—
Trade notes and accounts payable	¥29,771	¥29,771	¥—
Short-term loans	8,599	8,599	—
Long-term loans	20,009	20,137	128
Total liabilities	¥58,379	¥58,507	¥128
Derivatives (*)	¥5	¥5	¥—

(\*) Net assets and liabilities arising from derivative transactions are presented on a net basis.

(b) Method of calculating the fair value of financial instruments and matters related to securities and derivative transactions

Cash and time deposits, trade notes and accounts receivables:

The fair value approximates the book value because of the short-term maturities of these instruments.

Investment securities:

The fair value of securities is based on year-end quoted market prices. For information on securities classified by the purpose for which they are held, refer to Note 7.

Trade notes and accounts payable, short-term loans:

The fair approximates the book value because of the short-term settlement of these instruments.

Long-term loans:

The fair value is estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities. Interest rate swaps subject to special treatment are used for long-term loans. The principal and interest on the loans in which these interest rate swaps are embedded are discounted using an estimate of the interest rate on the loan at the time of issue.

Derivatives:

Refer to Note 9, “Derivative financial instruments and hedging transactions.”

(c) Financial instruments for which it is extremely difficult to determine the fair value

The stock of nonconsolidated subsidiaries and affiliates and the unlisted stock in the following table are not included in “Investment Securities” above because no market prices were available and it was not possible to estimate the future cash flows.

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
			2018
Investments in unconsolidated subsidiaries and affiliates	¥6,520	¥6,284	\$61,371
Investments in unlisted stock	514	514	4,838
Total	¥7,034	¥6,798	¥66,209

(d) The aggregate maturities subsequent to March 31, 2018 and 2017 for financial assets with maturities were as follows:

Year ended March 31, 2018	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	¥14,430	¥—	¥—
Trade notes and accounts receivables	39,658	—	—
Total	¥54,088	¥—	¥—

Year ended March 31, 2018	Thousands of U.S. dollars		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	\$135,825	\$—	\$—
Trade notes and accounts receivables	373,287	—	—
Total	\$509,112	\$—	\$—

Year ended March 31, 2017	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	¥14,433	¥—	¥—
Trade notes and accounts receivables	35,279	—	—
Total	¥49,712	¥—	¥—

(e) The aggregate maturities subsequent to March 31, 2018 and 2017 for long-term bank loans were as follows:

Year ended March 31, 2018	Millions of yen					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term loans	¥4,288	¥4,233	¥3,584	¥2,484	¥3,784	¥1,986

Year ended March 31, 2018	Thousands of U.S. dollars					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term loans	\$40,361	\$39,844	\$33,735	\$23,381	\$35,617	\$18,694

Year ended March 31, 2017	Millions of yen					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term loans	¥4,650	¥4,288	¥4,233	¥2,504	¥1,404	¥2,930

## 7. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥3,213	¥3,232	\$30,243
Bonds	—	—	—
Other	—	—	—
	¥3,213	¥3,232	\$30,243
Book value:			
Equity securities	¥10,384	¥9,109	\$97,741
Bonds	—	—	—
Other	—	—	—
	¥10,384	¥9,109	\$97,741
Difference:			
Equity securities	¥7,171	¥5,877	\$67,498
Bonds	—	—	—
Other	—	—	—
	¥7,171	¥5,877	\$67,498
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥438	¥412	\$4,122
Bonds	—	—	—
Other	—	—	—
	¥438	¥412	\$4,122
Book value:			
Equity securities	¥355	¥347	\$3,341
Bonds	—	—	—
Other	—	—	—
	¥355	¥347	\$3,341
Difference:			
Equity securities	¥(83)	¥(65)	\$(781)
Bonds	—	—	—
Other	—	—	—
	¥(83)	¥(65)	\$(781)
Total			
Acquisition cost	¥3,651	¥3,644	\$34,365
Book value (fair value)	10,739	9,456	101,082
Difference	¥7,088	¥5,812	\$66,717

(2) Total sales of available-for-sale securities

Year ended of March 31, 2018

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥0	\$0
Bonds	—	—
Other	—	—
	<u>¥0</u>	<u>\$0</u>
Gain on sales:		
Equity securities	¥0	\$0
Bonds	—	—
Other	—	—
	<u>¥0</u>	<u>\$0</u>
Loss on sales:		
Equity securities	¥0	\$0
Bonds	—	—
Other	—	—
	<u>¥0</u>	<u>\$0</u>

Year ended March 31, 2017

	Millions of yen
Amount of total sales:	
Equity securities	¥82
Bonds	—
Other	—
	<u>¥82</u>
Gain on sales:	
Equity securities	¥55
Bonds	—
Other	—
	<u>¥55</u>
Loss on sales:	
Equity securities	¥ —
Bonds	—
Other	—
	<u>¥ —</u>

(3) Impairment loss on investment securities

Not applicable for the year ended March 31, 2018 or 2017.

## 8. Rental properties

The Company and certain domestic consolidated subsidiaries own rental condominiums, rental houses for the elderly and other rental properties. The net rental income from these properties amounted to ¥122 million (\$1,148 thousand) and ¥118 million for the years ended March 31, 2018 and 2017, respectively. The Company classifies rental income as net sales and rental expenses as cost of sales.

The book value of rental property on the consolidated balance sheets, the amount of change in book value and the fair value as of March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018	Millions of yen			Fair value March 31, 2018
	Book value		March 31, 2018	
	March 31, 2017	Changes during the year		
Rental property	¥1,677	¥(40)	¥1,637	¥3,804

  

Year ended March 31, 2018	Thousands of U.S. dollars			Fair value March 31, 2018
	Book value		March 31, 2018	
	March 31, 2017	Changes during the year		
Rental property	\$15,785	\$(376)	\$15,409	\$35,806

  

Year ended March 31, 2017	Millions of yen			Fair value March 31, 2017
	Book value		March 31, 2017	
	March 31, 2016	Changes during the year		
Rental property	¥1,709	¥(32)	¥1,677	¥3,786

The book value represents the net amount of acquisition cost less accumulated depreciation. The fair value is based mainly on appraisal reports prepared by external real estate appraisers. Changes in the book value during the years ended March 31, 2018 and 2017 were mainly the results of depreciation.

## 9. Derivative financial instruments and hedging transactions

(1) Derivatives not subject to hedge accounting

Not applicable for the year ended March 31, 2018 or 2017

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2018

Hedge accounting method	Type of derivatives	Hedged items	Millions of yen		
			Contract amount	Portion over one year	Fair value
Deferred hedge method*1	Foreign exchange forward contracts				
	Buy: U.S. dollar	Trade accounts payable	¥401	¥—	¥(5)
Allocation method *2	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	4,728	—	—
	Sell: Euro		937	—	—
	Sell: Korean won		97	—	—
	Sell: Taiwan dollar		675	—	—
Buy: U.S. dollar	Trade accounts payable	566	—	—	
<b>Total</b>			<b>¥7,404</b>	<b>¥—</b>	<b>¥(5)</b>

Year ended March 31, 2018

Hedge accounting method	Type of derivatives	Hedged item	Thousands of U.S. dollars		
			Contract amount	Portion over one year	Fair value
Deferred hedge method*1	Foreign exchange forward contracts				
	Buy: U.S. dollar	Trade accounts payable	\$3,774	\$—	\$(47)
Allocation method *2	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	44,503	—	—
	Sell: Euro		8,820	—	—
	Sell: Korean won		913	—	—
	Sell: Taiwan dollar		6,353	—	—
Buy: U.S. dollar	Trade accounts payable	5,328	—	—	
<b>Total</b>			<b>\$69,691</b>	<b>\$—</b>	<b>\$(47)</b>

Year ended March 31, 2017

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Deferred hedge method *1	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	¥226	¥—	¥5
	Buy: U.S. dollar	Trade accounts payable	83	—	¥(0)
Allocation method *2	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	4,369	—	—
	Sell: Euro		460	—	—
	Sell: Korean won		202	—	—
	Sell: Taiwan dollar		351	—	—
Buy: U.S. dollar	Trade accounts payable	309	—	—	
Total			¥6,000	¥—	¥5

\*1. Estimated fair values are based on that prices provided by financial institutions.

\*2. The allocation method requires recognized foreign currency receivables and payables be translated using corresponding foreign exchange forward contract rates. The fair value of gain or loss resulting from foreign exchange forward contracts embedded in receivables and payables subject to hedging is included in the fair value of the corresponding receivable and payable.

## (b) Interest rate related

			Millions of yen		
			2018		
Hedge accounting method	Type of derivatives	Hedged items	Contract amount	Portion over one year	Fair value
Interest rate swaps					
Special treatment of interest rate swaps	Pay/fixed and receive/floating	Long-term bank loans	¥1,000	—	(*)

  

			Thousands of U.S. dollars		
			2018		
Hedge accounting method	Type of derivatives	Hedged item	Contract amount	Portion over one year	Fair value
Interest rate swaps					
Special treatment of interest rate swaps	Pay/fixed and receive/floating	Long-term bank loans	\$9,413	\$—	(*)

  

			Millions of yen		
			2017		
Hedge accounting method	Type of derivatives	Hedged item	Contract amount	Portion over one year	Fair value
Interest rate swaps					
Special treatment of interest rate swaps	Pay/fixed and receive/floating	Long-term bank loans	¥4,000	¥1,000	(*)

(\*) The fair value of interest rate swaps subject to special treatment is included in the fair value of the corresponding long-term bank loans.

**10. Pledged assets**

The following assets were pledged as collateral for short-term loans and long-term loans of ¥1,750 million (\$16,472 thousand) and ¥1,874 million at March 31, 2018 and 2017, respectively.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Property, plant and equipment-net of accumulated depreciation	¥8,378	¥3,322	\$78,859

In addition, property, plant and equipment provided for trade guarantees amounted to ¥345 million (\$3,247 thousand) and ¥324 million at March 31, 2018 and 2017, respectively.



## 11. Short-term loans, long-term debt

The weighted average interest rate on short-term loans was 0.6% for each of the years ended March 31, 2018 and 2017.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans from banks and insurance companies maturing through 2026 with interest rates ranging from 0.3% to 1.8%			
Secured	¥1,750	¥1,874	\$16,472
Unsecured	18,609	18,135	175,160
Lease obligations	595	645	5,600
	20,954	20,654	197,232
Less amount due within one year	(4,477)	(4,835)	(42,140)
	<u>¥16,477</u>	<u>¥15,819</u>	<u>\$155,092</u>

Substantially all of the loans with banks are made under general agreements as is customary in Japan. These agreements provide that, with respect to all present and future indebtedness to the banks, the Company and its consolidated domestic subsidiaries provide collateral at the request of any such bank, that any collateral provided under any agreement be applicable to all indebtedness to the bank and that the lending bank has the right to offset deposits with them against any debt or obligation that becomes due and, in cases of default or certain other specified events, against all debts payable to the bank.

The aggregate annual maturities of long-term debt at March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥4,477	\$42,140
2020	4,382	41,246
2021	3,696	34,789
2022	2,564	24,134
2023	3,834	36,088
2024 and thereafter	2,00	18,835
	<u>¥20,954</u>	<u>\$197,232</u>

Year ended March 31, 2017

Years ending March 31	Millions of yen
2018	¥4,835
2019	4,448
2020	4,360
2021	2,592
2022	1,448
2023 and thereafter	2,971
	¥20,654

## 12. Income taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate indicate a statutory income tax rate in Japan of approximately 30.8% for each of the years ended March 31, 2018 and 2017.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Liability for retirement benefits	¥830	¥1,040	\$7,813
Nondeductible bonuses accrued	976	923	9,187
Write-down of inventories	498	419	4,688
Unrealized gains on inventories	459	416	4,320
Provision for construction expenses related to related to earthquake resistance renovation	272	338	2,560
Other	1,083	1,014	10,193
Subtotal deferred tax assets	4,118	4,150	38,761
Valuation allowance	(696)	(323)	(6,551)
Total deferred tax assets	¥3,422	¥3,827	\$33,007
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(827)	¥(827)	\$(7,784)
Retained earnings appropriated for allowable tax reserves	(637)	(665)	(5,996)
Net unrealized gains on "available-for-sale-securities"	(2,126)	(1,736)	(20,011)
Land revaluation difference	(820)	(820)	(7,718)
Other	(132)	—	(1,243)
Total deferred tax liabilities	¥(4,542)	¥(4,173)	\$(42,752)
Net deferred tax assets	¥(1,120)	¥(364)	\$(10,542)

Net deferred tax assets at March 31, 2018 and 2017 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Current assets	¥2,187	¥2,239	\$20,585
Long-term assets	307	363	2,890
Long-term liabilities	(3,614)	(2,921)	(34,017)
Net deferred tax assets	<u>¥(1,120)</u>	<u>¥(364)</u>	<u>\$(10,542)</u>

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate at March 31, 2018 and 2017 was as follows:

	2018	2017
Statutory income tax rate	— %	30.8%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	— %	1.1%
Permanent difference (dividend income, etc.)	— %	(0.3%)
Inhabitants tax on per capita basis	— %	0.5%
Share of profit of entities accounted for using equity method	— %	(0.3%)
Different tax rates applied to foreign subsidiaries	— %	(3.7%)
Tax credit for research and development	— %	(3.4%)
Others	— %	0.5%
Effective income tax rate	<u>— %</u>	<u>25.2%</u>

In the fiscal year ended as of March 31, 2018, the difference between the statutory tax rate and the effective income tax rate was less than 5% of the statutory tax rate, so the note is omitted.

### 13. Business combinations

Year ended March 31, 2017

(1) Transaction under common control Additional acquisition of shares of subsidiary

(a) Outline of this business combination is as follows:

(i) Name of concerned company and business

-Name of concerned company: Daihen OTC (Beijing) CO., LTD.

-Business: Manufacturing and sale of transformers and others

(ii) Date of business combination

October 1, 2016 (Deemed acquisition date)

(iii) Legal form of business combination Acquisition of shares from noncontrolling interests

(iv) Name of company after business combination There is no change.

(v) Other matters concerning the outline of the transaction

The percentage of additional voting rights acquired by the Company was 5.6%. After this transaction, the Company converted Daihen OTC (Beijing) CO., LTD. into a wholly owned subsidiary. The Company executed this transaction for the purpose of operating the companies more efficiently.

(b) Outline of accounting treatment

In accordance with the “Accounting Standard for Business Combinations” and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures,” the Company treated this transaction as a transaction with noncontrolling interests included in transactions under common control.

(c) Additional acquisition of shares in subsidiary

Acquisition cost and breakdown by the type of consideration

Consideration paid for acquisition: Cash ¥32 million

Acquisition cost: ¥32 million

(d) Changes in the portion held by the Company in connection with the transactions with noncontrolling interests

(i) Main reasons for changes in capital surplus

Additional acquisition of subsidiary’s shares

(ii) Decreases in capital surplus due to transactions with noncontrolling interests

¥25 million

#### 14. Reserve for employees' severance and retirement benefits

Net defined benefit asset and net defined benefit liability included in the consolidated balance sheets as of March 31, 2018 and 2017 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2018 and 2017 consisted of the following:

##### (1) Retirement benefit obligations

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Balance at April 1	¥17,826	¥18,180	\$167,790
Service cost	565	572	5,318
Interest cost	75	73	706
Actuarial loss	(590)	(48)	(5,553)
Benefits paid	(688)	(947)	(6,476)
Other	11	(4)	103
Balance at March 31	¥17,199	¥17,826	\$161,888

##### (2) Plan assets

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Balance at April 1	¥21,723	¥20,899	\$204,471
Expected return on plan assets	416	403	3,916
Actuarial loss (gain)	(122)	751	(1,148)
Contributions paid by the employer	400	542	3,765
Benefits paid	(603)	(872)	(5,676)
Balance at March 31	¥21,814	¥21,723	\$205,328

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥15,473	¥16,136	\$145,642
Plan assets	(21,814)	(21,723)	(205,328)
	(6,341)	(5,587)	(59,686)
Unfunded retirement benefit obligations	1,726	1,690	16,246
Total net defined benefit liability (asset) at March 31	¥(4,615)	¥(3,897)	\$(43,440)
Net defined benefit liability	1,726	1,690	\$16,246
Net defined benefit asset	(6,341)	(5,587)	(59,686)
Total net defined benefit liability (asset) at March 31	¥(4,615)	¥(3,897)	\$(43,440)

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥565	¥572	\$5,318
Interest cost	75	73	706
Expected return on plan assets	(416)	(403)	(3,916)
Net actuarial loss amortization	(167)	104	(1,571)
Total retirement benefit costs for the fiscal year ended March 31	¥57	¥346	\$537

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gains and losses	¥302	¥904	\$2,842
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥302	¥904	\$2,842

(6) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gains and losses	¥706	¥404	\$6,645
Total balance at March 31	¥706	¥404	\$6,645

(7) Plan assets

Plan assets comprise:

	2018	2017
Bonds	29.7%	28.7%
Equity Securities	53.2%	53.8%
Others	17.1%	17.5%
Total	100.0%	100.0%

Long-term expected rate of return

In current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

	2018	2017
Discount rates	0.1%~0.5%	0.1%~0.5%
The rate of long-term expected return on plan assets	1.5%~3.0%	1.5%~3.0%

The contribution required to the defined contribution plan of the Companies was ¥563 million (\$5,299 thousand) and ¥546 million for the years ended March 31, 2018 and 2017, respectively.

(Note) Defined benefit plan applying the simplified method is included above.

## 15. Contingent liabilities

Contingent liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loan guarantees: DAIHEN AOMORI CO., LTD.	¥47	¥65	\$442
Loan guarantees: DAIHEN VARSTROJ welding cutting and robotics d. d.	712	454	6,702
Assigned trade receivable with recourse	414	675	3,897

## 16. Expenses related to product accident

Year ended March 31, 2018

Expense related to product accident is expenses measuring arising from an industrial accident in connection with a certain product that one of the consolidated subsidiaries manufactured. The main expenses are for restoration work and replacement costs. The measures are ongoing, so additional expenses are expected to be incurred in and after the next consolidated fiscal year.

## 17. Net assets

Under the Japanese Corporate Law and regulations (“ the Law”), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus in the accompanying consolidated balance sheets.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or greater than 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.



## 18. Segment information

### (1) Description of reportable segments

A reportable segment of the Company represents a component for which financial information can be obtained separately from other components and the results of which can be reviewed by the Board of Directors on a regular basis in order to decide on allocations of managerial resources and evaluate business performance.

The Company has adopted a divisional organization based system in which each company develops comprehensive business strategies for Japan and overseas and conducts business with respect to their products and services. The Company maintains three reportable segments based on the industry in which the companies operate. These reportable segments are Power Products, Welding & Mechatronics and Advanced Components.

The Companies operate principally in three reportable segments as follows:

Power Products:	Various transformers, switches and switchgear systems and dispersed power systems
Welding & Mechatronics:	Electric welding machines, plasma cutting machines, industrial robots, and wireless power transfer systems
Advanced Components:	Power supplies and automatic tuners for wafer & FPD manufacturing equipment and clean transfer robots and systems

### (2) Accounting methods of used for sales, income (loss), assets and other items for reportable segments

The accounting policies for the reportable segments are consistent with those disclosed in Note 2, "Summary of significant accounting policies." The amount of segment income corresponds to that of operating income. Intersegment sales and transfer prices are calculated based mainly on market value or manufacturing cost.

#### Year ended March 31, 2017

As described in changes in accounting policies, due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries changed the depreciation method for facilities attached to buildings and structures acquired after April 1, 2016 from the declining balance method to the straight line method. The Company and its domestic subsidiaries also changed the depreciation method used in the operating segments in the same manner. The effect of the change on earnings was immaterial.

(3) Information on sales, income (loss), assets and other items for reportable segments.  
Reportable segment information for the years ended March 31, 2018 and 2017 was as follows:

Year ended March 31, 2018	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥66,161	¥44,400	¥38,686	¥149,247	¥202	¥134,870
Intersegment	—	41	—	41	—	53
Total	<u>¥66,161</u>	<u>¥44,441</u>	<u>¥38,686</u>	<u>¥149,288</u>	<u>¥202</u>	<u>¥134,923</u>
Segment income	¥4,218	¥3,362	¥6,418	¥13,998	¥88	¥12,164
Assets	66,571	47,827	26,643	141,041	1,209	128,634
Other items						
Depreciation (*2)	2,253	1,347	632	4,232	30	4,262
Amortization of goodwill	4	—	—	4	—	4
Increase in property, plant and equipment and intangible assets (*3)	4,301	1,111	1,718	7,130	11	7,141

Year ended March 31, 2018	Thousands of U.S. dollars					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	\$622,750	\$417,922	\$364,138	\$1,404,810	\$1,901	\$1,406,711
Intersegment	—	386	—	386	—	386
Total	<u>\$622,750</u>	<u>\$418,308</u>	<u>\$364,138</u>	<u>\$1,405,196</u>	<u>\$1,901</u>	<u>\$1,407,097</u>
Segment income	\$39,703	\$31,645	\$60,410	\$131,758	829	132,587
Assets	626,610	450,179	250,781	1,327,570	11,380	1,338,950
Other items						
Depreciation (*2)	21,207	12,679	5,949	39,835	282	40,117
Amortization of Goodwill	38	—	—	38	—	38
Increase in property, plant and equipment and intangible assets (*3)	40,484	10,457	16,171	67,112	104	67,216

Year ended March 31, 2017	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥66,724	¥42,212	¥25,733	¥134,669	¥201	¥134,870
Intersegment	—	53	—	53	—	53
Total	<u>¥66,724</u>	<u>¥42,265</u>	<u>¥25,733</u>	<u>¥134,722</u>	<u>¥201</u>	<u>¥134,923</u>
Segment income	¥5,547	¥3,305	¥3,221	¥12,073	¥91	¥12,164
Assets	64,174	45,012	18,068	127,254	1,380	128,634
Other items						
Depreciation (*2)	2,160	1,314	405	3,879	32	3,911
Amortization of Goodwill	4	—	—	4	—	4
Increase in property, plant and equipment and intangible assets (*3)	2,776	1,625	717	5,118	2	5,120

(\*1) “Other” is not included in reportable segments. It includes rental properties and sports facilities operations.

(\*2) Depreciation includes the amortization of long-term prepaid expenses.

(\*3) Increase in property, plant and equipment and intangible assets includes the increase in long-term prepaid expenses.

(4) Amount and breakdown of the differences between aggregate amounts of reportable segments and amounts recorded in the consolidated financial statements (items related to adjustments of differences)

(a) Segment sales

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segment	¥149,288	¥134,722	\$1,405,196
Sales of other	202	201	1,901
Segment adjustment	(41)	(53)	(386)
Consolidated net sales	<u>¥149,449</u>	<u>¥134,870</u>	<u>\$1,406,711</u>

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segment	¥13,998	¥12,073	\$107,612
Income of other	88	91	811
Segment adjustment	0	0	0
Company expenses	(4,031)	(3,459)	(37,943)
Consolidated operating income	<u>¥10,055</u>	<u>¥8,705</u>	<u>\$94,644</u>

“Company expenses” are operating expenses which are not included in any reportable segments.

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segment	¥141,041	¥127,254	\$1,327,570
Assets of other	1,209	1,380	11,380
Company assets	27,104	23,104	255,120
Other adjustment	(7)	(29)	(66)
Consolidated total assets	<u>¥169,347</u>	<u>¥151,709</u>	<u>\$1,594,004</u>

“Company assets” are land, buildings, investment funds (investment securities) and others which are not included in any reportable segments.

## (d) Other items

Year ended March 31, 2018	Millions of yen			
	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥4,232	¥30	¥640	¥4,902
Amortization of goodwill	4	—	—	4
Increase in property, plant and equipment and intangible assets	7,130	11	2,511	9,652

  

Year ended March 31, 2018	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	\$39,835	\$282	\$6,024	\$46,141
Amortization of goodwill	38	—	—	38
Increase in property, plant and equipment and intangible assets	67,112	104	23,635	90,851

  

Year ended March 31, 2017	Millions of yen			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	¥3,879	¥32	¥593	¥4,504
Amortization of goodwill	4	—	—	4
Increase in property, plant and equipment and intangible assets	5,118	2	3,293	8,413

“Adjustment” of increase in property, plant and equipment and intangible assets is the investment in information systems, earthquake resistance renovation and others.

(5) Geographic segment information for the years ended March 31, 2018 and 2017 was as follows:

(a) Net sales

Year ended March 31, 2018	Millions of yen				
	Japan	North America	Asia	Other	Total
Net sales	¥114,459	¥4,314	¥27,556	¥3,120	¥149,449

Year ended March 31, 2018	Thousands of U.S. dollars				
	Japan	North America	Asia	Other	Total
Net sales	\$1,077,363	\$40,606	\$259,375	\$29,367	\$1,406,711

Year ended March 31, 2017	Millions of yen				
	Japan	North America	Asia	Other	Total
Net sales	¥104,617	¥4,331	¥23,900	¥2,022	¥134,870

(b) Tangible fixed assets

Year ended March 31, 2018	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥34,466	¥95	¥5,353 ¥(3,248)	¥245	¥40,159

Year ended March 31, 2018	Thousands of U.S. dollars				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	\$324,416	\$894	\$50,386 \$(30,572)	\$2,307	\$378,003

Year ended March 31, 2017	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥29,591	¥112	¥5,416 ¥(3,325)	¥199	¥35,318

(6) Information on major customers that accounted for 10% or more of the sales in the consolidated income statement for the years ended March 31, 2018 and 2017 was as follows:

		Millions of yen	
Year ended	Major customers	Revenue	Related segments
March 31, 2018	Tokyo Electron Miyagi Limited	25,455	Advanced Components

  

		Thousands of U.S. dollars	
Year ended	Major customers	Revenue	Related segments
March 31, 2018	Tokyo Electron Miyagi Limited	239,599	Advanced Components

Year ended March 31, 2017

There is no information on sales to external customers for the year ended March 31, 2017 because there were no customers that accounted for 10% or more of the sales in the consolidated income statement.

(7) Information on amortization of goodwill and its unamortized balance by reportable segment  
Not applicable for the year ended March 31, 2018 or 2017.

## (8) Information on amortization of goodwill and its unamortized balance by reportable segment

Millions of yen							
Year ended March 31, 2018	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	¥4	¥—	¥—	¥4	¥—	¥—	¥4
Balance at end of Period	2	—	—	6	—	—	2

Thousands of US dollars							
Year ended March 31, 2018	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	\$38	\$—	\$—	\$38	\$—	\$—	\$38
Balance at end of Period	19	—	—	19	—	—	19

Millions of yen							
Year ended March 31, 2017	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	¥4	¥—	¥—	¥4	¥—	¥—	¥4
Balance at end of Period	6	—	—	6	—	—	6

## (9) Information on gain on bargain purchase by reportable segment

Not applicable for the year ended March 31, 2018 or 2017.



## 19. Subsequent events

### Consolidation of shares and revision of the number of shares per trading unit

At the Board of Directors' meeting held on May 10, 2018, in accordance with Article 195, Paragraph 1 of the Japanese Corporate Law, the Company resolved to revise the number of shares per trading unit, to amend the articles of incorporation and to submit a proposal for the consolidation of shares to the 154th Annual General Meeting of Shareholders held on June 27, 2018. The proposal was approved by resolution at the Annual General Meeting of Shareholders.

(1) Purpose of the consolidation of shares and revision of the number of shares per trading unit  
Securities exchanges in Japan issued the "Action Plan for Consolidating Trading Units," aiming to unify the trading unit for common shares of listed companies in Japan to 100 shares. The Company is listed on the Tokyo Stock Exchange and the Fukuoka Stock Exchange. Respecting this policy, the Company decided to revise the trading unit for its common shares from 1,000 shares to 100 shares. In connection with this change, the Company decided to consolidate its shares considering the value range of an investment unit recommended by the securities exchanges (¥50,000 to ¥500,000).

### (2) Details of the share consolidation

(a) Type of shares to be consolidated  
Common shares

### (b) Method and ratio of consolidation

Effective October 1, 2018, shares held by shareholders who were listed in the final shareholders' register as of September 30, 2018 (actually September 28, 2018) will be consolidated at the ratio of five shares to one share.

### (c) Decrease in number of shares due to share consolidation

Total outstanding shares before share consolidation (at March 31, 2018)	135,516,455 shares
Decrease in number of shares due to share consolidation	108,413,164 shares
Total outstanding shares after share consolidation	27,103,291 shares

Note: "Decrease in number of shares due to share consolidation" and "Total outstanding shares after share consolidation" are theoretical values calculated based on the total number of outstanding shares before the share consolidation and the consolidation ratio.

### (d) Treatment of fractional shares after the share consolidation

All fractional shares resulting from the share consolidation will be disposed of by the Company in accordance with the provisions in the Japanese Corporate Law, and their disposition value will be distributed to relevant shareholders in proportion to the fractional amounts held.

### (e) Total number of authorized shares on the effective date

108,000,000 shares (total number of authorized shares before the change: 540,000,000 shares)

### (3) Revision of the number of shares per trading unit

At the same time the share consolidation takes effect, the number of shares per trading unit will be revised from 1,000 shares to 100 shares.

### (4) Schedule for share consolidation and revision of the number of shares per trading unit

Date of the meeting of the Board of Directors	May 10, 2018
Date of the General Meeting of Shareholders	June 27, 2018
Effective date of share consolidation and revision of the number of shares per trading unit	October 1, 2018

(5) Impact on per-share data

Assuming that the share consolidation was implemented at the beginning of the previous fiscal year, the per-share data for the previous fiscal year and the current fiscal year are calculated as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥3,055.56	¥2,784.95	\$28.76
Net income per share	¥272.04	¥247.88	\$2.56

Note: Since there were no potential shares that would have dilutive effect if issued, data on diluted net income per share is not presented.



## Independent Auditor's Report

To the Board of Directors of DAIHEN Corporation :

We have audited the accompanying consolidated financial statements of DAIHEN Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DAIHEN Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

Sep 9, 2018  
Osaka, Japan