FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2019 AND 2018

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DAIHEN Corporation

2-1-11, Tagawa Yodogawa-ku

Osaka, Japan

DAIHEN CORPORATION
Consolidated Balance Sheets
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
ASSETS			
Current assets:			
Cash and time deposits (Note 5 and 7)	¥12,603	¥14,430	$113,551
Receivables −			
Trade notes and accounts receivable (Note 7 and 16)			
Unconsolidated subsidiaries and affiliates	1,132	1,035	10,199
Other	36,629	38,623	330,021
Loans and other accounts	1,717	2,667	15,470
Allowance for doubtful accounts	(51)	(45)	(460)
	39,427	42,280	355,230
Inventories (Note 6)	46,351	40,531	417,614
Other current assets	1,867	2,284	16,822
Total current assets	100,248	99,525	903,217
Property, plant and equipment (Note 9 and 11):			
Land	8,653	9,328	77,962
Buildings and structures	44,647	42,144	402,261
Machinery and equipment	52,203	50,203	470,340
Lease assets	1,290	1,171	11,623
Construction in progress	2,425	2,308	21,849
Total	109,218	105,154	984,035
Accumulated depreciation	(68,068)	(64,995)	(613,281)
Net property, plant and equipment	41,150	40,159	370,754
Intangible assets:			
Software	1,865	1,831	16,803
Other intangible assets	338	346	3,046
Total intangible assets	2,203	2,177	19,849
Investments and other assets:			
Investment securities (Note 7 and 8)	8,839	11,253	79,638
Investments in unconsolidated subsidiaries and affiliates (Note 7)	6,554	6,520	59,050
Deferred tax assets (Note 13)	981	950	8,839
Net defined benefit asset (Note 15)	6,688	6,341	60,258
Other	1,003	967	9,036
Allowance for doubtful accounts	(91)	(89)	(820)
Total investments and other assets	23,974	25,942	216,001
Total assets	¥167,575	¥167,803	$1,509,821

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
LIABILITIES			
Current liabilities:			
Short-term loans (Note 7, 11 and 12)	¥14,814	¥12,085	$113,471
Long-term debt due within one year (Note 7, 11 and 12)	4,624	4,477	41,661
Trade notes and accounts payable — (Note 7)			
Unconsolidated subsidiaries and affiliates	621	519	5,595
Other	27,449	34,126	247,311
Accrued employees' bonuses	2,376	3,303	21,407
Accrued directors' and corporate auditors' bonuses	74	111	667
Allowance for loss on construction contracts	77	69	694
Income taxes payable	1,217	1,753	10,965
Other current liabilities	7,327	6,879	66,015
Total current liabilities	58,579	63,322	527,786
Long-term liabilities:			
Long-term debt (Note 7, 11 and 12)	20,893	16,477	188,242
Net defined benefit liability (Note 15)	1,764	1,726	15,893
Reserve for directors' and corporate auditors' retirement benefits	38	34	342
Asset retirement obligation	74	76	667
Deferred tax liabilities (Note 13)	1,638	2,070	14,758
Provision for construction expenses related to earhquake resistance renovation	720	842	6,487
Provision for product safety measures	29	40	261
Other noncurrent liabilities	1,136	1,109	10,237
Total long-term liabilities	26,292	22,374	236,887
Total liabilities	84,871	85,696	764,673
Contingent liabilities (Note 16)			
NET ASSETS (Note 18)			
Shareholders' equity:			
Common stock — (Note 4)	10,596	10,596	95,468
Authorized - 108,000 and 540,000 thousand shares in 2019 and 2018 respectively			
Issued - 27,103 and 135,516 thousand shares in 2019 and 2018, respectively			
Capital surplus	10,010	10,009	90,188
Retained earnings	55,063	50,849	496,108
Treasury stock, at cost — (Note 4)			
— 2,299 thousand shares in 2019			
— 9,982 thousand shares in 2018	(3,863)	(3,075)	(34,805)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	3,658	5,201	32,958
Net deferred gains and losses on hedges	0	(3)	0
Foreign currency translation adjustments	1,645	2,707	14,822
Remeasurements of defined benefit plans	249	431	2,243
Total accumulated other comprehensive income	5,552	8,336	50,023
Non-controlling interests	5,346	5,392	48,166
Total net assets	82,704	82,107	745,148
Total liabilities and net assets	¥167,575	¥167,803	$1,509,821

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales (Note 9)	¥143,458	¥149,449	$1,292,531
Cost of sales (Note 6, 9 and 15)	99,187	102,449	893,657
Gross profit	44,271	47,000	398,874
Selling, general and administrative expenses (Note 15)	35,902	36,945	323,471
Operating income	8,369	10,055	75,403
Other income (expenses):			
Interest and dividend income	313	307	2,820
Interest expense	(191)	(393)	(1,721)
Foreign currency exchange gain (loss)	(33)	(13)	(297)
Gain on sales of investment securities	186	—	1,676
Share of profit of entities accounted for using equity method	91	129	820
Loss on disaster	(120)	—	(1,081)
Impairment loss on investment securities	(80)	—	(721)
Other, net	264	160	2,378
Expenses related to product accident (Note 17)	(222)	(141)	(2,000)
Total other income (expenses)	208	49	1,874
Income before income taxes	8,577	10,104	77,277
Income taxes (Note 13):			
Current	2,127	2,833	19,164
Deferred	291	296	2,622
Profit	¥6,159	¥6,975	$55,491
Profit attributable to noncontrolling interests	(7)	144	(63)
Profit attributable to owners of parent	6,166	6,831	55,554

	Yen		U.S. dollars (Note 1)
Per share of common stock: (Note 2 (21))			
Net income per share	¥246.83	¥272.04	$2.22
Cash dividends applicable to the year	¥48.00	¥15.00	$0.43

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit	¥6,159	¥6,975	$55,491
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	(1,530)	887	(13,785)
Net deferred gains and losses on hedges	3	(6)	27
Foreign currency translation adjustments	(1,070)	581	(9,641)
Remeasurment of defined benefit plans	(200)	210	(1,802)
Share of other comprehensive income of affiliates accounted for using equity method	(10)	58	(89)
Total other comprehensive income (Note 3)	(2,807)	1,730	(25,290)
Comprehensive income	¥3,352	¥8,705	$30,201
Attributable to:			
Owners of parent	¥3,382	¥8,510	$30,471
Noncontrolling interests	(30)	195	(270)

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years ended March 31, 2019 and 2018

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains and losses on available-for-sale securities	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non-controlling interests	Total net assets
Balance at March 31, 2017	¥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	—	—	—	(37)	—	—	—	—	—	(37)
Cash dividends paid - ¥13.5 per share (Note 4)	—	—	(1,700)	—	—	—	—	—	—	(1,700)
Net changes in items other than shareholders' equity	—	—	—	—	919	(6)	582	184	49	1,728
Balance at March 31, 2018	¥10,596	¥10,009	¥50,849	¥(3,075)	¥5,201	¥(3)	¥2,707	¥431	¥5,392	¥82,107
Profit attributable to owners of parent	—	—	6,166	—	—	—	—	—	—	6,166
Treasury stock, net	—	1	—	(788)	—	—	—	—	—	(788)
Cash dividends paid - ¥15.5 per share (Note 4)	—	—	(1,952)	—	—	—	—	—	—	(1,952)
Net changes in items other than shareholders' equity	—	—	—	—	(1,543)	3	(1,062)	(182)	(46)	(2,830)
Balance at March 31, 2019	¥10,596	¥10,010	¥55,063	¥(3,863)	¥3,658	¥0	¥1,645	¥249	¥5,346	¥82,704

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains and losses on available-for-sale securities	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non-controlling interests	Total net assets
Balance at March 31, 2018	$95,468	$90,179	$458,140	$(27,705)	$46,860	$(27)	$24,390	$3,883	$48,581	$739,769
Profit attributable to owners of parent	—	—	55,554	—	—	—	—	—	—	55,554
Treasury stock, net	—	9	—	(7,100)	—	—	—	—	—	(7,091)
Cash dividends paid - ¥0.14 per share (Note 4)	—	—	(17,586)	—	—	—	—	—	—	(17,586)
Net changes in items other than shareholders' equity	—	—	—	—	(13,902)	27	(9,568)	(1,640)	(415)	(25,498)
Balance at March 31, 2019	$95,468	$90,188	$496,108	$(34,805)	$32,958	$0	$14,822	$2,243	$48,166	$745,148

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥8,577	¥10,104	$77,277
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	5,479	4,902	49,365
Amortization of goodwill	2	4	18
Increase (decrease) in allowance for doubtful accounts	8	10	72
Increase (decrease) in accrued employees' bonuses	(919)	192	(8,280)
Increase (decrease) in allowance for loss on construction contracts	8	(31)	72
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(122)	(183)	(1,099)
Increase (decrease) in provision for product safety measures	(11)	(27)	(99)
Increase (decrease) in net defined benefit liability	42	(107)	378
Decrease (increase) in net defined benefit asset	(688)	(346)	(6,199)
Interest and dividend income	(313)	(307)	(2,820)
Interest expense	191	393	1,721
Share of loss (profit) of entities accounted for using equity method	(91)	(129)	(820)
Loss (gain) on sales of investment securities, net	(186)	—	(1,676)
Loss (gain) on sales of property, plant and equipment	24	—	216
Impairment loss on investment securities	80	—	721
Decrease (increase) in trade notes and accounts receivable	1,491	(4,082)	13,434
Decrease (increase) in inventories	(6,314)	(5,335)	(56,888)
Increase (decrease) in trade notes and accounts payable	(5,217)	4,569	(47,004)
Other, net	2,549	(1,313)	22,966
Subtotal	4,590	8,314	41,355
Interest and dividends received	314	306	2,829
Interest paid	(355)	(237)	(3,199)
Income taxes paid	(2,467)	(2,440)	(22,227)
Net cash provided by operating activities	2,082	5,943	18,758
Cash flows from investing activities:			
Decrease in time deposits	(1)	(107)	(9)
Increase in time deposits	513	33	4,622
Purchases of property, plant and equipment	(8,389)	(8,695)	(75,583)
Proceeds from sales of property, plant and equipment	818	36	7,370
Purchases of intangible assets	(612)	(624)	(5,514)
Proceeds from sales of intangible assets	0	1	0
Purchases of investment securities	(7)	(7)	(63)
Proceeds from sales of investment securities	326	1	2,937
Purchase of investments in subsidiaries resulting in change in scope of consolidation	0	(76)	0
Net decrease (increase) in short-term loans receivable	—	1,493	—
Other, net	(6)	(62)	(54)
Net cash used in investing activities	(7,358)	(8,007)	(66,294)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,778	3,405	25,029
Proceeds from long-term loans	9,000	5,000	81,089
Repayment of long-term loans	(4,388)	(4,650)	(39,535)
Repayment of lease obligations	(202)	(195)	(1,820)
Purchase of treasury stock	(788)	(37)	(7,100)
Cash dividends paid	(1,948)	(1,698)	(17,551)
Other, net	(17)	(146)	(153)
Net cash provided by (used in) financing activities	4,435	1,679	39,959
Effect of exchange rate changes on cash and cash equivalents	(427)	252	(3,847)
Net increase (decrease) in cash and cash equivalents	(1,268)	(133)	(11,424)
Cash and cash equivalents at beginning of year	13,671	13,804	123,173
Cash and cash equivalents at end of year (Note 5)	¥12,403	¥13,671	$111,749

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, 2019 (actually March 29, 2019), which was ¥110.99 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 27 and 28 consolidated subsidiaries as of March 31, 2019 and 2018, respectively, and 3 companies accounted for using the equity method as of March 31, 2019 and 2018. In 2019 and 2018, 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.

From the year ended March 31, 2019, DAIHEN TECHNOS CO., LTD. which was a consolidated subsidiaries has been excluded from the scope of consolidation because it was absorbed in an absorption type merger in which DAIHEN Welding and Mechatronics System Corporation ("DWMS") was the surviving company. DWMS's trade name was changed to DAIHEN Techno Support Corporation at the same date.

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 (hereinafter, "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 for 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 at the plant in Mie prefecture, buildings (except for facilities attached to buildings) acquired after April 1 1998 and facilities attached to buildings and structures 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 in which the differences are generated.

In calculating the liability for employees' severance and retirement benefits and retirement benefit expenses, some consolidated subsidiaries adopt a simplified 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 to the estimated total cost.

(19) Research and development expenses
Research and development expenses, which are charged to income as incurred, amounted to ¥5,423 million ($48,860 thousand) and ¥5,696 million in 2019 and 2018, 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, 2019 and 2018 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.

The Company consolidated its shares at the rate of 5 ordinary shares to 1 ordinary share on October 1, 2018.Computations of net income per share of common stock are calculated on the assumption that the share consolidation was conducted on April 1, 2017.

The dividend of ¥48.0 per share for the fiscal year ending March 31, 2019 is the sum of the interim dividend of ¥8.0 and the year-end dividend of ¥40.0 per share. The interim dividend of ¥8.0 per share is the amount before the consolidation of shares, and the year-end dividend of ¥40.0 is the amount after the consolidation of shares.

(22) Standard and guidance not yet adopted
-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)

(a) 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:

Step 1: Identify contract(s) with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligation in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(b) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of the new standard and guidance on the consolidated financial statements.

(23) Changes in presentation methods
Changes due to adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting

Upon application of Partial Amendment to the Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the fiscal year ended March 31, 2019, the Company and its domestic subsidiaries changed the presentation and related notes of deferred tax assets and deferred tax liabilities such that deferred tax assets and deferred tax liabilities are classified as part of 'investments and other assets' and 'non-current liabilities,' respectively.

As a result, ¥2,187 million ($19,704 thousand) of deferred tax assets classified as "current assets" and ¥1,543 million ($13,902 thousand) of deferred tax liabilities classified as "noncurrent liabilities" have been included in deferred tax assets (¥950 million ($8,559 thousand)) in "investments and other assets," and deferred tax liabilities classified as noncurrent liabilities have been restated to ¥2,070 ($18,650 thousand) million in the balance sheet as of the end of the previous fiscal year.

The notes related to tax effect accounting additionally included those described in Notes 8 (excluding total amount of valuation reserves) and 9 of "Accounting Standard for Tax Effect Accounting," which are required in paragraphs 3 to 5 of Statement No. 28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in Paragraph 7 of Statement No. 28.

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
	2019	2018	2019
Net unrealized holding gains and losses on securities arising during the year	¥(2,030)	¥1,298	$(18,290)
Reclassification adjustments	(107)	(0)	(964)
Subtotal, before tax	(2,137)	1,298	(19,254)
Tax effects	607	(411)	5,469
Subtotal, net of tax	¥(1,530)	¥887	$(13,785)
Net deferred gains and losses on hedges arising during the year	¥0	¥(5)	$0
Reclassification adjustments	5	(4)	45
Subtotal, before tax	5	(9)	45
Tax effects	(2)	3	(18)
Subtotal, net of tax	¥3	¥(6)	$27
Foreign currency translation adjustments arising during the year	¥(1,070)	¥581	$(9,641)
Remeasurements of defined benefit plans arising during the year	¥(185)	¥445	$(1,667)
Reclassification adjustments	(103)	(143)	(928)
Subtotal, before tax	(288)	302	(2,595)
Tax effects	88	(92)	793
Subtotal, net of tax	¥(200)	¥210	$(1,802)
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥(10)	¥58	$(89)
Total other comprehensive income	¥(2,807)	¥1,730	$(25,290)

4. Consolidated statement of changes in net assets

Fiscal year ended March 31, 2019

(1) Items related to common stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2018	Increase in number of shares	Decrease in number of shares (*1)	Number of shares as of April 1, 2019
Common stock	135,516	—	108,413	27,103

Note: The Company consolidated its shares at the rate of 5 ordinary shares into 1 ordinary share on October 1, 2018.

(Overview of reasons for fluctuations)

(*1) The decrease of 108,413 thousand of shares of common stock was due to the share consolidation.

(2) Items related to treasury stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2018	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of April 1, 2019
Treasury stock	9,982	309	7,992	2,299

Note: The Company consolidated its shares at the rate of 5 ordinary shares into 1 ordinary share on October 1, 2018.

(Overview of reasons for fluctuations)

(*1) The increase of 309 thousand shares of treasury stock consisted of the increase of 0 thousand treasury stock caused by purchase of fractional shares, an increase of 300 thousand shares of treasury stock (300 shares of treasury stock after the share consolidation) acquired under the resolution of the Board of Directors' meeting on October 22, 2018 and an increase of 8 thousand shares of treasury stock (7 thousand shares of treasury stock before the share consolidation and 1 thousand after) caused by the purchase of fractional shares.

(*2) The decrease of 7,992 thousand shares of treasury stock consisted of a decrease of 7,991 thousand shares of treasury stock caused by the share consolidation and a decrease of 1 thousand shares of treasury stock (1 thousand shares of treasury stock before the share consolidation and 0 thousand after) caused by the selling of odd-lot shares.

(3) Items relate to dividends

Resolution	Type of shares	Dividends paid		Dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	Thousands of U.S. dollars		
June 27, 2018 Annual General Meeting of Shareholders	Common stock	944	8,505	7.50	0.0675	March 31, 2018	June 28, 2018
November 8, 2018, Board of Directors Meeting	Common stock	1,007	9,073	8.00	0.0725	September 30, 2018	December 4, 2018

Note: The Company consolidated its shares at the rate of 5 ordinary shares to 1 ordinary share on October 1, 2018. The amount in the figure above is the actual amount of dividends per share before the share consolidation.

(4) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Type of shares	Source of dividends	Dividends paid		Dividends per share		Record date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	Thousands of U.S. dollars		
June 26,2019 Annual General Meeting of Shareholders	Common stock	Retained earnings	955	8,965	40.00	0.36	March 31, 2019	June 27, 2019

Note: The Company consolidated its shares at the rate of 5 ordinary shares to 1 ordinary share on October 1, 2018. The amount in dividends per share includes the amount after the share consolidation.

Fiscal year ended March 31, 2018

(1) Items related to common stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2017	Increase in number of shares	Decrease in number of shares	Number of shares as of April 1, 2018
Common stock	135,516	—	—	135,516

(2) Items relate to treasury stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2017	Increase in number of shares (*1)	Decrease in number of shares	Number of shares as of April 1, 2018
Treasury stock	9,943	38	—	9,982

(Overview of reasons for fluctuations)

(*1) The increase of 38 thousand shares of treasury stock was due to the purchase of fractional shares.

(3) Items relate to dividends

Resolution	Type of shares	Dividends paid Millions of yen	Dividends per share Yen	Record date	Effective date
June 28, 2017 Annual General Meeting of Shareholders	Common stock	755	6.00	March 31, 2017	June 29, 2017
November 8, 2017, Board of Directors Meeting	Common stock	944	7.50	September 30, 2017	December 5, 2017

(4) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Resolution	Type of shares	Source of dividends	Dividends paid Millions of yen	Dividends per share Yen	Record date	Effective date
June 27, 2018 Annual General Meeting of Shareholders	Common stock	Retained earnings	944	7.50	March 31, 2018	June 28, 2018

5. 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, 2019 and 2018 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥12,603	¥14,430	$113,551
Time deposits with maturities exceeding three months	(200)	(759)	(1,802)
Cash and cash equivalents	¥12,403	¥13,671	$111,749

6. Inventories

(1) Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise and finished goods	¥17,329	¥14,394	$156,131
Work-in-process	10,581	10,463	95,333
Raw materials and supplies	18,441	15,674	166,150
	¥46,351	¥40,531	$417,614

(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, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost of sales	¥88	¥318	$793

7. 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 procure funds necessary for operating and investing activities through loans from banks and other financial institutions. The policy requires that the Companies use 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 exchanges rates, mitigated through foreign exchange forward contracts. Investment securities, consisting mainly of the 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 procure short-term funds for operating activities, and long-term funds are used for investing activities. The final maturity of long-term debt is ten years after the fiscal year-end.

Derivative transactions consist primarily of foreign exchange forward contracts for the purpose of hedging exchange rate fluctuation risk related to trade receivables and payables and interest swap contracts for the purpose of hedging interest rate fluctuation risk related to long-term debt. "Derivative financial instruments and hedging transactions" in Note 10, "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 administration in each operating division havs 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, 2019 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 mainly 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 on 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 units and major subsidiaries.

(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 10, “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, 2019 and 2018 are set forth in the table below. Certain financial instruments were excluded from the tables as their fair values were not available.

	Millions of yen		
Year ended March 31, 2019	Book value	Fair value	Difference
Cash and time deposits	¥12,603	¥12,603	¥—
Trade notes and accounts receivable	37,761	37,761	—
Investment securities	8,326	8,326	—
Total asset	¥58,690	¥58,690	¥—
Trade notes and accounts payable	¥28,070	¥28,070	¥—
Short-term loans	14,814	14,814	—
Long-term loans	24,971	25,045	74
Total liabilities	¥67,854	¥67,929	¥74
Derivatives (*)	¥0	¥0	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2019	Book value	Fair value	Difference
Cash and time deposits	$113,551	$113,551	$—
Trade notes and accounts receivable	340,220	340,220	—
Investment securities	75,016	75,016	—
Total assets	$528,786	$528,786	$—
Trade notes and accounts payable	$252,906	$252,906	$—
Short-term loans	133,471	133,471	—
Long-term loans	224,984	225,650	666
Total liabilities	$611,352	$612,028	$666
Derivatives (*)	$0	$0	$—

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)	¥—

(*) 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 8, "Securities."

Trade notes and accounts payable, short-term loans:
The fair value 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 10, "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 U.S. dollars
	2019	2018	2019
Investments in unconsolidated subsidiaries and affiliates	¥6,554	¥6,520	$59,050
Investments in unlisted stock	513	514	4,622
Total	¥7,067	¥7,034	¥63,672

(d) The aggregate maturities subsequent to March 31, 2019 and 2018 for financial assets with maturities were as follows:

	Millions of yen		
Year ended March 31, 2019	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	¥12,603	¥—	¥—
Trade notes and accounts receivables	37,761	—	—
Total	¥50,364	¥—	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2019	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	$113,551	$—	$—
Trade notes and accounts receivables	340,220	—	—
Total	$453,771	$—	$—

	Millions of yen		
Year ended March 31, 2018	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	¥—	¥—

(e) The aggregate maturities subsequent to March 31, 2019 and 2018 for long-term bank loans were as follows:

Year ended March 31, 2019	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	¥4,433	¥3,784	¥4,084	¥4,384	¥4,784	¥3,502

Year ended March 31, 2019	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	$39,940	$34,093	$36,796	$39,499	$43,103	$31,552

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

8. 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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥2,981	¥3,213	$26,858
Bonds	—	—	—
Other	—	—	—
	¥2,981	¥3,213	$26,858
Book value:			
Equity securities	¥7,959	¥10,384	$71,708
Bonds	—	—	—
Other	—	—	—
	¥7,959	¥10,384	$71,708
Difference:			
Equity securities	¥4,978	¥7,171	$44,850
Bonds	—	—	—
Other	—	—	—
	¥4,978	¥7,171	$44,850
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥457	¥438	$4,117
Bonds	—	—	—
Other	—	—	—
	¥457	¥438	$4,117
Book value:			
Equity securities	¥367	¥355	$3,307
Bonds	—	—	—
Other	—	—	—
	¥367	¥355	$3,307
Difference:			
Equity securities	¥(90)	¥(83)	$(810)
Bonds	—	—	—
Other	—	—	—
	¥(90)	¥(83)	$(810)
Total			
Acquisition cost	¥3,438	¥3,651	$30,975
Book value (fair value)	8,326	10,739	75,015
Difference	¥4,888	¥7,088	$44,040

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

Year ended of March 31, 2019

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥325	$2,928
Bonds	—	—
Other	—	—
	¥325	$2,928
Gain on sales:		
Equity securities	¥186	$1,676
Bonds	—	—
Other	—	—
	¥186	$1,676
Loss on sales:		
Equity securities	¥—	$—
Bonds	—	—
Other	—	—
	¥—	$—

Year ended of March 31, 2018

	Millions of yen
Amount of total sales:	
Equity securities	¥0
Bonds	—
Other	—
	¥0
Gain on sales:	
Equity securities	¥0
Bonds	—
Other	—
	¥0
Loss on sales:	
Equity securities	¥0
Bonds	—
Other	—
	¥0

(3) Impairment loss on investment securities

Impairment loss on available-for-sale securities is recorded for the securities whose market value represents a substantial decline of 50% or more and for those which have declined within a range of 30% or more but less than 50% if the decline is deemed to be irrecoverable. Impairment loss on available-for-sale securities was recorded due to other than temporary impairment in the amount of ¥80 million ($721 thousand) for the year ended March 31, 2019.

9. 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 ¥107 million ($964 thousand) and ¥122 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018 were as follows:

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2019	March 31, 2018	Changes during the year	March 31, 2019	March 31, 2019
Rental property	¥1,637	¥39	¥1,676	¥4,015

	Thousands of U.S. dollars			
Year ended	Book value			Fair value
March 31, 2019	March 31, 2018	Changes during the year	March 31, 2019	March 31, 2019
Rental property	$14,749	$351	$15,100	$36,174

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

The book value represents the net amount of acquisition cost less accumulated depreciation.
The amount of decrease during the fiscal year ended March 31, 2018 was mainly due to depreciation. The amount of increase during the fiscal year ended March 31, 2019 was ¥72 million ($649 thousand) due to a change in the purpose for holding the rental property, while the main reason for the decrease was depreciation.

Fair value was based mainly on appraisal reports prepared by external real estate appraisers.

10. Derivative financial instruments and hedging transactions

(1) Derivatives not subject to hedge accounting

Not applicable for the years ended March 31, 2019 and 2018

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2019

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	¥109	¥—	¥0
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	3,866	—	—
	Sell: Euro		1,106	—	—
	Sell: Korean won		109	—	—
	Sell: Taiwan dollar		560	—	—
	Buy: U.S. dollar	Trade accounts payable	423	—	—
	Buy: Euro		17	—	—
Total			¥6,190	¥—	¥0

Year ended March 31, 2019

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	$982	$—	$0
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	34,832	—	—
	Sell: Euro		9,965	—	—
	Sell: Korean won		982	—	—
	Sell: Taiwan dollar		5,045	—	—
	Buy: U.S. dollar	Trade accounts payable	3,811	—	—
	Buy: Euro		153		
Total			$55,770	$—	$0

Year ended March 31, 2018

<table>
<tr><th rowspan="2">Hedge accounting method</th><th rowspan="2">Type of derivatives</th><th rowspan="2">Hedged item</th><th colspan="3">Millions of yen</th></tr>
<tr><th>Contract amount</th><th>Portion over one year</th><th>Fair value</th></tr>
<tr><td rowspan="2">Deferred hedge method
(*1)</td><td>Foreign exchange forward contracts</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Buy: U.S. dollar</td><td>Trade accounts payable</td><td>¥401</td><td>¥—</td><td>¥(5)</td></tr>
<tr><td rowspan="6">Allocation method
(*2)</td><td>Foreign exchange forward contracts</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sell: U.S. dollar</td><td rowspan="4">Trade accounts receivable</td><td>4,728</td><td>—</td><td>—</td></tr>
<tr><td>Sell: Euro</td><td>937</td><td>—</td><td>—</td></tr>
<tr><td>Sell: Korean won</td><td>97</td><td>—</td><td>—</td></tr>
<tr><td>Sell: Taiwan dollar</td><td>675</td><td>—</td><td>—</td></tr>
<tr><td>Buy: U.S. dollar</td><td>Trade accounts payable</td><td>566</td><td>—</td><td>—</td></tr>
<tr><td colspan="3">Total</td><td>¥7,404</td><td>¥—</td><td>¥(5)</td></tr>
</table>

(*1) Estimated fair values are based on prices provided by financial institutions.

(*2) The allocation method requires recognized foreign currency receivables and payables to 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

Not applicable for the year ended March 31, 2019

			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	¥—	(*)

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

11. Pledged assets

The following assets were pledged as collateral for short-term loans and long-term loans of ¥1,750 million ($15,767 thousand) and ¥1,750 million at March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Property, plant and equipment-net of accumulated depreciation	¥8,347	¥8,378	$75,204

In addition, property, plant and equipment provided for trade guarantees amounted to ¥341 million ($3,072 thousand) and ¥345 million at March 31, 2019 and 2018, respectively.

12. Short-term loans, long-term debt

The weighted average interest rate on short-term loans was 0.5% for each of the years ended March 31, 2019 and 2018.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans from banks and insurance companies maturing through 2028 with interest rates ranging from 0.3% to 1.8%			
Secured	¥1,750	¥1,750	$15,767
Unsecured	23,222	18,609	209,227
Lease obligations	545	595	4,909
	25,517	20,954	229,903
Less amount due within one year	(4,624)	(4,477)	(41,661)
	¥20,893	¥16,477	$188,242

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 shall provide collateral at the request of any such bank, that any collateral provided under any agreement will 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, 2019 and 2018 were as follows:

Year ended March 31, 2019

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥4,624	$41,661
2021	3,933	35,436
2022	4,185	37,706
2023	4,458	40,166
2024	4,815	43,382
2025 and thereafter	3,502	31,553
	¥25,517	$229,904

Year ended March 31, 2018

Years ending March 31	Millions of yen
2019	¥4,477
2020	4,382
2021	3,696
2022	2,564
2023	3,834
2024 and thereafter	2,001
	¥20,954

13. Income taxes

The Company and its 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 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Liability for retirement benefits	¥702	¥830	$6,325
Nondeductible bonuses accrued	694	976	6,253
Write-down of inventories	512	498	4,613
Unrealized gains on inventories	574	459	5,172
Provision for construction expenses related to related to earthquake resistance renovation	235	272	2,117
Carryforward tax loss (*2)	441	309	3,973
Other	876	774	7,893
Subtotal deferred tax assets	4,034	4,118	36,346
Valuation allowance for carryforward tax loss (*2)	(441)	—	(3,973)
Valuation allowance for deductible temporary differences	(368)	—	(3,307)
Valuation allowance – total (*1)	(809)	(696)	(7,289)
Total deferred tax assets	¥3,225	¥3,422	$29,057
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(827)	¥(827)	$(7,451)
Retained earnings appropriated for allowable tax reserves	(609)	(637)	(5,487)
Net unrealized gains on "available-for-sale-securities"	(1,457)	(2,126)	(13,127)
Land revaluation difference	(820)	(820)	(7,388)
Other	(169)	(132)	(1,523)
Total deferred tax liabilities	¥(3,882)	¥(4,542)	$(34,976)
Net deferred tax assets	¥(656)	¥(1,120)	$(5,910)

(*1) Valuation allowance increased by ¥113 million ($1,018 thousand) because the Company's subsidiary The Chugoku Electric Manufacturing Company, Incorporated recognized additional valuation allowance of ¥183 million ($1,649 thousand) for carryforward tax loss in the fiscal year.

(*2) Carryforward tax loss and its deferred tax assets by expiration period (2019)

Millions of yen

	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (*3)	¥—	¥8	¥—	¥—	¥—	¥433	¥441
Valuation reserve	—	(8)	—	—	—	(433)	(441)
Net deferred tax assets	—	—	—	—	—	—	—

(*3) Carryforward tax loss shown in the above table is after multiplying the statutory tax rate.

	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (*3)	$—	$72	$—	$—	$—	$3,901	$3,973
Valuation reserve	—	(72)	—	—	—	(3,901)	(3,973)
Net deferred tax assets	—	—	—	—	—	—	—

(*3) Carryforward tax loss shown in the above table is after multiplying the statutory tax rate.

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate at March 31, 2019 and 2018 was as follows:

	2019	2018
Statutory income tax rate	30.6%	—%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	1.2%	—%
Permanent difference (dividend income, etc.)	(0.4)%	
Inhabitants tax on per capita basis	0.5%	—%
Fluctuation in deferred tax assets valuation allowance account	1.3%	
Share of profit of entities accounted for using equity method	(0.3)%	—%
Different tax rates applied to foreign subsidiaries	(3.5)%	—%
Tax credit for research and development	(1.3)%	—%
Others	0.1%	—%
Effective income tax rate	28.2%	—%

For the fiscal year ended March 31, 2018, a reconciliation is omitted because the difference between the statutory tax rate and the effective income tax rate was less than 5% of the statutory tax rate.

14. Business combinations

Years ended March 31, 2019
Transaction under common control
Additional acquisition of shares of subsidiary

(a) Outline of the business combination

(i) Name of concerned company and business

-Name of concerned company: DAIHEN Welding and Mechatronics System Corporation

-Business: Sales of welding machines, cutting machines, industrial robots and others

-Name of the target company: DAIHEN TECHNOS CO., LTD.

-Business: Inspection and maintenance service related to welding machines, cutting machines, industrial robots, clean delivery robots, distributed power equipment and others

(ii) Date of business combination

July 1, 2018

(iii) Legal form of business combination

Absorption-type merger with DAIHEN Welding and Mechatronics System Corporation (the Company's consolidated subsidiary) as the surviving company and DAIHEN TECHNOS CO., LTD. (the Company's consolidated subsidiary) as the absorbed company.

(iv) Name of company after business combination

DAIHEN Techno Support Corporation (the Company's consolidated subsidiary)

(v) Other matters concerning the transaction

The purpose of this merger is to train sales representatives to be sales engineers with both the skill in repairing on-site and the skill in training welding know-how and improving support to customers so that improving skills in sales engineering, which is the policy of the medium-term engineer plan, will be achieved.

(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 the merger as a transaction under common control.

15. 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, 2019 and 2018 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2019 and 2018 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1	¥17,199	¥17,826	$154,960
Service cost	542	565	4,883
Interest cost	69	75	622
Actuarial loss	63	(590)	568
Benefits paid	(809)	(688)	(7,289)
Other	(2)	11	(18)
Balance at March 31	¥17,062	¥17,199	$153,726

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at April 1	¥21,814	¥21,723	$196,540
Expected return on plan assets	371	416	3,343
Actuarial gain (loss)	544	(122)	4,901
Contributions paid by the employer	(612)	400	(5,127)
Benefits paid	(131)	(603)	(1,180)
Balance at March 31	¥21,985	¥21,814	$198,477

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

	Millions of yen		Thousands of U.S. dollars
	2019	208	2019
Funded retirement benefit obligations	¥15,298	¥15,473	$137,832
Plan assets	(21,986)	(21,814)	(198,090)
	(6,688)	(6,341)	(60,258)
Unfunded retirement benefit obligations	1,764	1,726	15,893
Total net defined benefit liability (asset) at March 31	¥(4,924)	¥(4,615)	$(44,364)
Net defined benefit liability	1,764	1,726	$15,894
Net defined benefit asset	(6,688)	(6,341)	(60,258)
Total net defined benefit liability (asset) at March 31	¥(4,924)	¥(4,615)	$(44,364)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥542	¥565	$4,883
Interest cost	69	75	622
Expected return on plan assets	(371)	(416)	(3,343)
Net actuarial loss amortization	(94)	(167)	(847)
Total retirement benefit costs for the fiscal year ended March 31	¥146	¥57	$1,315

(5) Remeasurements of defined benefit plans (before tax)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial gains and losses	¥(288)	¥302	$(2,595)
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥(288)	¥302	$(2,595)

(6) Accumulated adjustments for retirement benefit (before tax)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial gains and losses	¥417	¥706	$3,757
Total balance at March 31	¥417	¥706	$3,757

(7) Plan assets

Plan assets comprise:

	2019	2018
Bonds	30.9%	29.7%
Equity Securities	51.2%	53.2%
Others	17.9%	17.1%
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

	2019	2018
Discount rates	0.0%~0.5%	0.1%~0.5%
Long-term expected rate of return	1.5%~3.0%	1.5%~3.0%

The contribution required to the defined contribution plan of the Companies was ¥560 million ($5,045 thousand) and ¥563 million for the years ended March 31, 2019 and 2018, respectively.

Note: Defined benefit plans applying the simplified method are included above.

16. Contingent liabilities

Contingent liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loan guarantees: DAIHEN AOMORI CO., LTD.	¥27	¥47	$243
Loan guarantees: DAIHEN VARSTROJ welding cutting and robotics d. d.	742	712	6,685
Assigned trade receivable with recourse	330	414	2,973

17. Expenses related to product accident

For the years ended March 31, 2019, and 2018, expenses related product accidents are the expenses related to the burnout accident of a certain product that one of the consolidated subsidiaries manufactured. The main components of the expenses are restoration works and replacement costs. The remedial measures are ongoing, so additional related expenses are expected to be incurred on and after the next consolidated fiscal year.

18. 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.

19. 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 the allocation 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 for the measurement of 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.

As described in Note 2 (23), "Changes in presentation methods," the company adopted the Partial Amendment to the Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), etc, from the beginning of the fiscal year ended March 31, 2019, and the segment assets for the previous consolidated fiscal year are the figures after retroactive application of the new accounting standard.

(3) Information on sales, income (loss), assets and other items for reportable segments

Reportable segment information for the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen					
Year ended March 31, 2019	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥65,005	¥44,602	¥33,651	¥143,258	¥200	¥143,458
Intersegment	2	31	—	33	—	33
Total	¥65,007	¥44,633	¥33,651	¥143,291	¥200	¥143,491
Segment income	¥3,797	¥4,494	¥3,953	¥12,244	¥77	¥12,321
Assets	68,738	48,839	27,282	144,859	1,214	146,073
Other items						
Depreciation (*2)	2,509	1,339	822	4,670	27	4,697
Amortization of goodwill	2	—	—	2	—	2
Increase in property, plant and equipment and intangible assets (*3)	2,124	1,898	1,307	5,329	—	5,329

Year ended March 31, 2019	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
	Thousands of U.S. dollars					
Net sales:						
Customers	$585,683	$401,856	$303,190	$1,290,729	$1,802	$1,292,531
Intersegment	18	279	—	297	—	297
Total	$585,701	$402,135	$303,190	$1,291,026	$1,802	$1,292,828
Segment income	$34,210	$40,490	$35,616	$110,316	694	$111,010
Assets	619,317	440,031	245,806	1,306,154	10,938	1,316,092
Other items						
Depreciation (*2)	22,606	12,064	7,406	42,076	243	42,319
Amortization of Goodwill	18	—	—	18	—	18
Increase in property, plant and equipment and intangible assets (*3)	19,137	17,100	11,776	48,013	—	48,013

Year ended March 31, 2018	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
	Millions of yen					
Net sales:						
Customers	¥66,161	¥44,400	¥38,686	¥149,247	¥202	¥149,449
Intersegment	—	41	—	41	—	41
Total	¥66,161	¥44,441	¥38,686	¥149,288	¥202	¥149,490
Segment income	¥4,218	¥3,362	¥6,418	¥13,998	¥87	¥14,085
Assets	66,432	47,585	26,625	140,642	1,209	141,851
Other items						
Depreciation (*2)	2,250	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

(*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
	2019	2018	2019
Reportable segment	¥143,291	¥149,288	$1,291,026
Sales of other	200	202	1,802
Segment adjustments	(33)	(41)	(297)
Consolidated net sales	¥143,458	¥149,449	$1,292,531

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Reportable segment	¥12,244	¥13,998	$110,316
Income of other	77	88	694
Segment adjustments	0	0	0
Company expenses	(3,952)	(4,031)	(35,607)
Consolidated operating income	¥8,369	¥10,055	$75,403

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

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Reportable segment	¥144,859	¥140,642	$1,305,154
Assets of other	1,214	1,209	10,938
Corporate assets	21,505	25,959	193,756
Other adjustments	(3)	(7)	(27)
Consolidated total assets	¥167,575	¥167,803	$1,509,821

“Corporate 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, 2019	Millions of yen			
	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥4,670	¥27	¥782	¥5,479
Amortization of goodwill	2	—	—	2
Increase in property, plant and equipment and intangible assets	5,329	—	2,287	7,616

Year ended March 31, 2019	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	$42,076	$243	$7,046	$49,365
Amortization of goodwill	18	—	—	18
Increase in property, plant and equipment and intangible assets	48,013	—	20,606	68,619

Year ended March 31, 2018	Millions of yen			
	Reporting 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

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

(5) Geographic segment information for the years ended March 31, 2019 and 2018

(a) Net sales

Year ended March 31, 2019	Millions of yen				
	Japan	North America	Asia	Other	Total
Net sales	¥110,920	¥4,300	¥25,208	¥3,030	¥143,458

Year ended March 31, 2019	Thousands of U.S. dollars				
	Japan	North America	Asia	Other	Total
Net sales	$999,369	$38,742	$227,120	$27,300	$1,292,531

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

(b) Tangible fixed assets

Year ended March 31, 2019	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥35,709	¥102	¥5,135 ¥(3,028)	¥204	¥41,150

Year ended March 31, 2019	Thousands of U.S. dollars				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	$321,732	$919	$46,265 $(27,282)	$1,838	$370,754

Year ended March 31, 2018	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥34,465	¥95	¥5,353 ¥(3,248)	¥246	¥40,159

(6) Information on major customers that account for 10% or more of the sales in the consolidated income statement the years ended March 31, 2019 and 2018

	Millions of yen		
Year ended March 31, 2019	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥20,721	Advanced Components

	Thousands of U.S. dollars		
Year ended March 31, 2019	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	$186,692	Advanced Components

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

(7) Information on impairment loss on fixed assets by reportable segment

Not applicable for the years ended March 31, 2019 and 2018

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

	Millions of yen						
Year ended March 31, 2019	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	¥2	¥—	¥—	¥2	¥—	¥—	¥2
Balance at end of Period	—	—	—	—	—	—	—

	Thousands of US dollars						
Year ended March 31, 2019	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	$18	$—	$—	$18	$—	$—	$18
Balance at end of Period	—	—	—	—	—	—	—

	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	—		2	—	—	2

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

Not applicable for the years ended March 31, 2019 and 2018

20. Subsequent events

Introducing restricted stock compensation program

At the Board of Directors meeting held on May 10, 2019, the Company reviewed the executive compensation program and decided to introduce a restricted stock compensation program (“the program”). The introduction of the System was approved at the 155th Ordinary General Meeting of Shareholders held on June 26, 2019.

(1) Purpose of the Program
The purpose of the program is to increase the willingness to contribute to the improvement in the share price and the enhancement of corporate value by the Company’s directors, excluding outside directors (“the target directors”), by sharing the merits and risks of stock price fluctuations with our shareholders. This program was introduced as a compensation program that allocates restricted stocks to the target directors of the Company in place of a portion of the cash compensation.

(2) Outline of the Program
(a) Allocation and payment
Based on the resolution of the Board of Directors of the Company, the Company pays monetary compensation claims within the range of ¥ 50 million ($450 thousand) a year as compensation for restricted stock to the target directors of the Company, and each Director receives an allotment of the restricted stock through transfer of all of the monetary compensation claims using the method of in-kind contribution.

Furthermore, the amount paid for the restricted stock is determined by the Board of Directors of the Company based on the closing price of the Company’s common stock on the Tokyo Stock Exchange on the previous business day of the resolution of the Board of Directors regarding the issue or disposed of restricted stock (if the deal has not been closed on the same day, the closing price of the last trading day preceding it) to the extent that the amount is not particularly favorable to the Directors who accept the restricted stock.

In addition, the above-mentioned monetary compensation claims will be paid on the condition that the target directors of the Company have agreed to the above-mentioned, in-kind contribution and have entered into a transfer-limited share allotment agreement including the contents defined in the following section (c).

(b) Total number of the restricted stocks

A total of 50,000 shares of restricted stock to be allocated to the target directors of the Company will be the upper limit to be allocated in each fiscal year.

However, the total numbers of restricted shares can be adjusted after the date of the resolution in the case of stock splits of our common stock (including a gratis allotment of our common stock) or the case of stock consolidation or other cases and if it is necessary to adjust the total number of restricted stocks.

(c) The content of the program agreement
In the case of allotment of restricted stock, based on the resolution of the Board of Directors of the Company, the restricted stock allotment agreement to be concluded between the Company and the Directors receiving allotment of restricted stock shall include the following.

(i) Transfer restrictions
Directors who have received allotments of restricted stock will not be able to transfer, pledge, transfer security rights to or give by gift, bequest or any other disposal action to a third party from the date of delivery until the date when the director retires from the position as director of the Company (“the limited period of transfer”).

(ii) Free acquisition of restricted stock
If a director who received an allotment of restricted stock retires from director of the Company by the day before the first day of the ordinary general meeting of shareholders that comes after the commencement date of the limited period of transfer, the Company will acquire the restricted stock assigned to the relevant director (the “Allotment Shares”) free of charge, unless there is a justifiable reason for the Board of Directors to do otherwise.

In addition, if there are the Allotment Shares whose transfer restrictions have not been lifted based on the rules for cancellation of transfer restrictions described in (iii) below at the end of the limited period of transfer (i) above, the Company a matter of course acquires them free of charge.

(iii) Cancellation of the transfer restrictions

Restrictions on the all allotment of shares will be released upon the expiration of the limited period of transfer the condition that the director continues in the position of director of the Company from the starting date of the limited period of transfer until the first general meeting of shareholders.

However, if the director resigns from the position of director of the Company for reasons deemed appropriate by the Board of Director by the day before the date of the general meeting of shareholders but after the starting date of the limited period of transfer, the number of shares to be relinquished and the timing of cancellation of the quota shall be adjusted as necessary.

(iv) Handling in reorganization etc.

If during the limited period of transfer, any of the below reorganizations is approved by the General Meeting of Shareholders of the Company (by the Board of Directors of the Company if it does not require the approval of General Meeting of Shareholders), a reasonable number of Allotment Shares will be released based on the period from the starting date of the limited period of transfer to the date of approval of the reorganization, but even before the effective date of the reorganization, etc.

- A merger agreement in which the Company becomes an extinct company
- A share exchange agreement in which the Company becomes a wholly-owned subsidiary
- A proposal regarding a share transfer plan or other reorganization

In this case, immediately after the release of the transfer restriction based on the above-mentioned rules, the Company will acquire the Allotment Shares for which a transfer restriction has not yet been released without charge.

KPMG

Independent Auditor's Report

To the Board of Directors of DAIHEN Corporation:

We have audited the accompanying consolidated fmancial statements of DAIHEN Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, statements of eomprehensive 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, 2019 and 2018, 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, 2019 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 30, 2019
Osaka, Japan