

FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2020 AND 2019

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



2-1-11, Tagawa Yodogawa-ku

Osaka, Japan

DAIHEN CORPORATION
Consolidated Balance Sheets
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
ASSETS			
Current assets:			
Cash and deposits (Note 5 and 7)	¥15,020	¥12,603	\$138,013
Receivables —			
Trade notes and accounts receivable (Note 7 and 15)			
Unconsolidated subsidiaries and affiliates	148	1,132	1,360
Other	38,202	36,629	351,024
Loans and other accounts	2,182	1,717	20,050
Allowance for doubtful accounts	(50)	(51)	(459)
	40,482	39,427	371,975
Inventories (Note 6)	42,097	46,351	386,814
Other current assets	927	1,867	8,518
Total current assets	98,526	100,248	905,320
Property, plant and equipment (Note 9 and 11):			
Land	8,783	8,653	80,704
Buildings and structures	45,506	44,647	418,138
Machinery and equipment	54,614	52,203	501,829
Lease assets	1,396	1,290	12,827
Construction in progress	2,075	2,425	19,067
Total	112,374	109,218	1,032,565
Accumulated depreciation	(72,359)	(68,068)	(664,881)
Net property, plant and equipment	40,015	41,150	367,684
Intangible assets:			
Software	1,713	1,865	15,740
Other intangible assets	302	338	2,775
Total intangible assets	2,015	2,203	18,515
Investments and other assets:			
Investment securities (Note 7 and 8)	7,821	8,839	71,864
Investments in unconsolidated subsidiaries and affiliates (Note 7)	5,710	6,554	52,467
Deferred tax assets (Note 13)	1,151	981	10,576
Net defined benefit asset (Note 14)	5,481	6,688	50,363
Other	1,707	1,003	15,685
Allowance for doubtful accounts	(98)	(91)	(900)
Total investments and other assets	21,772	23,974	200,055
Total assets	¥162,328	¥167,575	\$1,491,574

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
LIABILITIES			
Current liabilities:			
Short-term loans (Note 7, 11 and 12)	¥6,911	¥14,814	\$63,503
Long-term debt due within one year (Note 7, 11 and 12)	3,965	4,624	36,433
Trade notes and accounts payable (Note 7)			
Unconsolidated subsidiaries and affiliates	751	621	6,901
Other	27,105	27,449	249,058
Accrued employees' bonuses	2,871	2,376	26,381
Accrued directors' and corporate auditors' bonuses	90	74	827
Allowance for loss on construction contracts	56	77	515
Income taxes payable	1,821	1,217	16,733
Other current liabilities	6,430	7,327	59,083
Total current liabilities	50,000	58,579	459,434
Long-term liabilities:			
Long-term debt (Note 7, 11 and 12)	22,050	20,893	202,610
Net defined benefit liability (Note 14)	1,952	1,764	17,936
Reserve for directors' and corporate auditors' retirement benefits	52	38	478
Asset retirement obligation	74	74	680
Deferred tax liabilities (Note 13)	959	1,638	8,812
Provision for construction expenses related to earthquake resistance renovation	707	720	6,497
Provision for product safety measures	44	29	404
Other noncurrent liabilities	1,146	1,136	10,530
Total long-term liabilities	26,984	26,292	247,947
Total liabilities	76,984	84,871	707,381
Contingent liabilities (Note 15)			
NET ASSETS (Note 18)			
Shareholders' equity:			
Common stock — (Note 4)	10,596	10,596	95,363
Authorized - 108,000 thousand shares in 2020 and 2019			
Issued - 27,103 thousand shares in 2020 and 2019			
Capital surplus	10,016	10,010	92,033
Retained earnings	59,628	55,063	547,900
Treasury stock, at cost — (Note 4)			
— 2,396 thousand shares in 2020			
— 2,299 thousand shares in 2019	(4,123)	(3,863)	(37,885)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	2,987	3,658	27,446
Net deferred gains and losses on hedges	7	0	64
Foreign currency translation adjustments	1,704	1,645	15,657
Remeasurements of defined benefit plans	(851)	249	(7,820)
Total accumulated other comprehensive income	3,847	5,552	35,347
Noncontrolling interests	5,380	5,346	49,435
Total net assets	85,344	82,704	784,193
Total liabilities and net assets	¥162,328	¥167,575	\$1,491,574

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales (Note 9)	¥145,044	¥143,458	\$1,332,758
Cost of sales (Note 6, 9 and 14)	100,022	99,187	919,067
Gross profit	45,022	44,271	413,691
Selling, general and administrative expenses (Note 14)	35,956	35,902	330,387
Operating income	9,066	8,369	83,304
Other income (expenses):			
Interest and dividend income	349	313	3,207
Interest expense	(246)	(191)	(2,260)
Foreign currency exchange gain (loss)	(86)	(33)	(790)
Gain on sales of property, plant and equipment and intangible assets	172	—	1,580
Gain on sales of investment securities	37	186	340
Share of profit of entities accounted for using equity method	149	91	1,369
Compensation for damage	(109)	—	(1,001)
Impairment loss on investment securities	(80)	(80)	(735)
Impairment loss (Note 16)	(80)	—	(735)
Loss on disaster	—	(120)	—
Loss on sales of investment securities	(35)	—	(322)
Other, net	234	264	2,150
Expenses related to product accident (Note 17)	—	(222)	—
Total other income (expenses)	305	208	2,803
Income before income taxes	9,371	8,577	86,107
Income taxes (Note 13):			
Current	2,740	2,127	25,177
Deferred	(180)	291	(1,654)
Profit	¥6,811	¥6,159	\$62,584
Profit attributable to noncontrolling interests	139	(7)	1,277
Profit attributable to owners of parent	6,672	6,166	61,307
Per share of common stock: (Note 2 (21))			
Net income per share	¥269.06	¥246.83	\$2.47
Cash dividends applicable to the year	¥85.00	¥48.00	\$0.78

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit	¥6,811	¥6,159	\$62,584
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	(581)	(1,530)	(5,338)
Net deferred gains and losses on hedges	7	3	64
Foreign currency translation adjustments	171	(1,070)	1,571
Remeasurment of defined benefit plans	(1,163)	(200)	(10,686)
Share of other comprehensive income of affiliates accounted for using equity method	(105)	(10)	(965)
Total other comprehensive income (Note 3)	(1,671)	(2,807)	(15,354)
Comprehensive income	¥5,140	¥3,352	\$47,230
Attributable to:			
Owners of parent	¥5,087	¥3,382	\$46,743
Noncontrolling interests	53	(30)	487

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years ended March 31, 2020 and 2019

	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, 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)	—	—	—	—	—	(787)
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
Profit attributable to owners of parent	—	—	6,672	—	—	—	—	—	—	6,672
Treasury stock, net	—	6	—	(260)	—	—	—	—	—	(254)
Cash dividends paid - ¥85.0 per share - (Note 4)	—	—	(2,115)	—	—	—	—	—	—	(2,115)
Change in scope of consolidation	—	—	8	—	—	—	—	—	—	8
Net changes in items other than shareholders' equity	—	—	—	—	(671)	7	59	(1,100)	34	(1,671)
Balance at March 31, 2020	¥10,596	¥10,016	¥59,628	¥(4,123)	¥2,987	¥7	¥1,704	¥(851)	¥5,380	¥85,344

	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, 2019	\$97,363	\$91,978	\$505,953	\$(35,496)	\$33,612	\$0	\$15,115	\$2,288	\$49,123	\$759,936
Profit attributable to owners of parent	—	—	61,307	—	—	—	—	—	—	61,307
Treasury stock, net	—	55	—	(2,389)	—	—	—	—	—	(2,334)
Cash dividends paid - ¥0.78 per share (Note 4)	—	—	(19,434)	—	—	—	—	—	—	(19,434)
Change in scope of consolidation	—	—	74	—	—	—	—	—	—	74
Net changes in items other than shareholders' equity	—	—	—	—	(6,166)	64	542	(10,108)	312	(15,356)
Balance at March 31, 2020	\$97,363	\$92,033	\$547,900	\$(37,885)	\$27,446	\$64	\$15,657	\$(7,820)	\$49,435	\$784,193

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes	¥9,371	¥8,577	\$86,107
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	5,538	5,479	50,887
Amortization of goodwill	—	2	—
Impairment loss	80	—	735
Increase (decrease) in allowance for doubtful accounts	(0)	8	(0)
Increase (decrease) in accrued employees' bonuses	498	(919)	4,576
Increase (decrease) in allowance for loss on construction contracts to earthquake resistance renovation	(20)	8	(184)
Increase (decrease) in provision for product safety measures	(13)	(122)	(120)
Increase (decrease) in provision for product safety measures	12	(11)	110
Increase (decrease) in net defined benefit liability	180	42	1,654
Decrease (increase) in net defined benefit asset	(470)	(688)	(4,319)
Interest and dividend income	(349)	(313)	(3,207)
Interest expense	246	191	2,260
Share of loss (profit) of entities accounted for using equity method	(149)	(91)	(1,369)
Loss (gain) on sales of investment securities, net	(2)	(186)	(18)
Loss (gain) on sales of property, plant and equipment	(172)	24	(1,580)
Impairment loss on investment securities	80	80	735
Compensation for damage	109	—	1,001
Decrease (increase) in trade notes and accounts receivable	(29)	1,491	(266)
Decrease (increase) in inventories	5,037	(6,314)	46,283
Increase (decrease) in trade notes and accounts payable	(690)	(5,217)	(6,340)
Other, net	4	2,549	37
Subtotal	19,261	4,590	176,982
Interest and dividends received	348	314	3,198
Interest paid	(250)	(355)	(2,297)
Compensation for damage paid	(190)	—	(1,001)
Income taxes paid	(2,192)	(2,467)	(20,142)
Net cash provided by operating activities	17,058	2,082	156,740
Cash flows from investing activities:			
Decrease in time deposits	—	(1)	—
Increase in time deposits	1	153	9
Purchases of property, plant and equipment	(3,709)	(8,389)	(34,081)
Proceeds from sales of property, plant and equipment	428	818	3,933
Purchases of intangible assets	(430)	(612)	(3,951)
Proceeds from sales of intangible assets	—	0	—
Purchases of investment in securities	(7)	(7)	(64)
Proceeds from sales of investment in securities	134	326	1,231
Payments for investments in capital of subsidiaries	(700)	—	(6,432)
Proceeds from investments	6	—	55
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	0	—
Other, net	(42)	(6)	(386)
Net cash used in investing activities	(4,319)	(7,358)	(39,686)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(8,637)	2,778	(79,362)
Proceeds from long-term loans	5,000	9,000	45,943
Repayment of long-term loans	(4,433)	(4,388)	(40,733)
Repayment of lease obligations	(232)	(202)	(2,132)
Purchase of treasury stock	(270)	(788)	(2,481)
Cash dividends paid	(2,112)	(1,948)	(19,406)
Other, net	(18)	(17)	(165)
Net cash provided by (used in) financing activities	(10,702)	4,435	(98,336)
Effect of exchange rate changes on cash and cash equivalents	(46)	(427)	(423)
Net increase (decrease) in cash and cash equivalents	1,991	(1,268)	(18,295)
Cash and cash equivalents at beginning of year	12,403	13,671	113,967
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	437	—	4,015
Cash and cash equivalents at end of year (Note 5)	¥14,831	¥12,403	\$136,277

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, 2020, which was ¥108.83 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 29 and 27 consolidated subsidiaries as of March 31, 2020 and 2019 respectively and 3 companies accounted for using the equity method as of March 31, 2020 and 2019. In 2020 and 2019, there were 14 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, 2020, PT.OTC DAIHEN INDONESIA and DAIHEN VARSTROJ welding cutting and robotics d.d. have been included in the scope of consolidation as its importance has increased.

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 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 ¥5,238 million (\$48,127 thousand) and ¥5,423 million in 2020 and 2019, 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, 2020 and 2019 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, 2018.

(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:

Step1: Identify the contract(s) with customer.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

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

Step5: 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.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Implementation Guidance on Disclosures About Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(a) Overview

In order to enhance comparability with internationally recognized accounting standards, the “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as the “Fair Value Accounting Standards”) were developed and guidance on methods used to measure fair value was issued. The Fair Value Accounting Standards are applicable to the fair value measurement of financial instruments in “Accounting Standard for Financial Instruments” and inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

In addition, the " Implementation Guidance on Disclosures About Fair Value of Financial Instruments " has been revised, and notes such as those related to the breakdown of the market value of financial instruments by level have been established

(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 these new standards on the consolidated financial statements.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(a) Overview

The purpose of this accounting standard is to present an overview of the accounting principles and procedures adopted in cases in which the provisions of the otherwise relevant accounting standards are not clear.

(b) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(a) Overview

The purpose of this accounting standard is to disclose information that will facilitate the understanding of financial statements regarding accounting estimates serving as the basis of amounts recorded in the financial statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year.

(b) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

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
	2020	2019	2020
Net unrealized holding gains and losses on securities arising during the year	¥(909)	¥2,030	\$(8,352)
Reclassification adjustments	78	(107)	717
Subtotal, before tax	(831)	(2,137)	(7,635)
Tax effects	250	607	2,297
Subtotal, net of tax	¥(581)	¥(1,530)	\$(5,338)
Net deferred gains and losses on hedges arising during the year	¥10	¥0	\$92
Reclassification adjustments	0	5	0
Subtotal, before tax	10	5	92
Tax effects	(3)	(2)	(28)
Subtotal, net of tax	¥7	¥3	\$64
Foreign currency translation adjustments arising during the year	¥171	¥(1,070)	\$1,571
Remeasurements of defined benefit plans arising during the year	¥(1,612)	¥(185)	\$(14,812)
Reclassification adjustments	(10)	(103)	(92)
Subtotal, before tax	(1,622)	(288)	(14,904)
Tax effects	459	88	4,218
Subtotal, net of tax	¥(1,163)	¥(200)	\$(10,686)
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥(105)	¥(10)	\$(965)
Total other comprehensive income	¥(1,671)	¥(2,807)	\$(15,354)

4. Consolidated Statement of Changes in Net Assets

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

(1) Items related to common stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2019	Increase in number of shares	Decrease in number of shares (*1)	Number of shares as of April 1, 2020
Common stock	27,103	—	—	27,103

(2) Items related to treasury stock

Thousands of shares

Type of shares	Number of shares as of April 1, 2019	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of April 1, 2020
Treasury stock	2,299	101	4	2,396

(Overview of reasons for fluctuations)

(*1) The increase of 101 thousand treasury ordinary stock consist of
: the increase of 99 thousand treasury stock acquired under the resolution of the Board of Directors' meeting on March 16, 2020

: the increase of 2 thousand treasury stock caused by purchase of fractional shares.

(*2) The decrease of 4 thousand treasury ordinary stock consist of

: the decrease of 4 thousand treasury stock caused by disposal of treasury stock as restricted stock.

: the decrease of 0 thousand treasury stock caused by disposal of fractional 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 26, 2019 Annual General Meeting of Shareholders	Common stock	995	9,143	40.00	0.37	March 31, 2019	June 27, 2019
November 8, 2019, Board of Directors	Common stock	1,120	10,291	45.00	0.41	September 30, 2019	December 3, 2019

(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 25, 2020 Annual General Meeting of Shareholders	Common stock	Retained earnings	991	9,106	40.00	0.37	March 31, 2020	June 26, 2020

Fiscal year ended March 31, 2019 (April 1, 2018 to 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 relate 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 treasury ordinary stock consist of

: the increase of 0 thousand treasury stock caused by purchase of fractional shares

: the increase of 300 thousand treasury stock (300 treasury stock after the share consolidation) acquired under the resolution of the Board of Directors' meeting on October 22, 2019

: the increase of 8 thousand treasury stock (7 thousand treasury stock before the share consolidation and 1 thousand after) caused by purchase of fractional shares.

(*2) The decrease of 7,992 thousand treasury ordinary stock consist of

: the decrease of 7,991 thousand treasury stock caused by the share consolidation: the decrease of 1 thousand treasury stock (1 thousand treasury stock before the share consolidation and 0 thousand after) caused by selling of odd-lot shares.

(3) Items relate to dividends

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 27, 2018 Annual General Meeting of Shareholders	Common stock	944	7.50	March 31, 2018	June 28, 2018
November 8, 2018, Board of Directors	Common stock	1,008	8.00	September 30, 2018	December 4, 2018

Note: The Company consolidated its shares at the rate of 5 ordinary shares into 1 ordinary share on October 1, 2018. The amount in the figure above is actual amount of dividend 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 (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 26, 2019 Annual General Meeting of Shareholders	Common stock	Retained earnings	995	40.00	March 31, 2019	June 27, 2019

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

5. Statements of Cash Flows

(1) Cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets at March 31, 2020 and 2019 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥15,020	¥12,603	\$138,013
Time deposits with maturities exceeding three months	(189)	(200)	(1,736)
Cash and cash equivalents	<u>¥14,831</u>	<u>¥12,403</u>	<u>\$136,277</u>

6. Inventories

(1) Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished goods	¥14,884	¥17,329	\$136,764
Work-in-process	9,886	10,581	90,839
Raw materials and supplies	17,327	18,441	159,211
	<u>¥42,097</u>	<u>¥46,351</u>	<u>\$386,814</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, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cost of sales	<u>¥708</u>	<u>¥88</u>	<u>\$6,506</u>

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 raise funds necessary for operating and investing activities through loans from banks and other financial institutions. The 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 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 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.

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 administrations in each operation 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, 2020 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 utilize 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 utilize 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, 2020 and 2019 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, 2020	Millions of yen		
	Book value	Fair value	Difference
Cash and time deposits	¥15,020	¥15,020	¥—
Trade notes and accounts receivable	38,350	38,350	—
Investment securities	7,328	7,328	—
Total asset	¥60,698	¥60,698	¥—
Trade notes and accounts payable	¥27,856	¥27,856	¥—
Short-term loans	6,911	6,911	—
Long-term loans	25,538	25,562	24
Total liabilities	¥60,305	¥60,329	¥24
Derivatives (*)	¥10	¥10	¥—

Year ended March 31, 2020	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Cash and time deposits	\$138,013	\$138,013	\$—
Trade notes and accounts receivable	352,384	352,384	—
Investment securities	67,334	67,334	—
Total assets	\$557,731	\$557,731	\$—
Trade notes and accounts payable	\$255,959	\$255,959	\$—
Short-term loans	63,503	63,503	—
Long-term loans	234,659	234,879	220
Total liabilities	\$554,121	\$554,341	\$220
Derivatives (*)	\$92	\$92	\$—

Year ended March 31, 2019	Millions of yen		
	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	¥—

(*) 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 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 payables, 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
	2020	2019	2020
Investments in unconsolidated subsidiaries and affiliates	¥5,710	¥6,554	\$52,467
Investments in unlisted stock	493	513	4,530
Total	¥6,203	¥7,067	¥56,993

(d) The aggregate maturities subsequent to March 31, 2020 and 2019 for financial assets with maturities were as follows:

Year ended March 31, 2020	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	¥15,020	¥—	¥—
Trade notes and accounts receivables	38,350	—	—
Total	¥53,370	¥—	¥—

Year ended March 31, 2020	Thousands of U.S. dollars		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and time deposits	\$138,013	\$—	\$—
Trade notes and accounts receivables	352,384	—	—
Total	\$490,397	\$—	\$—

Year ended March 31, 2019	Millions of yen		
	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	¥—	¥—

(e) The aggregate maturities subsequent to March 31, 2020 and 2019 for long-term bank loans were as follows:

Year ended March 31, 2020	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	¥3,784	¥4,084	¥4,384	¥4,784	¥4,684	¥3,818

Year ended March 31, 2020	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	\$34,770	\$37,526	\$40,283	\$43,958	\$43,040	\$35,082

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

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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥2,950	¥2,981	\$26,693
Bonds	—	—	—
Other	—	—	—
	¥2,905	¥2,981	\$26,693
Book value:			
Equity securities	¥7,053	¥7,959	\$64,808
Bonds	—	—	—
Other	—	—	—
	¥7,053	¥7,959	\$64,808
Difference:			
Equity securities	¥4,148	¥4,978	\$38,115
Bonds	—	—	—
Other	—	—	—
	¥4,148	¥4,978	\$38,115
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥374	¥457	\$3,437
Bonds	—	—	—
Other	—	—	—
	¥374	¥457	\$3,437
Book value:			
Equity securities	¥275	¥367	\$2,527
Bonds	—	—	—
Other	—	—	—
	¥275	¥367	\$2,527
Difference:			
Equity securities	¥(99)	¥(90)	\$(910)
Bonds	—	—	—
Other	—	—	—
	¥(99)	¥(90)	\$(910)
Total			
Acquisition cost	¥3,279	¥3,438	\$30,130
Book value (fair value)	7,328	8,326	67,335
Difference	¥4,049	¥4,888	\$37,205

(2) Total sales of available-for-sale securities
Year ended of March 31, 2020

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥127	\$1,167
Bonds	—	—
Other	—	—
	<u>¥127</u>	<u>\$1,167</u>
Gain on sales:		
Equity securities	¥37	\$340
Bonds	—	—
Other	—	—
	<u>¥37</u>	<u>\$37</u>
Loss on sales:		
Equity securities	¥(37)	\$(322)
Bonds	—	—
Other	—	—
	<u>¥(37)</u>	<u>\$(322)</u>

Year ended of March 31, 2019

	Millions of yen
Amount of total sales:	
Equity securities	¥325
Bonds	—
Other	—
	<u>¥325</u>
Gain on sales:	
Equity securities	¥186
Bonds	—
Other	—
	<u>¥186</u>
Loss on sales:	
Equity securities	¥—
Bonds	—
Other	—
	<u>¥—</u>

(3) Impairment loss on investment securities

Impairment loss on available-for-sale securities are 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 are recorded due to other than temporary impairment in the amount of ¥79 million (\$735 thousand) and ¥80 million for the year ended March 31, 2020 and 2019, respectively.

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 ¥100 million (\$919 thousand) and ¥107 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

Year ended March 31, 2020	Millions of yen			Fair value March 31, 2020
	Book value March 31, 2019	Changes during the year	March 31, 2020	
Rental property	¥1,676	¥(32)	¥1,644	¥3,975

Year ended March 31, 2020	Thousands of U.S. dollars			Fair value March 31, 2020
	Book value March 31, 2019	Changes during the year	March 31, 2020	
Rental property	\$15,400	\$(285)	\$15,106	\$36,525

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

The book value represents the net amount of cost acquisition cost less accumulated depreciation.

The amount of increase during fiscal year ended March 31, 2019 is ¥72 million (\$649 thousand) due to a change in the purpose for holding the rental property while the main reason of the decrease is a depreciation.

The amount of decrease during the fiscal year ended March 31, 2020 is mainly due to depreciation.

The fair value is 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, 2020 and 2019.

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2020

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				
	Sell: U.S. dollar	Trade accounts receivable	¥549	¥—	¥9
	Buy: U.S. dollar	Trade accounts payable	159	—	1
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	3,445	—	—
	Sell: Euro		936	—	—
	Sell: Korean won		78	—	—
	Sell: Taiwan dollar		440	—	—
	Buy: U.S. dollar	Trade accounts payable	849	—	—
	Buy: Euro		9	—	—
Total			¥6,462	¥—	¥10

Year ended March 31, 2020

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				
	Sell: U.S. dollar	Trade accounts receivable	\$5,045	\$—	\$83
	Buy: U.S. dollar	Trade accounts payable	1,433	—	9
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	31,655	—	—
	Sell: Euro		8,601	—	—
	Sell: Korean won		717	—	—
	Sell: Taiwan dollar		4,043	—	—
	Buy: U.S. dollar	Trade accounts payable	7,801	—	—
	Buy: Euro		83	—	—
Total			\$59,378	\$—	\$92

Year ended March 31, 2019

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				
	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

(*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, 2020 and 2019.

11. Pledged assets

The following assets were pledged as collateral for short-term loans and long-term loans of ¥1,680 million (\$15,437 thousand) and ¥1,750 million at March 31, 2020 and 2019.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Property, plant and equipment-net of accumulated depreciation	¥8,094	¥8,347	\$74,376

In addition, property, plant and equipment provided for trade guarantees amounted to ¥363 million (\$3,335 thousand) and ¥341 million at March 31, 2020 and 2019, 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, 2020 and 2019.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans from banks and insurance companies maturing through 2028 with interest rates ranging from 0.2% to 1.8%			
Secured	¥1,680	¥1,750	\$15,437
Unsecured	23,858	23,221	219,222
Lease obligations	477	546	4,384
	26,015	25,517	239,043
Less amount due within one year	(3,965)	(4,624)	(36,433)
	<u>¥22,050</u>	<u>¥20,893</u>	<u>\$202,610</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 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, 2020 and 2019 were as follows:

Year ended March 31, 2020

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥3,965	\$36,433
2022	4,217	38,749
2023	4,484	41,202
2024	4,844	44,510
2025	4,687	43,067
2026 and thereafter	3,818	35,082
	<u>¥26,015</u>	<u>\$239,043</u>

Year ended March 31, 2019

Years ending March 31	Millions of yen
2020	¥4,624
2021	3,933
2022	4,185
2023	4,458
2024	4,815
2025 and thereafter	3,502
	¥25,517

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% for each of the years ended March 31, 2020 and 2019.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Liability for retirement benefits	¥1,114	¥702	\$10,236
Nondeductible bonuses accrued	840	694	7,718
Write-down of inventories	731	512	6,717
Unrealized gains on inventories	511	574	4,695
Provision for construction expenses related to related to earthquake resistance renovation	231	235	2,123
Carryforward tax loss (*1)	395	441	3,630
Other	865	876	7,948
Subtotal deferred tax assets	4,687	4,034	43,067
Valuation allowance for carryforward tax loss (*1)	(395)	(441)	(3,629)
Valuation allowance for deductible temporary differences	(413)	(368)	(3,795)
Valuation allowance – total	(808)	(809)	(7,424)
Total deferred tax assets	¥3,879	¥3,225	\$35,643
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(827)	¥(827)	\$(7,599)
Retained earnings appropriated for allowable tax reserves	(567)	(609)	(5,210)
Net unrealized gains on “available-for-sale-securities”	(1,230)	(1,457)	(11,302)
Land revaluation difference	(867)	(820)	(7,967)
Other	(196)	(169)	(1,810)
Total deferred tax liabilities	¥(3,687)	¥(3,882)	\$(33,888)
Net deferred tax assets	¥(192)	¥(657)	\$(1,755)

(*1) Carryforward tax loss and its deferred tax assets by expiration periods

Year ended March 31, 2020

	Millions of yen						
	2021	2022	2023	2024	2025	2026 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥395	¥395
Valuation allowance	—	—	—	—	—	(395)	(395)
Net deferred tax assets	—	—	—	—	—	—	—

	Thousands of U.S.dollars						
	2021	2022	2023	2024	2025	2026 and beyond	Total
Carryforward tax loss (*)	\$—	\$—	\$—	\$—	\$—	\$3,630	\$3,6330
Valuation allowance	—	—	—	—	—	(3,630)	(3,630)
Net deferred tax assets	—	—	—	—	—	—	—

Year ended March 31, 2019

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

(*) 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, 2020 and 2019 was as follows:

	2020	2019
Statutory income tax rate	30.6%	30.6%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	1.0%	1.2%
Permanent difference (dividend income, etc.)	(0.4)%	(0.4)%
Inhabitants tax on per capita basis	0.5%	0.5%
Fluctuation in deferred tax assets valuation allowance account	0.0%	1.3%
Share of profit of entities accounted for using equity method	(0.5)%	(0.3)%
Different tax rates applied to foreign subsidiaries	(2.2)%	(3.5)%
Tax credit for research and development	(1.7)%	(1.3)%
Others	0.0%	0.1%
Effective income tax rate	27.3%	28.2%

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, 2020 and 2019 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2020 and 2019 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1	¥17,062	¥17,199	\$156,777
Service cost	670	542	6,156
Interest cost	67	69	616
Actuarial loss	(13)	63	(119)
Benefits paid	(789)	(809)	(7,250)
Increase due to newly consolidated subsidiary	33	—	303
Other	12	(2)	110
Balance at March 31	<u>¥17,042</u>	<u>¥17,062</u>	<u>\$156,593</u>

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1	¥21,985	¥21,814	\$202,012
Expected return on plan assets	373	371	3,428
Actuarial gain (loss)	(1,722)	(131)	(15,823)
Contributions paid by the employer	542	544	4,980
Benefits paid	(607)	(612)	(5,577)
Balance at March 31	<u>¥20,571</u>	<u>¥21,985</u>	<u>\$189,020</u>

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥15,090	¥15,298	\$138,657
Plan assets	(20,571)	(21,986)	(189,020)
	(5,481)	(6,688)	(50,363)
Unfunded retirement benefit obligations	1,952	1,764	17,936
Total net defined benefit liability (asset) at March 31	¥(3,529)	¥(4,924)	\$(32,427)
Net defined benefit liability	¥1,952	¥1,764	\$17,936
Net defined benefit asset	(5,481)	(6,688)	(50,363)
Total net defined benefit liability (asset) at March 31	¥(3,529)	¥(4,924)	\$(32,427)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥670	¥542	\$6,156
Interest cost	67	69	\$616
Expected return on plan assets	(373)	(371)	(3,427)
Net actuarial loss amortization	87	(94)	799
Total retirement benefit expenses for the fiscal year ended March 31	¥451	¥146	\$4,144

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains and losses	¥(1,622)	¥(288)	\$(14,904)
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥(1,622)	¥(288)	\$(14,904)

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gains and losses	¥(1,205)	¥417	\$(11,072)
Total balance at March 31	¥(1,205)	¥417	\$(11,072)

(7) Plan assets

Plan assets comprise:

	2020	2019
Bonds	33.9%	30.9%
Equity Securities	46.0%	51.2%
Others	20.1%	17.9%
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

	2020	2019
Discount rates	0.0%~0.5%	0.0%~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 ¥561 million (\$5,155 thousand) and ¥560 million for the years ended March 31, 2020 and 2019, respectively.

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

15. Contingent liabilities

Contingent liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loan guarantees: LASOtech Systems GmbH	¥478	¥—	\$4,392
Loan guarantees: DAIHEN VARSTROJ welding cutting and robotics d.d.	—	742	—
Loan guarantees: DAIHEN AOMORI. CO., LTD	7	27	64
Assigned trade receivables with recourse	345	330	3,170

16. Impairment loss

Impairment loss for the year ended March 31, 2020 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
Kitakyushu City Fukuoka Prefecture	Assets to be disposed	Structures	¥56	\$515
Kurashiki City Okayama Prefecture	Idle assets	Machinery and equipment	¥24	\$220

The Companies classify fixed assets based on their reporting segment. Rental assets, idle assets and assets to be disposed of are assessed individually.

KYUHEN Co., Ltd., a consolidated subsidiary, decided to remove and planned to dispose of certain structures in Kitakyushu City. Therefore, the book value was reduced to the recoverable amount, and the reduced amount was recorded as extraordinary loss. The recoverable amounts were calculated the estimated net selling value which was based on disposal value.

The assets of The Chugoku Electric Manufacturing Co., Inc. a subsidiary of the Company, became idle assets and their future uses had not been determined. Therefore, the book value was reduced to the recoverable amount, and the reduced amount was recorded as extraordinary loss. The recoverable amounts were calculated at the estimated net selling value which was based on the disposal value.

17. Expenses related to product accidents

For the year ended March 31, 2019, expenses related product accidents are the expenses related to the burnout accident of the certain product that one of the consolidated subsidiaries manufactured. The main components of the expenses are restoration works and replacement costs. The remedial measure is ongoing now, 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 machines of wireless charging system
Advanced Components:	Power supplies and automatic tuners for wafer & FPD manufacturing equipment and clean transfer robots and systems

(2) Accounting methods of measurement 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.

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

Reportable segment information for the years ended March 31, 2020 and 2019 was as follows:

Year ended	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
March 31, 2020						
Net sales:						
Customers	¥68,812	¥45,251	¥30,780	¥144,843	¥201	¥145,044
Intersegment	—	73	—	73	—	73
Total	¥68,812	¥45,324	¥30,780	¥144,916	¥201	¥145,117
Segment income	¥6,235	¥4,011	¥3,271	¥13,517	¥63	¥13,580
Assets	64,344	50,087	25,210	139,641	1,309	140,950
Other items						
Depreciation (*2)	2,393	1,491	846	4,730	27	4,757
Amortization of Goodwill	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets (*3)	1,500	976	510	2,986	1	2,987

	Thousands of U.S. dollars					
Year ended March 31, 2020	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	\$632,289	\$415,795	\$282,827	\$1,330,911	\$1,847	\$1,332,758
Intersegment	—	670	—	670	—	670
Total	<u>\$632,289</u>	<u>\$416,465</u>	<u>\$282,827</u>	<u>\$1,331,581</u>	<u>\$1,847</u>	<u>\$1,333,428</u>
Segment income	\$57,291	\$36,856	\$30,056	\$124,203	\$579	\$124,782
Assets	591,234	460,231	231,646	1,283,111	12,028	1,295,139
Other items						
Depreciation (*2)	21,988	13,700	7,774	43,462	248	43,710
Amortization of Goodwill	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets (*3)	13,783	8,968	4,686	27,437	9	27,446
	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	<u>¥65,007</u>	<u>¥44,633</u>	<u>¥33,651</u>	<u>¥143,291</u>	<u>¥200</u>	<u>¥143,491</u>
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

(*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
	2020	2019	2020
Reportable segment	¥144,916	¥143,291	\$1,331,581
Sales of other	201	200	1,847
Segment adjustments	(73)	(33)	(670)
Consolidated net sales	<u>¥145,044</u>	<u>¥143,458</u>	<u>\$1,332,758</u>

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Reportable segment	¥13,517	¥12,244	\$124,203
Income of other	63	77	579
Segment adjustments	0	0	0
Company expenses	(4,514)	(3,952)	(41,478)
Consolidated operating income	<u>¥9,066</u>	<u>¥8,369</u>	<u>\$83,304</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
	2020	2019	2020
Reportable segment	¥139,641	¥144,859	\$1,283,111
Assets of other	1,309	1,214	12,028
Corporate assets	21,695	21,505	199,348
Other adjustments	(317)	(3)	(2,913)
Consolidated total assets	<u>¥162,328</u>	<u>¥167,575</u>	<u>\$1,491,574</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, 2020	Millions of yen			
	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥4,730	¥27	¥781	¥5,538
Amortization of goodwill	—	—	—	—
Increase in property, plant and equipment and intangible assets	2,986	1	504	3,491

Year ended March 31, 2020	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	\$43,462	\$248	\$7,177	\$50,887
Amortization of goodwill	—	—	—	—
Increase in property, plant and equipment and intangible assets	27,437	9	4,632	32,078

Year ended March 31, 2019	Millions of yen			
	Reporting 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

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

(5) Geographic segment information for the years ended March 31, 2020 and 2019 was as follows:

(a) Net sales

		Millions of yen				
Year ended March 31, 2020		Japan	North America	Asia	Other	Total
Net sales		¥113,134	¥4,003	¥23,743	¥4,164	¥145,044

		Thousands of U.S. dollars				
Year ended March 31, 2020		Japan	North America	Asia	Other	Total
Net sales		\$1,039,548	\$36,782	\$218,166	\$38,262	\$1,332,758

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

(b) Tangible fixed assets

		Millions of yen				
Year ended March 31, 2020		Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets		¥33,831	¥217	¥4,984 ¥(2,954)	¥983	¥40,015

		Thousands of U.S. dollars				
Year ended March 31, 2020		Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets		\$310,861	\$1,994	\$45,796 \$(27,143)	\$9,033	\$367,684

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

(6) Information on major customers for that account for 10% or more of the sales in the consolidated income statement the years ended March 31, 2020 and 2019 was as follows:

		Millions of yen		
Year ended	Major customers	Revenue	Related segments	
March 31, 2020	Tokyo Electron Miyagi Limited	¥20,244	Advanced Components	
	The Kansai Electric Power Co., Inc.	15,723	Power Products	
		Thousands of U.S. dollars		
Year ended	Major customers	Revenue	Related segments	
March 31, 2020	Tokyo Electron Miyagi Limited	\$186,015	Advanced Components	
	The Kansai Electric Power Co., Inc.	144,473	Power Products	
		Millions of yen		
Year ended	Major customers	Revenue	Related segments	
March 31, 2019	Tokyo Electron Miyagi Limited	¥20,721	Advanced Components	

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

		Millions of yen				
Year ended	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Total
March 31, 2020	¥80	¥—	¥—	¥—	¥—	¥80
Impairment loss						
		Millions of yen				
Year ended	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Total
March 31, 2020	\$735	\$—	\$—	\$—	\$—	\$735
Impairment loss						
		Millions of yen				
Year ended	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Total
March 31, 2019	¥—	¥—	¥—	¥—	¥—	¥—
Impairment loss						

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

Millions of yen							
Year ended March 31, 2020	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	¥—	¥—	¥—	¥—	¥—	¥—	¥—
Balance at end of Period	—	—	—	—	—	—	—

Thousands of US dollars							
Year ended March 31, 2020	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Adjustments	Total
Goodwill							
Amortized for the Period	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Balance at end of Period	—	—	—	—	—	—	—

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	—	—	—	—	—	—	—

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

Not applicable for the years ended March 31, 2020 and 2019.

20. Subsequent events

Not applicable for the year ended March 31, 2020.



Independent Auditor's Report

To the Board of Directors of DAIHEN Corporation:

Opinion

We have audited the accompanying consolidated financial statements of DAIHEN Corporation. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

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

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

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



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

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

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



小幡 琢哉 

Takuya Obata
Designated Engagement Partner
Certified Public Accountant

柴崎 美帆 

Miho Shibasaki
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 30, 2020

