FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2021 AND 2020

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
ASSETS			
Current assets:			
Cash and deposits (Note 5 and 7)	¥19,261	¥15,020	$173,977
Receivables —			
Trade notes and accounts receivable (Note 7 and 15)			
Unconsolidated subsidiaries and affiliates	222	148	2,005
Other	40,728	38,202	367,880
Loans and other accounts	2,905	2,182	26,240
Allowance for doubtful accounts	(575)	(50)	(5,194)
	43,280	40,482	390,931
Inventories (Note 6)	41,782	42,097	377,400
Other current assets	967	927	8,735
Total current assets	105,290	98,526	951,043
Property, plant and equipment (Note 9 and 11):			
Land	8,803	8,783	79,514
Buildings and structures	46,939	45,506	423,982
Machinery and equipment	55,656	54,614	502,719
Lease assets	1,339	1,396	12,095
Construction in progress	1,149	2,075	10,378
Total	113,886	112,374	1,028,688
Accumulated depreciation	(75,114)	(72,359)	(678,475)
Net property, plant and equipment	38,772	40,015	350,213
Intangible assets:			
Software	1,621	1,713	14,642
Other intangible assets	263	302	2,375
Total intangible assets	1,884	2,015	17,017
Investments and other assets:			
Investment securities (Note 7 and 8)	11,068	7,821	99,973
Investments in unconsolidated subsidiaries and affiliates (Note 7)	6,584	5,710	59,471
Deferred tax assets (Note 13)	1,116	1,151	10,080
Net defined benefit asset (Note 14)	8,880	5,481	80,201
Other	1,621	1,707	14,651
Allowance for doubtful accounts	(82)	(98)	(741)
Total investments and other assets	29,187	21,772	263,635
Total assets	¥175,133	¥162,328	$1,581,908

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
LIABILITIES			
Current liabilities:			
Short-term loans (Note 7, 11 and 12)	¥6,085	¥6,911	$54,963
Long-term debt due within one year (Note 7, 11 and 12)	4,226	3,965	38,172
Trade notes and accounts payable (Note 7)			
Unconsolidated subsidiaries and affiliates	801	751	7,235
Other	28,832	27,105	260,428
Accrued employees' bonuses	3,602	2,871	32,536
Accrued directors' and corporate auditors' bonuses	100	90	903
Allowance for loss on construction contracts	80	56	723
Income taxes payable	2,736	1,821	24,713
Other current liabilities	6,121	6,430	55,289
Total current liabilities	52,583	50,000	474,962
Long-term liabilities:			
Long-term debt (Note 7, 11 and 12)	19,365	22,050	174,916
Net defined benefit liability (Note 14)	1,951	1,952	17,623
Reserve for directors' and corporate auditors' retirement benefits	63	52	569
Asset retirement obligation	74	74	668
Deferred tax liabilities (Note 13)	2,340	959	21,136
Provision for construction expenses related to earhquake resistance renovation	669	707	6,043
Provision for product safety measures	19	44	172
Other noncurrent liabilities	1,148	1,146	10,370
Total long-term liabilities	25,629	26,984	231,497
Total liabilities	78,212	76,984	706,45
Contingent liabilities (Note 15)			
NET ASSETS (Note 18)			
Shareholders' equity:			
Common stock ― (Note 4)	10,596	10,596	95,710
Authorized - 108,000 thousand shares in 2021 and 2020			
Issued - 27,103 thousand shares in 2021 and 2020			
Capital surplus	10,024	10,016	90,543
Retained earnings	66,996	59,628	605,149
Treasury stock, at cost ― (Note 4)			
― 2,420 thousand shares in 2021			
― 2,396 thousand shares in 2020	(4,196)	(4,123)	(37,901)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	5,256	2,987	47,475
Net deferred gains and losses on hedges	(13)	7	(117)
Foreign currency translation adjustments	1,146	1,704	10,351
Remeasurements of defined benefit plans	1,365	(851)	12,329
Total accumulated other comprehensive income	7,754	3,847	70,038
Noncontrolling interests	5,747	5,380	51,910
Total net assets	96,921	85,344	875,449
Total liabilities and net assets	¥175,133	¥162,328	$1,581,908

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales (Note 9)	¥145,145	¥145,044	$1,311,038
Cost of sales (Note 6, 9 and 14)	98,299	100,022	887,896
Gross profit	46,846	45,022	423,142
Selling, general and administrative expenses (Note 14)	34,662	35,956	313,089
Operating income	12,184	9,066	110,053
Other income (expenses):			
Interest and dividend income	304	349	2,746
Interest expense	(194)	(246)	(1,752)
Foreign currency exchange gain (loss)	257	(86)	2,321
Gain on sales of property, plant and equipment and intangible assets	—	172	—
Gain on sales of investment securities	—	37	—
Share of profit of entities accounted for using equity method	808	149	7,298
Compensation for damage	—	(109)	—
Provision of allowance for doubtful accounts	(522)	—	(4,715)
Expense related to product accident (Note 17)	(115)	—	(1,039)
Business structure improvement expenses	(72)	—	(650)
Impairment loss on investment securities	—	(80)	—
Impairment loss (Note 16)	—	(80)	—
Loss on sales of investment securities	—	(35)	—
Other, net	476	234	4,300
Total other income (expenses)	942	305	8,509
Income before income taxes	13,126	9,371	118,562
Income taxes (Note 13):			
Current	3,987	2,740	36,013
Deferred	(495)	(180)	(4,471)
Profit	¥9,634	¥6,811	$87,020
Noncontrolling interests	223	139	2,014
Owners of parent	9,411	6,672	85,006

	Yen		U.S. dollars (Note 1)
Per share of common stock: (Note 2 (20))			
Net income per share	¥381.28	¥269.06	$3.44
Cash dividends applicable to the year	¥90.00	¥85.00	$0.81

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Profit	¥9,634	¥6,811	$87,020
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	2,271	(581)	20,513
Net deferred gains and losses on hedges	(19)	7	(172)
Foreign currency translation adjustments	(533)	171	(4,995)
Remeasurment of defined benefit plans	2,301	(1,163)	20,784
Share of other comprehensive income of affiliates accounted for using equity method	69	(105)	624
Total other comprehensive income (Note 3)	4,069	(1,671)	36,754
Comprehensive income	¥13,703	¥5,140	$123,774
Attributable to:			
Owners of parent	¥13,318	¥5,087	$120,296
Noncontrolling interests	¥385	¥53	$3,478

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years ended March 31, 2021 and 2020

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains and losses on available-for-sale	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non-controlling interests	Total net assets
Balance at March 31, 2019	¥10,596	¥10,010	¥55,063	¥(3,863)	¥3,658	¥(0.00)	¥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
Profit attributable to owners of parent	—	—	9,411	—	—	—	—	—	—	9,411
Treasury stock, net	—	8	—	(73)	—	—	—	—	—	(65)
Cash dividends paid - ¥82.5 per share - (Note 4)	—	—	(2,043)	—	—	—	—	—	—	(2,043)
Net changes in items other than shareholders' equity	—	—	—	—	2,269	(20)	(558)	2,216	367	4,274
Balance at March 31, 2021	¥10,596	¥10,024	¥66,996	¥(4,196)	¥5,256	¥(13)	¥1,146	¥1,365	¥5,747	¥96,921

	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	Net deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasurements plans	Non-controlling interests	Total net assets
Balance at March 31, 2020	$95,710	$90,471	$538,597	$(37,242)	$26,980	$64	$15,391	$(7,687)	$48,595	$770,879
Profit attributable to owners of parent	—	—	85,006	—	—	—	—	—	—	85,006
Treasury stock, net	—	72	—	(659)	—	—	—	—	—	(587)
Cash dividends paid - ¥0.75 per share (Note 4)	—	—	(18,454)	—	—	—	—	—	—	(18,454)
Net changes in items other than shareholders' equity	—	—	—	—	20,495	(181)	(5,040)	20,016	3,315	38,605
Balance at March 31, 2021	$95,710	$90,543	$605,149	$(37,901)	$47,475	$(117)	$10,351	$12,329	$51,910	$875,449

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years Ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Income before income taxes	¥13,126	¥9,371	$118,562
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	5,122	5,538	46,265
Impairment loss	—	80	—
Increase (decrease) in allowance for doubtful accounts	522	(0)	4,715
Increase (decrease) in accrued employees' bonuses	730	498	6,594
Increase (decrease) in allowance for loss on construction contracts	23	(20)	208
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(37)	(37)	(334)
Increase (decrease) in provision for product safety measures	(25)	12	(226)
Increase (decrease) in net defined benefit liability	(12)	180	(108)
Decrease (increase) in net defined benefit asset	(143)	(470)	(1,292)
Interest and dividend income	(304)	(349)	(2,746)
Interest expense	195	246	1,761
Share of loss (profit) of entities accounted for using equity method	(808)	(149)	(7,298)
Loss (gain) on sales of investment securities, net	—	(2)	—
Loss (gain) on sales of property, plant and equipment	—	(172)	—
Impairment loss on investment securities	—	80	—
Expense related to product accident	115	—	1,039
Compensation for damage	—	109	—
Decrease (increase) in trade notes and accounts receivable	(2,600)	(29)	(23,485)
Decrease (increase) in inventories	314	5,037	2,836
Increase (decrease) in trade notes and accounts payable	1,877	(690)	16,954
Other, net	(1,190)	4	(10,749)
Subtotal	16,905	19,261	152,696
Interest and dividends received	308	348	2,782
Interest paid	(195)	(250)	(1,761)
Compensation for damage paid	—	(109)	—
Income taxes paid	(3,080)	(2,192)	(27,821)
Net cash provided by operating activities	13,938	17,058	125,896
Cash flows from investing activities:			
Increase in time deposits	—	1	—
Decrease in short-term loans receivable, net	(389)	—	(3,514)
Purchases of property, plant and equipment	(3,259)	(3,709)	(29,437)
Proceeds from sales of property, plant and equipment	119	428	1,075
Purchases of intangible assets	(365)	(430)	(3,297)
Purchases of investment in securities	(6)	(7)	(54)
Proceeds from sales of investment in securities	—	134	—
Payments for investments in capital of subsidiaries	—	(700)	—
Proceeds from investments	11	6	99
Other, net	(11)	(42)	(99)
Net cash used in investing activities	(3,900)	(4,319)	(35,227)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(878)	(8,637)	(7,931)
Proceeds from long-term loans	1,500	5,000	13,549
Repayment of long-term loans	(3,784)	(4,433)	(34,179)
Repayment of lease obligations	(275)	(232)	(2,484)
Purchase of treasury stock	(79)	(270)	(714)
Cash dividends paid	(2,042)	(2,112)	(18,445)
Other, net	(18)	(18)	(162)
Net cash provided by (used in) financing activities	(5,576)	(10,702)	(50,366)
Effect of exchange rate changes on cash and cash equivalents	(222)	(46)	(2,008)
Net increase (decrease) in cash and cash equivalents	4,240	1,991	38,298
Cash and cash equivalents at beginning of year	14,831	12,403	133,963
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	437	—
Cash and cash equivalents at end of year (Note 5)	¥19,071	¥14,831	$172,261

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, 2021, which was ¥110.71 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

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

There were 28 and 29 consolidated subsidiaries as of March 31, 2021 and 2020 respectively and 3 companies accounted for using the equity method as of both March 31, 2021 and 2020. In 2021 and 2020, 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 activity with material effects occurring during the January 1 to March 31 periods have been adjusted for in the consolidated financial statements.

On March 31, 2021, DAIHEN LOGISTICS has been excluded from the scope of consolidation due to the completion of liquidation. However, the company's income statement up to the date of the completion of liquidation has been consolidated.

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 are to 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) 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.

(10) 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.

(11) 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 current 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 the retirement benefit obligation.

(12) 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 if the directors and corporate auditors had retired at the fiscal year-end.

(13) 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.

(14) Provision for product safety measures
The Company provides for the estimated future payments for inspections and repairs of products and electric water heaters manufactured and sold at one of the consolidated subsidiaries, Kyuhen Co., Inc.

(15) 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.

(16) 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 applicable 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.

(17) Recognition of construction revenue
When the outcome of individual contracts can be estimated reliably, the domestic companies

applythe 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.

(18) Research and development expenses
Research and development expenses charged to income as incurred amounted to ¥5,397 million ($48,749 thousand) and ¥5,238 million in 2021 and 2020, respectively.

(19) 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.

(20) 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, 2021 and 2020 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.

(21) Standard and guidance not yet adopted
- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

(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 the 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.

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
	2021	2020	2021
Net unrealized holding gains and losses on securities arising during the year	¥3,271	¥(909)	$29,546
Reclassification adjustments	—	78	—
Subtotal, before tax	3,271	(831)	29,546
Tax effects	(1,000)	250	(9,033)
Subtotal, net of tax	¥2,271	¥(581)	$20,513
Net deferred gains and losses on hedges arising during the year	¥(18)	¥10	$(163)
Reclassification adjustments	(10)	0	(90)
Subtotal, before tax	(28)	10	(253)
Tax effects	9	(3)	81
Subtotal, net of tax	¥(19)	¥7	$(172)
Foreign currency translation adjustments arising during the year	¥(553)	¥171	$(4,995)
Remeasurements of defined benefit plans arising during the year	¥2,803	¥(1,612)	$25,318
Reclassification adjustments	458	(10)	4,137
Subtotal, before tax	3,261	(1,622)	29,455
Tax effects	(960)	459	(8,671)
Subtotal, net of tax	¥(2,301)	¥(1,163)	$(20,784)
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥69	¥(105)	$624
Total other comprehensive income	¥4,069	¥(1,671)	$36,754

4. Consolidated Statement of Changes in Net Assets

Fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(1) Items related to common stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2020	Increase in number of shares	Decrease in number of shares (*1)	Number of shares as of March 31, 2021
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, 2020	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of March 31, 2021
Treasury stock	2,396	27	3	2,420

(Overview of reasons for fluctuations)
(*1) The increase of 27 thousand treasury ordinary stock consist of
: the increase of 25 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 3 thousand treasury ordinary stock consist of
: the decrease of 3 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 25, 2020 Annual General Meeting of Shareholders	Common stock	991	8,952	40.00	0.36	March 31, 2020	June 26, 2020
November 6, 2020, Board of Directors	Common stock	1,052	9,502	42.50	0.38	September 30, 2020	December 3, 2020

(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 25,2021 Annual General Meeting of Shareholders	Common stock	Retained earnings	1,176	10,622	47.50	0.43	March 31, 2021	June 28, 2021

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 31, 2020
Common stock	27,103	—	—	27,103

(2) Items relate 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 31, 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 (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 26, 2019 Annual General Meeting of Shareholders	Common stock	995	40.00	March 31, 2019	June 27, 2019
November 8, 2019, Board of Directors	Common stock	1,120	45.00	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 (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 25, 2020 Annual General Meeting of Shareholders	Common stock	Retained earnings	991	40.00	March 31, 2020	June 26, 2020

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, 2021 and 2020 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and deposits	¥19,261	¥15,020	$173,977
Time deposits with maturities exceeding three months	(190)	(189)	(1,716)
Cash and cash equivalents	¥19,071	¥14,831	$172,261

6. Inventories

(1) Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and finished goods	¥15,673	¥14,884	$141,568
Work-in-process	9,912	9,886	89,531
Raw materials and supplies	16,197	17,327	146,301
	¥41,782	¥42,097	$377,400

(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, 2021 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cost of sales	¥95	¥708	$858

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

For derivatives and deposits, the Companies enter into contracts only with highly rated financial institutions in order to minimize counterparty risk. The maximum credit risk at March 31, 2021 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. The Company monitors foreign exchange markets closely and 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 regularly 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 unit and major subsidiary.

(d) Supplemental information on fair values

The fair value of financial instruments is based on the quoted market price if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 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, 2021 and 2020 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, 2021	Book value	Fair value	Difference
Cash and deposits	¥19,261	¥19,261	¥—
Trade notes and accounts receivable	40,950	40,950	—
Investment securities	10,573	10,573	—
Total asset	¥70,784	¥70,784	¥—
Trade notes and accounts payable	¥29,633	¥29,633	¥—
Short-term loans	6,085	6,085	—
Long-term loans	23,254	23,332	78
Total liabilities	¥58,972	¥59,050	¥78
Derivatives (*)	¥18	¥18	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2021	Book value	Fair value	Difference
Cash and deposits	$173,977	$173,977	$—
Trade notes and accounts receivable	369,885	369,885	—
Investment securities	95,502	95,502	—
Total assets	$639,364	$639,364	$—
Trade notes and accounts payable	$267,663	$267,663	$—
Short-term loans	54,963	54,963	—
Long-term loans	210,045	210,749	704
Total liabilities	$532,671	$533,375	$704
Derivatives (*)	$163	$163	$—

	Millions of yen		
Year ended March 31, 2020	Book value	Fair value	Difference
Cash and 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	¥—

(*) 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
	2021	2020	2021
Investments in unconsolidated subsidiaries and affiliates	¥6,584	¥5,710	$59,471
Investments in unlisted stock	495	493	4,471
Total	¥7,079	¥6,203	¥63,942

(d) The aggregate maturities subsequent to March 31, 2021 and 2020 for financial assets with maturities were as follows:

	Millions of yen		
Year ended March 31, 2021	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥19,261	¥—	¥—
Trade notes and accounts receivables	40,950	—	—
Total	¥60,211	¥—	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2021	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	$173,977	$—	$—
Trade notes and accounts receivables	369,885	—	—
Total	$543,862	$—	$—

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

(e) The aggregate maturities subsequent to March 31, 2021 and 2020 for long-term bank loans were as follows:

	Millions of yen					
Year ended March 31, 2021	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	¥4,084	¥4,384	¥4,784	¥4,684	¥2,684	¥2,634

	Thousands of U.S. dollars					
Year ended March 31, 2021	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	$36,889	$39,599	$43,212	$42,309	$24,244	$23,792

	Millions of yen					
Year ended March 31, 2020	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

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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥3,033	¥2,905	$27,396
Bonds	—	—	—
Other	—	—	—
	¥3,033	¥2,905	$27,396
Book value:			
Equity securities	¥10,401	¥7,053	$93,948
Bonds	—	—	—
Other	—	—	—
	¥10,401	¥7,053	$93,948
Difference:			
Equity securities	¥7,368	¥4,148	$66,552
Bonds	—	—	—
Other	—	—	—
	¥7,368	¥4,148	$66,552
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥213	¥374	$1,924
Bonds	—	—	—
Other	—	—	—
	¥213	¥374	$1,924
Book value:			
Equity securities	¥172	¥275	$1,554
Bonds	—	—	—
Other	—	—	—
	¥172	¥275	$1,554
Difference:			
Equity securities	¥(41)	¥(99)	$(370)
Bonds	—	—	—
Other	—	—	—
	¥(41)	¥(99)	$(370)
Total			
Acquisition cost	¥3,246	¥3,279	$29,320
Book value (fair value)	10,573	7,328	95,502
Difference	¥7,327	¥4,049	$66,182

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

Year ended of March 31, 2021

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥3	$27
Bonds	—	—
Other	—	—
	¥3	$27
Gain on sales:		
Equity securities	—	—
Bonds	—	—
Other	—	—
	—	—
Loss on sales:		
Equity securities	¥(2)	$(18)
Bonds	—	—
Other	—	—
	¥(2)	$(18)

Year ended of March 31, 2020

	Millions of yen
Amount of total sales:	
Equity securities	¥127
Bonds	—
Other	—
	¥127
Gain on sales:	
Equity securities	¥37
Bonds	—
Other	—
	¥37
Loss on sales:	
Equity securities	¥(35)
Bonds	—
Other	—
	¥(35)

(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 were recorded for other than temporary impairment in the amount of ¥79 million for the year ended March 31, 2020.

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 ¥99 million ($894 thousand) and ¥100 million for the years ended March 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2021	March 31, 2020	Changes during the year	March 31, 2021	March 31, 2021
Rental property	¥1,644	¥310	¥1,954	¥4,326

	Thousands of U.S. dollars			
Year ended	Book value			Fair value
March 31, 2021	March 31, 2020	Changes during the year	March 31, 2021	March 31, 2021
Rental property	$14,850	$2,800	$17,650	$39,075

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

The book value represents the net amount of acquisition cost less accumulated depreciation.
The increase during the fiscal year ended March 31, 2021 was ¥354 million ($3,198 thousand) due to the acquisition of real estate.
The decrease during the fiscal year ended March 31, 2020 was mainly due to 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, 2021 and 2020.

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2021

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	¥819	¥—	¥(18)
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	2,056	—	—
	Sell: Euro		261	—	—
	Sell: Korean won		69	—	—
	Sell: Taiwan dollar		955	—	—
Total			¥4,160	¥—	¥(18)

Year ended March 31, 2021

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	$7,398	$—	$(163)
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	18,571	—	—
	Sell: Euro		2,358	—	—
	Sell: Korean won		623	—	—
	Sell: Taiwan dollar		8,626	—	—
Total			$37,576	$—	$(163)

Year ended March 31, 2020

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Deferred hedge method (*1)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts payable	¥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

(*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, 2021 and 2020.

11. Pledged assets

The following assets were pledged as collateral for short-term loans and long-term loans of ¥1,680 million ($15,175 thousand) and ¥1,680 million at March 31, 2021 and 2020.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Property, plant and equipment-net of accumulated depreciation	¥8,711	¥8,094	$78,683

Property, plant and equipment provided for trade guarantees amounted to ¥344 million ($3,107 thousand) and ¥363 million at March 31, 2021 and 2020, respectively.

12. Short-term loans, long-term debt

The weighted average interest rate on short-term loans was 0.6% and 0.5% for each of the years ended March 31, 2021 and 2020, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans from banks and insurance companies maturing through 2030 with interest rates ranging from 0.2% to 1.8%			
Secured	¥1,680	¥1,680	$15,175
Unsecured	21,574	23,858	194,869
Lease obligations	337	477	3,044
	23,591	26,015	213,088
Less amount due within one year	(4,226)	(3,965)	(38,172)
	¥19,365	¥22,050	$174,916

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, 2021 and 2020 were as follows:

Year ended March 31, 2021

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥4,226	$38,172
2023	4,494	40,593
2024	4,847	43,781
2025	4,696	42,417
2026	4,691	24,307
2027 and thereafter	2,637	23,818
	¥23,591	$213,088

Year ended March 31, 2020

Years ending March 31	Millions of yen
2021	¥3,965
2022	4,217
2023	4,484
2024	4,844
2025	4,687
2026 and thereafter	3,818
	¥26,015

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, 2021 and 2020.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Liability for retirement benefits	¥80	¥1,114	$723
Nondeductible bonuses accrued	1,063	840	9,602
Write-down of inventories	653	731	5,898
Unrealized gains on inventories	538	511	4,860
Provision for construction expenses related to related to earthquake resistance renovation	220	231	1,987
Retirement benefit trust assets	495	138	4,471
Carryforward tax loss (*1)	418	395	3,776
Other	845	727	7,631
Subtotal deferred tax assets	4,312	4,687	38,948
Valuation allowance for carryforward tax loss (*1)	(401)	(395)	(3,622)
Valuation allowance for deductible temporary differences	(342)	(413)	(3,089)
Valuation allowance – total	(743)	(808)	(6,711)
Total deferred tax assets	¥3,569	¥3,879	$32,237
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(887)	¥(827)	$(8,012)
Retained earnings appropriated for allowable tax reserves	(542)	(567)	(4,896)
Net unrealized gains on "available-for-sale-securities"	(2,204)	(1,230)	(19,908)
Land revaluation difference	(867)	(867)	(7,831)
Other	(293)	(196)	(2,646)
Total deferred tax liabilities	¥(4,793)	¥(3,687)	$(43,293)
Net deferred tax assets	¥(1,224)	¥(192)	$(11,056)

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

Year ended March 31, 2021

	Millions of yen						
	2022	2023	2024	2025	2026	2027 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥417	¥418
Valuation allowance	—	—	—	—	(1)	(401)	(402)
Net deferred tax assets	—	—	—	—	—	16	16

	Thousands of U.S.dollars						
	2022	2023	2024	2025	2026	2027 and beyond	Total
Carryforward tax loss (*)	$—	$—	$—	$—	$9	$3,767	$3,776
Valuation allowance	—	—	—	—	(9)	(3,622)	(3,631)
Net deferred tax assets	—	—	—	—	—	145	145

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	—	—	—	—	—	—	—

(*) Carryforward tax loss 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, 2021 and 2020 was as follows:

	2021	2020
Statutory income tax rate	30.6%	30.6%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	0.9%	1.0%
Permanent difference (dividend income, etc.)	(0.4)%	(0.4)%
Inhabitants tax on per capita basis	0.3%	0.5%
Fluctuation in deferred tax assets valuation allowance account	0.5%	0.0%
Share of profit of entities accounted for using equity method	(1.9)%	(0.5)%
Different tax rates applied to foreign subsidiaries	(2.2)%	(2.2)%
Tax credit for research and development	(1.6)%	(1.7)%
Others	1.4%	0.0%
Effective income tax rate	26.6%	27.3%

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, 2021 and 2020 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2021 and 2020 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1	¥17,042	¥17,062	$153,934
Service cost	532	670	4,805
Interest cost	67	67	605
Actuarial loss	49	(13)	443
Benefits paid	(732)	(789)	(6,612)
Increase due to newly consolidated subsidiary	—	33	—
Other	(16)	12	(145)
Balance at March 31	¥16,942	¥17,042	$153,030

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at April 1	¥20,571	¥21,985	$185,810
Expected return on plan assets	350	373	3,160
Actuarial gain (loss)	3,022	(1,722)	27,297
Contributions paid by the employer	544	542	4,914
Benefits paid	(616)	(607)	(5,564)
Balance at March 31	¥23,871	¥20,571	$215,617

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥14,992	¥15,090	$135,416
Plan assets	(23,871)	(20,571)	(215,617)
	(8,880)	(5,481)	(80,201)
Unfunded retirement benefit obligations	1,951	1,952	17,614
Total net defined benefit liability (asset) at March 31	¥(6,929)	¥(3,529)	$(62,587)
Net defined benefit liability	¥1,951	¥1,952	$17,614
Net defined benefit asset	(8,880)	(5,481)	(80,201)
Total net defined benefit liability (asset) at March 31	¥(6,929)	¥(3,529)	$(62,587)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥532	¥670	$4,805
Interest cost	67	67	605
Expected return on plan assets	(351)	(373)	(3,170)
Net actuarial loss amortization	288	87	2,601
Total retirement benefit expenses for the fiscal year ended March 31	¥536	¥451	$4,841

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains and losses	¥(3,261)	¥(1,622)	$(29,455)
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥(3,261)	¥(1,622)	$(29,455)

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial gains and losses	¥(2,056)	¥(2,205)	$(18,571)
Total balance at March 31	¥(2,056)	¥(2,205)	$(18,571)

(7) Plan assets

Plan assets comprise:

	2021	2020
Bonds	29.9%	33.9%
Equity Securities	47.1%	46.0%
Others	23.0%	20.1%
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

	2021	2020
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 ¥562 million ($5,076 thousand) and ¥561 million for the years ended March 31, 2021 and 2020, respectively.

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

15. Contingent liabilities

Contingent liabilities at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loan guarantees: LASOtech Systems GmbH	¥534	¥478	$4,823
Loan guarantees: DAIHEN AOMORI. CO., LTD	—	7	—
Assigned trade receivables with recourse	35	345	316

16. Impairment loss

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

Location	Major use	Asset category	Millions of yen
Kitakyushu City Fukuoka Prefecture	Assets to be disposed	Structures	¥56
Kurashiki City Okayama Prefecture	Idle assets	Machinery and equipment	¥24

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 move 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 determined by 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 determined by 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, 2021, expenses related to product accidents were the expenses related to the burnout of certain products that one of the consolidated subsidiaries manufactured. The main components of the expenses were restoration works and replacement costs.

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 allocations of managerial resources and evaluate business performance.

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

The Companies operate principally in three reportable segments as follows:

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

(2) Accounting methods 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, 2021 and 2020 was as follows:

	Millions of yen					
Year ended March 31, 2021	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥65,842	¥42,077	¥37,028	¥144,947	¥198	¥145,145
Intersegment	—	31	—	31	—	31
Total	¥65,842	¥42,108	¥37,028	¥144,978	¥198	¥145,176
Segment income	¥6,750	¥3,812	¥6,181	¥16,743	¥69	¥16,812
Assets	66,721	53,614	25,176	145,511	1,281	146,792
Other items						
Depreciation (*2)	2,095	1,369	778	4,242	28	4,270
Amortization of Goodwill	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets (*3)	2,014	816	424	3,254	12	3,266

Year ended March 31, 2021	Thousands of U.S. dollars					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	$594,725	$380,065	$334,459	$1,309,249	$1,789	$1,311,038
Intersegment	—	280	—	280	—	280
Total	$594,725	$380,345	$334,459	$1,309,529	$1,789	$1,311,318
Segment income	$60,970	$34,432	$55,056	$151,233	$623	$151,856
Assets	602,665	484,274	227,405	1,314,344	11,571	1,325,915
Other items						
Depreciation (*2)	18,923	12,366	7,027	38,316	253	38,569
Amortization of Goodwill	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets (*3)	18,191	7,371	3,830	29,392	108	29,500

Year ended March 31, 2020	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
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

(*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
	2021	2020	2021
Reportable segment	¥144,978	¥144,916	$1,309,529
Sales of other	197	201	1,789
Segment adjustments	(31)	(73)	(280)
Consolidated net sales	¥145,144	¥145,044	$1,311,038

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Reportable segment	¥16,743	¥13,517	$151,233
Income of other	69	63	623
Segment adjustments	1	0	0
Company expenses	(4,629)	(4,514)	(41,812)
Consolidated operating income	¥12,184	¥9,066	$110,053

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

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Reportable segment	¥145,511	¥139,641	$1,314,344
Assets of other	1,281	1,309	11,571
Corporate assets	28,666	21,695	258,929
Other adjustments	(325)	(317)	(2,936)
Consolidated total assets	¥175,133	¥162,328	$1,581,908

"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, 2021	Millions of yen			
	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥4,242	¥28	¥852	¥5,122
Amortization of goodwill	—	—	—	—
Increase in property, plant and equipment and intangible assets	3,254	13	701	3,968

Year ended March 31, 2021	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	$38,316	$253	$7,696	$46,265
Amortization of goodwill	—	—	—	—
Increase in property, plant and equipment and intangible assets	29,392	117	6,332	35,841

Year ended March 31, 2020	Millions of yen			
	Reporting 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

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

(5) Geographic segment information for the years ended March 31, 2021 and 2020 was as follows:

(a) Net sales

	Millions of yen				
Year ended March 31, 2021	Japan	North America	Asia	Other	Total
Net sales	¥114,784	¥2,969	¥23,241	¥4,151	¥145,145

	Thousands of U.S. dollars				
Year ended March 31, 2021	Japan	North America	Asia	Other	Total
Net sales	$1,036,799	$26,818	$209,927	$37,494	$1,311,038

	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

(b) Tangible fixed assets

	Millions of yen				
Year ended March 31, 2021	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥33,069	¥197	¥4,550 ¥(2,573)	¥956	¥38,772

	Thousands of U.S. dollars				
Year ended March 31, 2021	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	$298,699	$1,780	$41,099 $(23,241)	$8,635	$350,213

	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

(6) Sales to major customers that account for 10% or more of the sales in the consolidated income statement for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021	Millions of yen		
	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥25,841	Advanced Components
	The Kansai Electric Power Co., Inc.	17,810	Power Products

Year ended March 31, 2021	Thousands of U.S. dollars		
	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	$233,412	Advanced Components
	The Kansai Electric Power Co., Inc.	160,871	Power Products

Year ended March 31, 2020	Millions of yen		
	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥20,244	Advanced Components
	The Kansai Electric Power Co., Inc.	15,723	Power Products

(*) Sales to The Kansai Electric Power Co., Inc. include sales to Kansai Transmission and Distribution, which belongs to the same corporate group.

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

	Millions of yen					
Year ended March 31, 2021	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Total
Impairment loss	¥—	¥—	¥—	¥—	¥—	¥—

	Millions of yen					
Year ended March 31, 2021	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other	Total
Impairment loss	$—	$—	$—	$—	$—	$—

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

(8) Amortization of goodwill and its unamortized balance by reportable segment

Not applicable for the years ended March 31, 2021 and 2020.

(9) Gain on bargain purchase by reportable segment

Not applicable for the years ended March 31, 2021 and 2020.

20. Subsequent events

Not applicable for the year ended March 31, 2021.

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, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's determination of the accounting period in which revenue was recognized from sales	
The key audit matter	**How the matter was addressed in our audit**
The amount of revenue from sales of DAIHEN Corporation and its consolidated subsidiaries (hereinafter referred to as the "DAIHEN Group") amounted to ¥145, 144 million in the consolidated fiscal year ended March 31, 2021. In accordance with the realization principle, revenue is recognized at the time when the delivery of goods or provision of service is completed and when the related consideration is considered to be earned. Accordingly, the DAIHEN Group recognizes revenue mainly on the shipment date or the date the customer completes the inspection of products as the point in time when the sale has been realized. Since the demand in each business of the DAIHEN Group is related mainly to capital investment, a sudden change in a trend in a customer's capital investment could have a significant impact on sales. In the consolidated fiscal year ended March 31, 2021, there was a high possibility of rapid fluctuations in demand due to the impact of COVID-19. In addition, because sales in the 4th quarter were ¥47,823 million, and accounted for approximately 30% ofthe full-year sales, the judgment of whether the sales recorded near the end of the consolidated fiscal year should be attributed to the then current consolidated fiscal year may have had a significant impact on the consolidated statement of income of the I • DAIHEN Group. We, therefore, determined that our assessment of the appropriateness of the DAIHEN Group's determination of the accounting period in which revenue from sales was recognized was the most significant in our audit of the consolidated financial statements for the consolidated fiscal year ended March 3l, 202l and, accordingly, a key audit matter.	The primary procedures we performed to assess whether revenue from sales was recognized in the appropriate accounting period included the following: **(1) Internal control testing** We tested the design and operating effectiveness of internal controls relevant to the process of recognizing revenue. In particular, we focused our testing on controls that verify sales attributable to the appropriate accounting period against the fact of shipment or evidence that confirms the customer inspection. **(2) Assessment of whether revenue was recognized in the appropriate accounting period** In order to assess whether the revenue from sales was recognized in the appropriate accounting period for the sales of DAIHEN Corporation and four consolidated subsidiaries which have a large share of their sales outside the DAIHEN Group, we: ● analyzed the types of transactions in which sales may not be recorded in an appropriate accounting period by each company and confirmed that sales in particular recorded near the end of the consolidated fiscal year were recorded in an appropriate accounting period by comparing them with the materials that support sales; ● examined that sales recorded by non-system-automated accounting slips were recorded in the appropriate accounting period by comparing them with the materials that support sales; and ● confirmed that the sales were recorded in the appropriate accounting period by examining the sales cancellations after the end of the consolidated fiscal year and aged account receivables.

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 with regard to 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 resul.ting 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.

From the matters communicated with corporate auditors and the board of corporate auditors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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.

柴崎 美帆

Miho Shibasaki
Designated Engagement Partner
Certified Public Accountant

今井 康好

Yasuyoshi Imai
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 30, 2021