FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2023 AND 2022

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, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
ASSETS			
Current assets:			
Cash and deposits (Note 6 and 10)	¥15,266	¥24,823	$114,326
Receivables —			
Notes and accounts receivable-trade (Note 7, 10 and 19)			
Unconsolidated subsidiaries and affiliates	497	364	3,722
Other	44,304	36,606	331,791
Loans and other accounts	3,374	3,252	25,268
Allowance for doubtful accounts	(482)	(432)	(3,610)
	47,693	39,790	357,171
Inventories (Note 9)	78,636	60,450	588,901
Other current assets	2,329	2,672	17,442
Total current assets	143,924	127,735	1,077,840
Property, plant and equipment (Note 12 and 14):			
Land	8,921	8,791	66,809
Buildings and structures	48,601	47,717	363,971
Machinery and equipment	60,638	57,616	454,115
Lease assets	1,469	1,341	11,001
Construction in progress	1,264	1,254	9,466
Total	120,893	116,719	905,362
Accumulated depreciation	(82,838)	(78,590)	(620,370)
Net property, plant and equipment	38,055	38,129	284,992
Intangible assets:			
Software	1,898	1,763	14,214
Other intangible assets	211	243	1,655
Total intangible assets	2,119	2,006	15,869
Investments and other assets:			
Investment securities (Note 10 and 11)	8,661	8,903	64,862
Investments in unconsolidated subsidiaries and affiliates (Note 10)	6,425	6,290	48,117
Deferred tax assets (Note 16)	1,287	1,220	9,638
Net defined benefit asset (Note 18)	11,155	9,666	83,539
Other	1,115	925	8,350
Allowance for doubtful accounts	(50)	(72)	(374)
Total investments and other assets	28,593	26,932	214,132
Total assets	¥212,691	¥194,802	$1,592,833

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2022	2023
LIABILITIES			
Current liabilities:			
Short-term loans (Note 10, 14 and 15)	¥8,103	¥5,658	$60,683
Long-term debt due within one year (Note 10, 14 and 15)	4,901	4,511	36,703
Notes and accounts payable-trade (Note 10)			
Unconsolidated subsidiaries and affiliates	298	419	2,232
Other	19,489	18,646	145,952
Electronically recorded obligations –operating (Note 10)	19,489	20,262	145,810
Accrued employees' bonuses	3,928	3,628	29,417
Accrued directors' and corporate auditors' bonuses	125	107	936
Allowance for loss on construction contracts	113	80	846
Income taxes payable	2,935	2,938	21,980
Other current liabilities (Note 8)	7,740	10,016	57,965
Total current liabilities	67,102	66,265	502,524
Long-term liabilities:			
Long-term debt (Note 10, 14 and 15)	20,203	17,436	151,299
Net defined benefit liability (Note 18)	1,875	1,904	14,042
Reserve for directors' and corporate auditors' retirement benefits	60	58	449
Asset retirement obligation	73	74	547
Deferred tax liabilities (Note 16)	941	1,113	7,047
Provision for construction expenses related to earhquake resistance renovation	622	624	4,658
Provision for loss on guarantees	652	517	4,883
Provision for product safety measures	5	14	37
Other noncurrent liabilities	1,252	1,161	9,377
Total long-term liabilities	25,683	22,901	192,339
Total liabilities	92,785	89,166	694,863
Contingent liabilities (Note 19)			
NET ASSETS (Note 20)			
Shareholders' equity:			
Common stock — (Note 5)	10,596	10,596	79,353
Authorized - 108,000 thousand shares in 2023 and 2022			
Issued - 27,103 thousand shares in 2023 and 2022			
Capital surplus	10,043	10,034	75,212
Retained earnings	85,393	74,981	639,504
Treasury stock, at cost — (Note 5)			
— 2,564 thousand shares in 2023			
— 2,567 thousand shares in 2022	(4,823)	(4,825)	(36,119)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	3,821	3,876	28,615
Foreign currency translation adjustments	6,322	3,332	47,345
Remeasurements of defined benefit plans	2,449	1,699	18,340
Total accumulated other comprehensive income	12,592	8,907	94,300
Noncontrolling interests	6,105	5,943	45,720
Total net assets	119,906	105,636	897,970
Total liabilities and net assets	¥212,691	¥194,802	$1,592,833

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales (Note 12 and 21)	¥185,288	¥160,619	$1,387,613
Cost of sales (Note 9, 12 and 18)	132,101	111,940	989,298
Gross profit	53,187	48,679	398,315
Selling, general and administrative expenses (Note 18)	36,619	34,487	274,238
Operating income	16,568	14,192	124,077
Other income (expenses):			
Interest and dividend income	399	426	2,988
Interest expense	(313)	(281)	(2,344)
Foreign currency exchange gain (loss)	209	610	1,565
Gain on sales of investment securities	414	686	3,100
Share of profit of entities accounted for using equity method	182	154	1,363
Loss on valuation of investments in affiliated companies	—	(700)	—
Provision for loss on guarantees	(135)	(517)	(1,011)
Provision of allowance for doubtful accounts	(48)	—	(359)
Reversal of allowance for doubtful accounts	—	135	—
Gain on extinguishment of tie-in shares	—	72	—
Loss on product accident measures	—	(115)	—
Impairment loss on investment securities	(7)	(11)	(52)
Other, net	615	686	4,606
Total other income (expenses)	1,316	1,263	9,856
Income before income taxes	17,884	15,455	133,932
Income taxes (Note 16):			
Current	5,044	4,915	37,774
Deferred	(591)	(683)	(4,426)
Profit	¥13,431	¥11,223	$100,584
Profit attributable to noncontrolling interests	237	238	1,775
Profit attributable to owners of parent	13,194	10,985	98,809

Per share of common stock: (Note 2 (21))	Yen		U.S. dollars (Note 1)
Net income per share	¥537.67	445.29	$4.03
Cash dividends applicable to the year	¥162.00	¥110.00	$1.21

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Profit	¥13,431	¥11,223	$100,584
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	(49)	(1,376)	(367)
Net deferred gains and losses on hedges	—	13	—
Foreign currency translation adjustments	2,993	2,203	22,414
Remeasurment of defined benefit plans	731	358	5,474
Share of other comprehensive income of affiliates accounted for using equity method	(6)	(13)	(45)
Total other comprehensive income (Note 4)	3,669	1,185	27,476
Comprehensive income	¥17,100	¥12,408	$128,060
Attributable to:			
Owners of parent	¥16,878	¥12,138	$126,398
Noncontrolling interests	¥222	¥270	$1,662

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years ended March 31, 2023 and 2022

	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 of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2021	¥10,596	¥10,024	¥66,996	¥(4,196)	¥5,256	¥(13)	¥1,146	1,365	¥5,747	¥96,921
Cumulative effects of changes in accounting policies	—	—	¥(586)	—	—	—	—	—	¥(25)	¥(611)
Restated balance	¥10,596	¥10,024	¥66,410	¥(4,196)	¥5,256	¥(13)	¥1,146	¥1,365	¥5,722	¥96,310
Profit attributable to owners of parent	—	—	10,985	—	—	—	—	—	—	10,985
Treasury stock, net	—	10	—	(629)	—	—	—	—	—	(619)
Cash dividends paid - ¥97.5 per share (Note 5)	—	—	(2,414)	—	—	—	—	—	—	(2,414)
Net changes in items other than shareholders' equity	—	—	—	—	(1,380)	13	2,186	334	221	1,374
Balance at March 31, 2022	¥10,596	¥10,034	¥74,981	¥(4,825)	¥3,876	—	¥3,332	¥1,699	¥5,943	¥105,636
Profit attributable to owners of parent	—	—	13,194	—	—	—	—	—	—	13,194
Treasury stock, net	—	10	—	(2)	—	—	—	—	—	12
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	541	—	—	—	—	—	—	541
Effect of fiscal year change of affiliates accounted for using equity method	—	—	(0)	—	—	—	—	—	—	(0)
Adjustments of shares due to additional purchase of shares of consolidated subsidiaries	—	(1)	—	—	—	—	—	—	—	(1)
Cash dividends paid - ¥135.0 per share -(Note 5)	—	—	(3,323)	—	—	—	—	—	—	(3,323)
Net changes in items other than shareholders' equity	—	—	—	—	(55)	—	2,990	750	162	3,847
Balance at March 31, 2023	¥10,596	¥10,043	¥85,393	¥(4,823)	¥3,821	—	¥6,322	¥2,449	¥6,105	¥119,906

	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 of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2022	$79,353	$75,144	$561,529	$(36,134)	$29,027	—	$24,953	$12,724	$44,507	$791,103
Profit attributable to owners of parent	—	—	98,809	—	—	—	—	—	—	98,809
Treasury stock, net	—	75	—	15	—	—	—	—	—	90
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	4,052	—	—	—	—	—	—	4,052
Effect of fiscal year change of affiliates accounted for using equity method	—	—	(0)	—	—	—	—	—	—	(0)
Adjustments of shares due to additional purchase of shares of consolidated subsidiaries	—	(7)	—	—	—	—	—	—	—	(7)
Cash dividends paid - $1.01 per share -(Note 5)	—	—	(24,886)	—	—	—	—	—	—	(24,886)
Net changes in items other than shareholders' equity	—	—	—	—	(412)	—	22,392	5,616	1,213	28,809
Balance at March 31, 2023	$79,353	$75,212	$639,504	$(36,119)	$28,615	—	$47,345	$18,340	$45,720	$897,970

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years Ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Income before income taxes	¥17,884	¥15,455	$133,932
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	5,069	5,036	37,962
Increase (decrease) in allowance for doubtful accounts	26	(154)	195
Increase (decrease) in accrued employees' bonuses	368	(5)	2,756
Increase (decrease) in allowance for loss on construction contracts	33	—	247
Increase (decrease) in provision for loss on guarantees	135	517	1,011
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(2)	(45)	(15)
Increase (decrease) in provision for product safety measures	(9)	(4)	(67)
Increase (decrease) in net defined benefit liability	(66)	(64)	(494)
Decrease (increase) in net defined benefit asset	(444)	(278)	(3,325)
Interest and dividend income	(399)	(426)	(2,988)
Interest expense	313	281	2,344
Share of loss (profit) of entities accounted for using equity method	(182)	(154)	(1,363)
Loss (gain) on extinguishment of tie-in shares	—	115	—
Loss (gain) on valuation of investment securities	7	11	52
Loss (gain) on sale of investment securities	(414)	(686)	(3,100)
Loss on valuation of investments in capital of subsidiaries and associates	—	700	—
Decrease (increase) in Notes and accounts receivable-trade	(8,798)	4,885	(65,888)
Decrease (increase) in inventories	(14,360)	(16,482)	(107,541)
Increase (decrease) in Notes and accounts payable-trade	(204)	8,358	1,528
Other, net	(1,202)	320	(9,002)
Subtotal	(2,245)	17,193	(16,812)
Interest and dividends received	(319)	(282)	(2,389)
Interest paid	(319)	(282)	(2,389)
Income taxes paid	(5,082)	(4,745)	(38,059)
Net cash provided by (used in) operating activities	(7,232)	12,950	(54,160)
Cash flows from investing activities:			
Decrease in time deposits	—	(219)	—
Purchases of property, plant and equipment	(4,471)	(3,430)	(33,483)
Proceeds from sales of property, plant and equipment	44	109	330
Purchases of intangible assets	(724)	(576)	(5,422)
Purchases of investment in securities	(17)	(6)	(127)
Proceeds from sales of investment in securities	619	861	4,636
Purchase of subsidiary investment	(214)	—	(1,603)
Proceeds from investments	10	26	75
Other, net	35	(64)	261
Net cash used in investing activities	(4,718)	(3,299)	(35,333)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,308	(469)	17,285
Proceeds from long-term loans	7,500	2,500	56,167
Repayment of long-term loans	(4,384)	(4,084)	(32,832)
Repayment of lease obligations	(134)	(176)	(1,004)
Purchase of treasury stock	(6)	(636)	(45)
Cash dividends paid	(3,327)	(2,412)	(24,916)
Other, net	(62)	(31)	(464)
Net cash provided by (used in) financing activities	(1,895)	(5,308)	(14,191)
Effect of exchange rate changes on cash and cash equivalents	298	930	2,232
Net increase (decrease) in cash and cash equivalents	(9,757)	5,273	(73,070)
Cash and cash equivalents at beginning of year	24,409	19,071	182,798
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	65	—
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(201)	—	1,505
Cash and cash equivalents at end of year (Note 6)	¥14,853	¥24,409	$111,233

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, 2023, which was ¥133.53 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

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

There were 27 and 28 consolidated subsidiaries as of March 31, 2023 and 2022, respectively, and 3 companies accounted for using the equity method as of both March 31, 2023 and 2022. An absorption-type merger was carried out on April 1, 2022 with the Company as the surviving company and DAIHEN System Corporation, which used to be a consolidated subsidiary, as the dissolved company.

In the fiscal year ended March 31, 2022, for consolidated subsidiaries and equity-method affiliates who close their accounts on December 31, their financial statements as of that date had been used in the consolidated financial statements upon adjustment for any material transactions arising thereafter up to the consolidated closing date. There were 14 such consolidated subsidiaries, namely, DAIHEN, Inc., OTC DAIHEN EUROPE GmbH, OTC DAIHEN Asia Co., Ltd., DAIHEN ELECTRIC Co., Ltd., DAIHEN Advanced Component, Inc., Mudanjiang OTC Welding Machines Co., Ltd., OTC (Taiwan) Co., Ltd., OTC Industrial (Shanghai) Co., Ltd., DAIHEN KOREA Co., Ltd., OTC Industrial (Qingdao) Co., Ltd., DAIHEN OTC (Beijing) Co., Ltd., DAIHEN Advanced Machinery (Changshu) Co., Ltd., PT. OTC DAIHEN INDONESIA, and DAIHEN VARSTROJ welding cutting and robotics d.d., and one equity-method affiliate, namely, OTC DAIHEN Bangkok Co., Ltd.
In order to improve the adequacy of disclosing consolidated financial statements, from the beginning of the fiscal year ended March 31, 2023, the closing date of OTC (Taiwan) Co., Ltd. has been changed from December 31 to March 31. For the other 13 consolidated subsidiaries and one eq-

uity-method affiliate, the Group changed the method of consolidation to implement a provisional account closing at the consolidated closing date.

The profit and loss of these consolidated subsidiaries and equity-method affiliate for the three months from January 1, 2022 to March 31, 2022 were adjusted in retained earnings and reflected in “Adjustments due to change in the fiscal period of consolidated subsidiaries” and “Effect of fiscal year change of affiliates accounted for using equity method” in the consolidated statements of changes in equity. Changes in cash and cash equivalents are presented as “Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries” in the consolidated statements of cash flows.

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 cost using the gross average method or net realizable value. Raw materials, supplies and merchandise are stated principally at the 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 depreciat-

ed 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)Accrued employees' 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 employees, beginning with the term in which the differences are generated.

In calculating the liability for employees' severance and retirement benefits and retirement benefit expenses, certain 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.

(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 in accordance with the internal rules as if the directors and corporate auditors had retired at the fiscal year-end.

(13)Provision for loss on guarantees
In order to prepare for losses related to debt guarantees, the estimated amount of losses to be borne is recorded with consideration for the financial condition of the guaranteed party.

(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 and Mie business office.

(15)Provision for product safety measures
An allowance for the estimated future costs is provided with respect to inspections of and repairs on 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 and liabilities are translated at the foreign exchange rates prevailing at each balance sheet date. Revenue and expenses are translated at the average rates of exchange for the respective years. Net assets accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

(18)Research and development expenses
Research and development expenses, which are charged to income as incurred, amounted to ¥6,311 million ($47,264 thousand) and ¥5,980 million in 2023 and 2022, 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 foreign exchange forward contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates. 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) Basis for recognition of significant revenue and expenses
The Companies' main business is the manufacture, sale, and repair of various transformers, various welding machines, industrial robots, power sources for plasma generation, clean transport robots, etc. In principle, revenue from the sale of this merchandise or finished goods is recognized at the time of delivery of the merchandise or finished goods because it is in principle determined that the customer gains control over the merchandise or finished good at the time of delivery and that the Companies' performance obligation is satisfied.

In cases in which the period from shipping of the merchandise or finished goods to the transfer of control to the customers is ordinary, domestic sales are recognized at the time of shipping. In addition, export sales are recognized at the time of shipment as the time when the risk burden is transferred to the customer mainly based on the trade conditions specified in Incoterms, etc.
For certain merchandise or finished goods that require on-site installation adjustment, revenue is recognized when performance confirmation is completed after completion of the on-site installation adjustment.

Revenue from the repair of merchandise or finished goods is recognized when the repair is completed, in principle, because the performance obligation is deemed to be satisfied at that time.

(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, 2023 and 2022 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.

3. Changes in accounting policies

Changes in accounting policies implemented in the fiscal year ended March 31, 2022 are as follows.
(a) Application of the accounting standard for revenue recognition, etc.
The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Standard") since the beginning of the current fiscal year. Under the Revenue Recognition Standard, the amount expected to be received for promised goods or services is recognized as revenue at the point when control of the goods or services transfers to the customer.
For certain merchandise or finished goods involving on-site installation and adjustment work by the Companies, revenue was previously recognized upon shipment of the merchandise or finished goods. With the new standard, however, revenue is recognized when performance confirmation is completed after completion of the on-site installation adjustment. The costs of on-site installation and adjustment work were previously recorded as selling, general and administrative expenses, but are now recorded as cost of sales.
Previously, in construction contracts in which the certainty of progress could be recognized for the portion of work completed, the percentage-of-completion method was applied, and for other work, the completed-contract method was applied. After consideration of the contracts and actual state of transactions, this has now changed and revenue is recognized when performance confirmation is completed after completion of the on-site installation adjustment.
The Company applies the alternative treatment set forth in Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021). For sales of merchandise or finished goods within Japan, if the period from shipping until control of the merchandise or finished goods transfers to the customer is a normal one, the Company continues to recognize revenue upon shipping.
Sales rebates were previously treated as selling, general and administrative expenses. This has now changed and the rebates are subtracted from the transaction price.
In addition, in transactions in which products are supplied for a fee, previously, extinguishment had been recognized for the supplied products. In cases in which there is an obligation to purchase back the supplied products, extinguishment is not recognized for those supplied products.
For the application of the Revenue Recognition Standards, etc., the Company applies the transitional treatment set forth in Paragraph 84 of the Revenue Recognition Standard. The cumulative effect of the retrospective application of the new accounting policy to prior periods has been added to or subtracted from retained earnings at the beginning of the current fiscal year, and the new accounting policy has been applied from the beginning balance.
Based on the transitional measures in Article 89-3 of the Revenue Recognition Standard, notes on "Revenue Recognition" related to the previous consolidated fiscal year are not provided.
As the cumulative effects of changes in accounting policies was reflected in net assets at the beginning of the fiscal year under review, the beginning balance of retained earnings and non-controlling interests decreased by 586 million yen and 25 million yen, respectively, in the consolidated statements of changes in equity.

The impact on per share information is stated in the relevant section.

(b) Application of the accounting standard for fair value measurement, etc.
The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") since the beginning of the fiscal year under review and, in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), will prospectively apply the new accounting policy set forth in the Fair Value Measurement Standard, etc. There has been no impact on the consolidated financial statements.
In addition, information on the fair value of financial instruments by level of inputs is disclosed in the notes for "Financial Instruments."

4. 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
	2023	2022	2023
Net unrealized holding gains and losses on securities arising during the year	¥370	¥(1,361)	$2,771
Reclassification adjustments	(407)	(675)	(3,048)
Subtotal, before tax	(37)	(2,036)	(277)
Tax effects	(12)	660	(90)
Subtotal, net of tax	¥(49)	¥(1,376)	$(367)
Net deferred gains and losses on hedges arising during the year	¥—	¥—	$—
Reclassification adjustments	—	18	—
Subtotal, before tax	—	18	—
Tax effects	—	(5)	—
Subtotal, net of tax	¥—	¥13	$—
Foreign currency translation adjustments arising during the year	¥2,993	¥2,203	$22,414
Remeasurements of defined benefit plans arising during the year	¥1,132	¥295	$8,477
Reclassification adjustments	(80)	211	(599)
Subtotal, before tax	1,052	516	7,878
Tax effects	(321)	(158)	(2,404)
Subtotal, net of tax	¥731	¥358	$5,474
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥(6)	¥(13)	$(45)
Total other comprehensive income	¥3,669	¥1,185	$27,476

5. Consolidated Statement of Changes in Net Assets

Fiscal year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(1) Items related to common stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2022	Increase in number of shares	Decrease in number of shares (*1)	Number of shares as of March 31, 2023
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, 2022	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of March 31, 2023
Treasury stock	2,567	1	4	2,564

(Overview of reasons for fluctuations)
(*1) The increase of 1 thousand treasury ordinary stock consists of
: the increase of 1 thousand treasury stock caused by purchase of fractional shares.
(*2) The decrease of 4 thousand treasury ordinary stock consists 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 28, 2022 Annual General Meeting of Shareholders	Common stock	1,477	11,061	60.00	0.45	March 31, 2022	June 29, 2022
November 2, 2022, Board of Directors	Common stock	1,846	13,825	75.00	0.56	September 30, 2022	December 5, 2022

(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 28,2023 Annual General Meeting of Shareholders	Common stock	Retained earnings	2,141	16,034	87.00	0.65	March 31, 2023	June 29, 2023

Fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(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, 2022
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, 2021	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of March 31, 2022
Treasury stock	2,420	151	4	2,567

(Overview of reasons for fluctuations)

(*1) The increase of 151 thousand treasury ordinary stock consists of

: the increase of 150 thousand treasury stock acquired under the resolution of the Board of Directors' meeting on February 15, 2022

: the increase of 1 thousand treasury stock caused by purchase of fractional shares.

(*2) The decrease of 4 thousand treasury ordinary stock consists 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 25, 2021 Annual General Meeting of Shareholders	Common stock	1,176	47.50	March 31, 2021	June 28, 2021
November 2, 2021, Board of Directors	Common stock	1,238	50.00	September 30, 2021	December 3, 2021

(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 28, 2022 Annual General Meeting of Shareholders	Common stock	Retained earnings	1,477	60.00	March 31, 2022	June 29, 2022

6. Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets at March 31, 2023 and 2022 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and deposits	¥15,266	¥24,823	$114,326
Time deposits with maturities exceeding three months	(413)	(414)	(3,093)
Cash and cash equivalents	¥14,853	¥24,409	$111,233

7. Notes and accounts receivable-trade

The amounts of receivables arising from contracts with customers in notes and accounts receivable -trade were as follows.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Notes receivable - trade	¥8,219	¥7,318	$61,552
Accounts receivable - trade	¥36,582	¥29,652	$273,961

8. Contract liabilities

The amount of contract liabilities included in other current liabilities was as follows.

	Millions of yen		Thousands of U.S. dollars
	2030	2022	2023
Contract liabilities	¥1,695	¥3,619	$12,694

9. Inventories

(1) Inventories at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Merchandise and finished goods	¥24,431	¥20,940	$182,963
Work-in-process	14,841	12,391	111,144
Raw materials and supplies	39,364	27,119	294,794
	¥78,636	¥60,450	$588,901

(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, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cost of sales	¥464	¥559	$3,475

10. Financial instruments and related disclosures

(1) Qualitative information on financial instruments
(a) Policies for using financial instruments
The Companies 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
Notes and trade accounts receivable - trade 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 stocks held primarily to build and maintain good business relationships with business partners, including financial institutions, are exposed to the risk of fluctuation in prices.
Notes and accounts payable - trade and electronically recorded obligations - operating, which are trade liabilities, 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 eight years after the fiscal year-end.

Derivative transactions comprise foreign exchange forward contracts and currency swaps used to hedge the foreign exchange risk of receivables and payables - trade and loans receivable denominated in foreign currency as well as interest rate swaps used to hedge interest rate risks of some long-term debt. “Summary of significant accounting policies,” in Note 2(19) explains the Companies’ hedge accounting policy, and “Derivative financial instruments and hedging transactions” in Note 13 shows in detail, including methods, hedged items and the recognition of gain or loss on hedged positions.

(c) Policies and processes for managing risk
(i) Credit risk management (risk arising from nonperformance of contracts by customers and counterparties)
The Company’s business administration in each operating division has established a regular screening system to monitor the creditworthiness of major customers, 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, 2023 was represented by the book value of the financial instruments exposed to credit risk on the consolidated balance sheet.

(ii) Market risk management (managing the risks arising from fluctuations in exchange rates, interest rates and other indicators)
The Companies utilize mainly foreign exchange forward contracts and currency swap contracts in respect to accounts receivable - trade, accounts payable - trade and loans receivable 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 and currency swap contracts to expected export transactions. The Companies also utilize interest rate 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 the 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 Company's headquarters and each consolidated subsidiaries consider, trade and manage derivatives according to the Company's policies.

(iii) Liquidity risk management (managing the risks that the Companies may not be able to meet their obligations on their 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
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 13, "Derivative financial instruments and hedging transactions," are not necessarily indicative of the actual market risk involved in the derivative transactions themselves.

(e) Concentration of credit risk
Trade receivables related to certain large customers was 19.6% and 12.2 million at March 31, 2023 and 2022, respectively.

(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, 2023 and 2022 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, 2023	Book value	Fair value	Difference
Investment securities Other securities stock	¥8,173	¥8,173	¥—
Total assets	¥8,173	¥8,173	¥—
Long-term debt	24,786	24,374	¥(412)
Total liabilities	¥24,786	¥24,374	¥(412)
Derivatives (*2)	¥(7)	¥(7)	¥—

Year ended March 31, 2023	Thousands of U.S. dollars Book value	 Fair value	 Difference
Investment securities			
Other securities stock	$61,207	$61,207	$—
Total assets	$61,207	$61,207	$—
Long-term debt	185,621	182,536	(3,085)
Total liabilities	$185,621	$182,536	$(3,085)
Derivatives (*2)	$(52)	$(52)	$—

(*1) Cash is omitted, and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, electronically recorded obligations - operating, and short-term loans payable are omitted because they are short-term instruments whose book value approximates their fair value.

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

Year ended March 31, 2022	Millions of yen Book value	 Fair value	 Difference
Notes and accounts receivable - trade	¥36,970	¥36,970	¥—
Investment securities	8,414	8,414	—
Total assets	¥45,384	¥45,384	¥—
Notes and accounts payable - trade	¥19,065	¥19,065	¥—
Electronically recorded Obligations - operating	20,262	20,262	—
Short-term loans payable	5,658	5,658	—
Long-term debt	21,670	21,482	(188)
Total liabilities	¥66,655	¥66,467	¥(188)
Derivatives (*2)	¥8	¥8	¥—

(*1) "Cash and deposits" are omitted because they comprise cash, and deposits that are short-term instruments whose book value approximates their fair value.

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

(b) The aggregate maturities subsequent to March 31, 2023 and 2022 for financial assets with maturities were as follows:

Year ended March 31, 2023	Millions of yen Within 1 year	 Over 1 year but within 5 years	 Over 5 years
Cash and deposits	¥15,266	¥—	¥—
Notes and accounts receivable - trade	44,801	—	—
Total	¥60,067	¥—	¥—

Year ended March 31, 2023	Thousands of U.S. dollars		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	$114,326	$—	$—
Notes and accounts receivable - trade	335,513	—	—
Total	$449,839	$—	$—

Year ended March 31, 2022	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥24,823	¥—	¥—
Notes and accounts receivable - trade	36,970	—	—
Total	¥61,793	¥—	¥—

(c) The aggregate maturities subsequent to March 31, 2023 and 2022 for long-term debt were as follows:

Year ended March 31, 2023	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 debt	¥4,784	¥4,684	¥3,684	¥4,634	¥4,500	¥2,500

Year ended March 31, 2023	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 debt	$35,827	$35,078	$27,589	$34,704	$33,700	$18,723

Year ended March 31, 2022	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 debt	¥4,384	¥4,784	¥4,684	¥2,684	¥3,634	¥1,500

(3) Fair value hierarchy by level of financial inputs

(a) The fair value of financial instruments is classified into the following three levels according to the observability and significance of the inputs used to measure the fair value.

Level 1 : Fair values measured at quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 : Fair values measured by using directly or indirectly observable inputs other than Level 1 inputs

Level 3 : Fair values measured by using significant unobservable inputs

In cases in which multiple inputs that have a significant impact on the fair value are used, the fair value level is classified into the lowest level from which significant inputs are used.

(b) Financial instruments measured at fair value

For the fiscal year ended March 31, 2023

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Stock	¥8,173	¥—	¥—	¥8,173
Total assets	¥8,173	¥—	¥—	¥8,173
Derivative transactions	—	7	—	7
Total liabilities	¥—	¥7	¥–	¥7

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Stock	¥61,207	$—	$—	$61,207
Total assets	¥61,207	$—	$—	$61,207
Derivative transactions	—	52	—	52
Total liabilities	$—	$52	$—	$52

For the fiscal year ended March 31, 2022

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Stock	¥8,414	¥—	¥—	¥8,414
Total assets	¥8,414	¥—	¥—	¥8,414
Derivative transactions	—	8	—	8
Total liabilities	¥—	¥8	¥–	¥8

(c) Financial instruments other than financial instruments measured at fair value

For the fiscal year ended March 31, 2023

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term debt	¥—	¥24,374	¥—	¥24.374
Total liabilities	¥—	¥24,374	¥—	¥24,374

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Long-term debt	$—	$182,536	$—	$182.536
Total liabilities	$—	$182,536	$—	$182,536

For the fiscal year ended March 31, 2022

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable - trade	¥—	¥36,970	¥—	¥36,970
Total assets	¥—	¥36,970	¥—	¥36,970
Notes and accounts payable - trade	—	19,065	—	19,065
Electronically recorded oligations - operating	—	20,262	—	20,262
Short-term loans payable		5,658		5,658
Long-term debt	¥—	¥21,482	¥—	21,482
Total liabilities	¥—	¥66,467	¥—	¥66,467

(d) Calculating the fair value of financial instruments and matters related to securities and derivative transactions

Investment securities

Listed shares are measured using quoted prices. As listed shares are traded in active markets, their fair value is classified as Level 1.

Derivative transactions

The fair value of interest rate swaps, forward exchange contracts, and currency swaps is measured mainly based on prices quoted by financial institutions and other counterparties, and is classified as Level 2. The allocation method is accounted for integrally with accounts receivable - trade, which are the hedged items, and therefore their fair value is included in that of the receivable. (For details, see "Notes and accounts receivable - trade" below)

Notes and accounts receivable - trade

The fair value of these items is measured using the discounted cash flow method based on the amount of receivables, period to maturity and an interest rate reflecting credit risk, for each receivable categorized by a specified period, and is classified as Level 2.

Notes and accounts payable - trade, electronically recorded obligations – operating, and short-term loans payable

The fair value of these items is measured using the discounted cash flow method based on future cash flows, period to repayment and an interest rate reflecting credit risk, for each liability categorized by a specified period, and is classified as Level 2.

Long-term debt

The fair value of these items is measured using the discounted cash flow method based on the sum of principal and interest, remaining maturities and an interest rate reflecting credit risk, and is classified as Level 2.

11. 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, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥2,773	¥2,949	$20,767
Bonds	—	—	—
Other	—	—	—
	¥2,773	¥2,949	$20,767
Book value:			
Equity securities	¥8,092	¥8,315	$60,601
Bonds	—	—	—
Other	—	—	—
	¥8,092	¥8,315	$60,601
Difference:			
Equity securities	¥5,319	¥5,366	$39,834
Bonds	—	—	—
Other	—	—	—
	¥5,319	¥5,366	$39,834
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥96	¥124	$719
Bonds	—	—	—
Other	—	—	—
	¥96	¥124	$719
Book value:			
Equity securities	¥81	¥99	$606
Bonds	—	—	—
Other	—	—	—
	¥81	¥99	$606
Difference:			
Equity securities	¥(15)	¥(25)	$(113)
Bonds	—	—	—
Other	—	—	—
	¥(15)	¥(25)	$(113)
Total			
Acquisition cost	¥2,869	¥3,073	$21,486
Book value (fair value)	8,173	8,414	61,207
Difference	¥5,304	¥5,341	$39,721

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

Year ended of March 31, 2023

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥619	$4,636
Bonds	—	—
Other	—	—
	¥619	$4,636
Gain on sales:		
Equity securities	¥414	$3,100
Bonds	—	—
Other	—	—
	¥414	$3,100
Loss on sales:		
Equity securities	¥—	$—
Bonds	—	—
Other	—	—
	¥—	$—

Year ended of March 31, 2022

	Millions of yen
Amount of total sales:	
Equity securities	¥861
Bonds	—
Other	—
	¥861
Gain on sales:	
Equity securities	686
Bonds	—
Other	—
	686
Loss on sales:	
Equity securities	¥0
Bonds	—
Other	—
	¥0

(3) Impairment loss on investment securities

Impairment loss on available-for-sale securities is recorded for the securities whose market value represents a substantial decline of 50% or more and for those which have declined within a range of 30% or more but less than 50% if the decline is deemed to be irrecoverable. Impairment loss on available-for-sale securities is recorded for other than temporary impairment in the amount of ¥7 million ($52 thousand) and ¥11 million for the years ended March 31, 2023 and 2022, respectively.

12. Rental properties

The Company and certain consolidated subsidiaries own rental condominiums, rental houses for the elderly and other rental properties. The net rental income from these properties amounted to ¥54 million ($404 thousand) and ¥78 million for the years ended March 31, 2023 and 2022, 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, 2023 and 2022 were as follows:

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, 2022 and 2021 were as follows:

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2023	March 31, 2022	Changes during the year	March 31, 2023	March 31, 2023
Rental property	¥1,348	¥(38)	¥1,310	¥3,805

	Thousands of U.S. dollars			
Year ended	Book value			Fair value
March 31, 2023	March 31, 2022	Changes during the year	March 31, 2023	March 31, 2023
Rental property	$10,095	$(284)	$9,811	$28,495

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2022	March 31, 2021	Changes during the year	March 31, 2022	March 31, 2022
Rental property	¥1,954	¥(606)	¥1,348	¥3,819

The book value represents the net amount of acquisition cost less accumulated depreciation.
The main decrease during the fiscal year ended March 31, 2023 was depreciation.
The main increase during the fiscal year ended March 31, 2022 was ¥127 million due to the renovation of rental properties, while the main decrease was depreciation and transfer to business assets in the amount of ¥689 million
The fair value is based mainly on appraisal reports prepared by external real estate appraisers.

13. Derivative financial instruments and hedging transactions

(1) Derivatives not subject to hedge accounting

(a) Currency related

Year ended March 31, 2023

Division	Type of derivatives	Millions of yen			
		Contract amount	Portion over one year	Fair value	Valuation profit/loss
Transactions other than market transactions	Currency swap: Euro Yen receipt/Foreign currency payment	¥193	¥161	¥(7)	¥(7)
Total		¥193	¥161	¥(7)	¥(7)

Division	Type of derivatives	Thousands of U.S.dollars			
		Contract amount	Portion over one year	Fair value	Valuation profit/loss
Transactions other than market transactions	Currency swap: Euro Yen receipt/Foreign currency payment	$1,445	$1,206	$(52)	$(52)
Total		$1,445	$1,206	$(52)	$(52)

Year ended March 31, 2022

Division	Type of derivatives	Millions of yen			
		Contract amount	Portion over one year	Fair value	Valuation profit/loss
Transactions other than market transactions	Currency swap: Euro Yen receipt/Foreign currency payment	¥226	¥193	¥(8)	¥(8)
Total		¥226	¥193	¥(8)	¥(8)

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2023

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Trade accounts receivable	¥2,707	¥–	¥–
	Sell: Euro		715	–	–
	Sell: Korean won		146	–	–
	Sell: Taiwan dollar		408	–	–
	Buy: Euro	Accounts payable - trade	14	–	–
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	435	–	–
Total			¥3,346	¥–	¥–

Year ended March 31, 2023

Hedge accounting method	Type of derivatives	Hedged item	Thousands of U.S.dollars		
			Contract amount	Portion over one year	Fair value
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	$14,154	$–	$–
	Sell: Euro		4,156	–	–
	Sell: Korean won		1,296	–	–
	Sell: Taiwan dollar		2,089	–	–
	Buy: Euro	Accounts payable - trade	105		
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	3,258	–	–
Total			$25,058	$–	$–

Year ended March 31, 2022

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Allocation method (*2)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	¥2,707	¥–	¥–
	Sell: Euro		715	–	–
	Sell: Korean won		146	–	–
	Sell: Taiwan dollar		408	–	–
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	387	–	–
Total			¥4,363	¥–	¥–

(*) 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 or payable.

(b) Interest rate related

Not applicable for the years ended March 31, 2023 and 2022.

14. Pledged assets

The following assets were pledged as collateral for short-term loans payable and long-term debt of 1,680 million ($12,581 thousand) and ¥1,680 million at March 31, 2023 and 2022, respectively.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Property, plant and equipment - net of accumulated depreciation	¥8,159	¥8,498	$61,102

In addition, property, plant and equipment provided for trade guarantees amounted to ¥391 million ($2,928 thousand) and ¥343 million at March 31, 2023 and 2022, respectively.

15. Short-term loans, long-term debt

The weighted average interest rate on short-term loans payable was 1.1% and 0.6% for each of the years ended March 31, 2023 and 2022, respectively.

Long-term debt at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loans from banks and insurance companies maturing through 2030 with interest rates ranging from 0.2% to 0.8%			
Secured	¥1,650	¥1,680	$12,357
Unsecured	23,136	19,990	173,364
Lease obligations	318	277	2,381
	25,104	21,947	188,002
Less amount due within one year	(4,901)	(4,511)	(36,704)
	¥20,203	¥17,436	$151,298

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, 2023 and 2022 were as follows:

Year ended March 31, 2023

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥4,901	$36,703
2025	4,771	35,730
2026	3,733	27,956
2027	4,672	34,988
2028	4,521	33,858
2029 and thereafter	2,506	18,767
	¥25,104	$188,002

Year ended March 31, 2022

Years ending March 31	Millions of yen
2023	¥4,511
2024	4,865
2025	4,715
2026	2,707
2027	3,644
2028 and thereafter	1,505
	¥21,947

16. 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, 2023 and 2022.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Liability for retirement benefits	¥525	¥156	$3,932
Nondeductible bonuses accrued	1,177	986	8,815
Write-down of inventories	993	799	7,437
Unrealized gains of inventories	719	824	5,384
Provision for construction expenses related to earthquake resistance renovation	205	206	1,535
Retirement benefit trust assets	1,245	909	9,324
Carryforward tax loss (*1)	181	253	1,356
Other	1,195	1,287	8,948
Subtotal deferred tax assets	6,240	5,420	46,731
Valuation allowance for carryforward tax loss (*1)	(126)	(240)	(944)
Valuation allowance for deductible temporary differences	(367)	(568)	(2,748)
Valuation allowance – total	(493)	(808)	(3,692)
Total deferred tax assets	¥5,747	¥4,612	$43,039
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(1,020)	¥(956)	$(7,639)
Retained earnings appropriated for allowable tax reserves	(492)	(516)	(3,685)
Net unrealized gains on "available-for-sale-securities"	(1,608)	(1,595)	(12,042)
Land revaluation difference	(868)	(861)	(6,500)
Other	(1,413)	(576)	(10,582)
Total deferred tax liabilities	¥(5,401)	¥(4,504)	$(40,448)
Net deferred tax assets	¥346	¥108	$2,591

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

Year ended March 31, 2023

	Millions of yen						
	2024	2025	2026	2027	2028	2029 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥181	¥181
Valuation allowance	—	—	—	—	—	(126)	(126)
Net deferred tax assets	—	—	—	—	—	55	55

	Thousands of U.S.dollars						
	2024	2025	2026	2027	2028	2029 and beyond	Total
Carryforward tax loss (*)	$—	$—	$—	$—	$—	$1,356	$1,356
Valuation allowance	—	—	—	—	—	(944)	(944)
Net deferred tax assets	—	—	—	—	—	412	412

Year ended March 31, 2022

	Millions of yen						
	2023	2024	2025	2026	2027	2028 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥253	¥253
Valuation allowance	—	—	—	—	—	(240)	(240)
Net deferred tax assets	—	—	—	—	—	13	13

(*) 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, 2023 and 2022 was as follows:

	2023	2022
Statutory income tax rate	30.6%	30.6%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	0.3%	0.7%
Permanent difference (dividend income, etc.)	(0.2)%	(0.1)%
Inhabitants tax on per capita basis	0.2%	0.3%
Fluctuation in deferred tax assets valuation allowance account	(1.7)%	(1.0)%
Share of profit of entities accounted for using equity method	(0.3)%	(0.3)%
Different tax rates applied to foreign subsidiaries	(1.9)%	(2.0)%
Tax credit for research and development	(2.6)%	(2.4)%
Others	0.5%	1.6%
Effective income tax rate	24.9%	27.4%

17. Business combinations

17. Business combinations

Transaction under common control
1.Absorption-type merger of a non-consolidated subsidiary
1) Names of the parties to the combination and description of their businesses Name of surviving company DAIHEN FUSE Co., Ltd.

Description of business	Manufacture of various fuses, power distribution equipment and lightning protection equipment
Name of merged company	DAIHEN Aomori Co., Ltd.
Description of business	Manufacture of various fuses, power distribution equipment and lightning protection equipment

2) Date of the business combination
July 1, 2021
3) Legal format of the business combination
An absorption-type merger with DAIHEN FUSE Co., Ltd as the surviving company, and DAIHEN Aomori Co., Ltd. as the absorbed company
4) Name of the combined enterprise
DAIHEN Aomori Co., Ltd.
The surviving company, DAIHEN Fuse Co., Ltd., changed its name to DAIHEN Aomori Co., Ltd. on July 1, 2021on the same date.
5) Other matters related to the transaction
The purpose of this merger is to improve management efficiency and corporate value by integrating management resources.

(2) Implemented accounting methods
The Company has treated the transaction as a transaction under common control in accordance with the Accounting Standards for Business Combinations, the Implementation Guidance on Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures.

2.Absorption-type merger of a consolidated subsidiary
(1) Outline of the transaction
1) Names of the parties to the combination and description of their businesses
Name of surviving company DAIHEN Corporation

Description of business	Manufacture and sale of various transformers, power receiving and distribution systems control and telecommunications equipment, dispersed power equipment, welding machines, cutting machines, industrial robots, power sources for plasma generation, etc.
Name of merged company	DAIHEN System Corporation.
Description of business	Sale of industrial transformer, power distribution equipment, dispersed power equipment, lightening protection equipment, etc.

2) Date of the business combination
April 1, 2022
3) Legal format of the business combination
An absorption-type merger with the Company as the surviving company, and DAIHEN System Corporation has been dissolved.
4) Name of the combined enterprise
DAIHEN Corporation
5) Other matters related to the transaction
The Company determined to merge with DAIHEN System Corporation, a domestic sales subsidiary for electric equipment, and integrate its functions into the Company for the purpose of strengthening and improving the efficiency of the Company’s sales structure, in response to market changes toward the achievement of a decarbonized society.

(2) Implemented accounting methods

The Company has treated the transaction as a transaction under common control in accordance with the Accounting Standards for Business Combinations and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

18. 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, 2023 and 2022 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2023 and 2022 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at April 1	¥16,562	¥16,942	$124,032
Service cost	539	554	4,037
Interest cost	68	67	509
Actuarial gain (loss)	(907)	(29)	(6,792)
Benefits paid	(897)	(973)	(6,718)
Other	22	1	165
Balance at March 31	¥15,410	¥16,562	$115,405

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at April 1	¥24,324	¥23,871	$182,161
Expected return on plan assets	412	406	3,085
Actuarial gain (loss)	312	281	2,337
Contributions paid by the employer	840	544	6,291
Benefits paid	(1,198)	(778)	(8,972)
Balance at March 31	¥24,690	¥24,324	$184,902

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Funded retirement benefit obligations	¥13,535	¥14,658	$101,363
Plan assets	(24,690)	(24,324)	(184,902)
	(11,155)	(9,666)	(83,539)
Unfunded retirement benefit obligations	1,875	1,904	14,042
Total net defined benefit liability (asset) at March 31	¥(9,280)	¥(7,762)	$(69,497)
Net defined benefit liability	¥1,875	¥1,904	$14,042
Net defined benefit asset	(11,155)	(9,666)	(83,539)
Total net defined benefit liability (asset) at March 31	¥(9,280)	¥(7,762)	$(69,497)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥539	¥554	$4,037
Interest cost	68	67	509
Expected return on plan assets	(412)	(405)	(3,085)
Net actuarial loss amortization	(167)	206	(1,251)
Total retirement benefit expenses for the fiscal year ended March 31	¥28	¥422	$210

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial gains and losses	¥1,053	¥516	$7,886
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥1,053	¥516	$7,886

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized actuarial gains and losses	¥(3,625)	¥(2,572)	$(27,147)
Total balance at March 31	¥(3,625)	¥(2,572)	$(27,147)

(7) Plan assets
Plan assets comprise:

	2023	2022
Bonds	28.0%	28.6%
Equity Securities	37.1%	42.6%
Others	34.9%	28.8%
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

	2023	2022
Discount rates	0.0%~1.3%	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 ¥581 million ($4,351 thousand) and ¥568 million for the years ended March 31, 2023 and 2022, respectively.

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

19. Contingent liabilities

Contingent liabilities at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loan guarantees: LASOtech Systems GmbH (*)	¥334	¥166	$2,501
Loan guarantees: Femitech GmbH	73	–	–
Assigned trade receivables with recourse	–	119	–

(*)This amount is stated after deducting the provision for loss on guarantees from the amount of loan guarantees.

20. 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 non-consolidated financial statements of the Company in accordance with the Law.

21. Revenue recognition

(1) Information that disaggregates revenue from contracts with customers
Year ended March 31, 2023

	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*)	Total
Japan	¥71,645	¥23,148	¥51,734	¥146,527	¥9	¥146,536
North Americas	–	4,849	1,338	6,187	–	6,187
Asia	3,725	17,286	5,885	26,896	–	26,896
Other	1	5,492	4	5,497	–	5,497
Revenues from contracts with customers	¥75,371	¥50,775	¥58,961	¥185,107	¥9	¥185,116
Other	–	–	–	–	172	172
Sales to external customers	¥75,371	¥50,775	¥58,961	¥185,107	¥181	¥185,288

	Thousands of U.S. dollars					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*)	Total
Japan	$536,546	$173,354	$387,434	$1,097,334	$67	$1,097,401
North Americas	–	36,314	10,020	46,334	–	46,334
Asia	27,896	129,454	44,072	201,422	–	201,422
Other	8	41,129	30	41,167	–	41,167
Revenues from contracts with customers	$564,450	$380,251	$441,556	$1,386,257	$67	$1,386,324
Other	–	–	–	–	1,289	1,289
Sales to external customers	$564,450	$380,251	$441,556	$1,386,257	$1,356	$1,387,613

Year ended March 31, 2022

	Millions of yen					
	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*)	Total
Japan	¥65,414	¥19,565	¥38,395	¥123,374	¥9	¥123,383
North Americas	–	2,987	1,104	4,091	–	4,091
Asia	3,459	19,196	6,063	28,718	–	28,718
Other	–	4,231	19	4,250	–	4,250
Revenues from contracts with customers	¥68,873	¥45,979	¥45,581	¥160,433	¥9	¥160,442
Other	–	–	–	–	177	177
Sales to external customers	¥68,873	¥45,979	¥45,581	¥160,433	¥186	¥160,619

(*) The “Other” category is business segments not included in the reportable segments, including the real estate rental business.

(2) Information that serves as the basis for understanding revenue from contracts with customers
The Group’s main business is the manufacture, sale, and repair of various transformers, various welding machines, industrial robots, power sources for plasma generation, clean transport robots, etc. The transaction price is calculated based on considerations promised in the contracts with customers.
Performance obligations are satisfied at the time of delivery to the customer or shipment of merchandise or finished goods, when performance confirmation is completed after completion of the on-site installation adjustment, or when the repair is completed, because at that time it can be judged that the legal ownership, physical possession, significant risks and economic values associated with the ownership of merchandises or finished goods are transferred to the customer, and the Companies have the right to receive the transaction value from the customer.
No significant financial element exists and no significant adjustment is made with respect to the receivables under the contract with the customer because the period from the satisfaction of the performance obligation to the receipt of consideration is usually within one year.

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current fiscal year and are expected to be recognized in the following fiscal year.

(a) Balance of receivables and contract liabilities arising from contracts with customers

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Receivables arising from contracts with customers (beginning balance)	¥32,245	¥37,189	$303,857
Receivables arising from contracts with customers (ending balance)	¥44,801	¥36,970	$335,513
Contract liabilities (beginning balance)	¥3,802	¥2,275	$28,473
Contract liabilities (ending balance)	¥1,695	¥3,619	$12,694

Contract liabilities relate to advances received from customers based on payment terms for contracts with customers for which revenue is recognized upon delivery or upon completion of the performance confirmation after completion of the on-site installation adjustment.
Contract liabilities are reversed upon the recognition of revenue.
The amount of revenue recognized in the fiscal year ended March 31, 2023 that was included in the contract liability balance at the beginning of the period amounted to ¥3,792 million ($28,398 thousand).
The amount of revenue recognized in the fiscal year ended March 31, 2022 that was included in the contract liability balance at the beginning of the period amounted to ¥650 million

(b) Transaction price allocated to remaining performance obligations
The total amount of transaction price allocated to residual performance obligations was ¥69,573 million ($521,029 thousand) on March 31, 2023.
Approximately 90% of these performance obligations will be recognized as revenue within two years after the balance sheet date and the remaining 10% within three years thereafter.
The total amount of transaction price allocated to residual performance obligations was ¥75,890 million on March 31, 2022.
Approximately 90% of these performance obligations will be recognized as revenue within two years after the balance sheet date and the remaining 10% within three years thereafter.

22. 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, power receiving and distribution systems, switches, control and telecommunications equipment, dispersed power equipment and charging systems
Welding & Mechatronics:	Electric welding machines, plasma cutting machines, and industrial robots
Advanced Components:	Power sources for plasma generation and clean transport robots

(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. As stated in "Changes in Accounting Policies," the Company has applied accounting standards for revenue recognition from the beginning of the fiscal year ended March 31, 2022 and has changed the accounting method for revenue recognition. In addition, the method of calculating profit or loss for each business segment has also been changed.

(3) Information on sales, income (loss), assets and other items for reportable segments
Reportable segment information for the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen					
Year ended March 31, 2023	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥75,371	¥50,775	¥58,961	¥185,107	¥181	¥185,288
Intersegment	–	36	–	36	–	36
Total	¥75,371	¥50,811	¥58,961	¥185,143	¥181	¥185,324
Segment income	¥3,665	¥5,686	¥11,009	¥20,360	¥56	¥20,416
Assets	78,036	63,936	47,971	189,943	1,253	191,196
Other items						
Depreciation (*2)	2,294	1,181	821	4,296	24	4,320
Increase in property, plant and equipment and intangible assets (*3)	1,620	1,470	974	4,064	5	4,069

Year ended March 31, 2023	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
	Thousands of U.S. dollars					
Net sales:						
Customers	$564,450	$380,251	$441,556	$1,386,257	$1,356	$1,387,613
Intersegment	—	270	—	270	—	270
Total	$564,450	$380,521	$441,556	$1,386,527	$1,356	$1,387,883
Segment income	$27,447	$42,582	$82,446	$152,475	$419	$152,894
Assets	584,407	478,814	359,253	1,422,474	9,384	1,431,858
Other items						
Depreciation (*2)	17,181	8,844	6,148	32,173	179	32,352
Increase in property, plant and equipment and intangible assets (*3)	12,132	11,009	7,294	30,435	38	30,473

Year ended March 31, 2022	Power Products	Welding & Mechatronics	Advanced Components	Subtotal	Other (*1)	Total
	Millions of yen					
Net sales:						
Customers	¥68,873	¥45,979	¥45,580	¥160,432	¥187	¥160,619
Intersegment	—	32	—	32	—	32
Total	¥68,873	¥46,011	¥45,580	¥160,464	¥187	¥160,651
Segment income	¥4,979	¥4,404	¥8,786	¥18,169	¥56	¥18,225
Assets	70,642	58,417	33,948	163,007	1,271	164,278
Other items						
Depreciation (*2)	2,126	1,330	760	4,216	24	4,240
Increase in property, plant and equipment and intangible assets (*3)	2,125	948	718	3,791	12	3,803

(*1) The “Other” category is business segments not included in the reportable segments, including the real estate rental business.

(*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
	2023	2022	2023
Reportable segment	¥185,143	¥160,464	$1,386,527
Sales of other	181	187	1,356
Segment adjustments	(36)	(32)	(270)
Consolidated net sales	¥185,288	¥160,619	$1,387,613

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Reportable segment	¥20,360	¥18,169	$152,475
Income of other	56	56	419
Segment adjustments	0	0	0
Company expenses	(3,848)	(4,033)	(28,817)
Consolidated operating income	¥16,568	¥14,192	$124,077

"Company expenses" are operating expenses which cannot be allocated to any reportable segments.

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Reportable segment	¥189,943	¥163,007	$1,422,474
Assets of other	1,253	1,271	9,384
Corporate assets	21,888	30,890	163,918
Other adjustments	(393)	(366)	(2,943)
Consolidated total assets	¥212,691	¥194,802	$1,592,833

"Company assets" are cash and deposit, land, buildings, investment funds (investment securities) and others which cannot be allocated to any reportable segments.

(d) Other items

Year ended March 31, 2023	Millions of yen			
	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥4,296	¥24	¥749	¥5,069
Increase in property, plant and equipment and intangible assets	4,064	5	804	4,873

Year ended March 31, 2023	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	$32,173	$179	$5,610	$37,962
Increase in property, plant and equipment and intangible assets	30,435	37	6,022	36,494

Year ended March 31, 2022	Millions of yen			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	¥4,216	¥24	¥796	¥5,036
Increase in property, plant and equipment and intangible assets	3,791	12	617	4,420

“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, 2023 and 2022 was as follows:

(a) Net sales

	Millions of yen				
Year ended March 31, 2023	Japan	North America	Asia	Other	Total
Net sales	¥146,708	¥6,187	¥26,896	¥5,497	¥185,288

	Thousands of U.S. dollars				
Year ended March 31, 2023	Japan	North America	Asia	Other	Total
Net sales	$1,098,689	$46,334	$201,423	$41,167	$1,387,613

	Millions of yen				
Year ended March 31, 2022	Japan	North America	Asia	Other	Total
Net sales	¥123,560	¥4,090	¥28,718	¥4,251	¥160,619

(b) Tangible fixed assets

	Millions of yen				
Year ended March 31, 2023	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥31,695	¥314	¥4,687 ¥(2,496)	¥1,359	¥38,055

	Thousands of U.S. dollars				
Year ended March 31, 2023	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	$237,362	$2,352	$35,101 $(18,692)	$10,177	$284,992

	Millions of yen				
Year ended March 31, 2022	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥32,541	¥233	¥4,409 ¥(2,328)	¥946	¥38,129

(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, 2023 and 2022 was as follows:

	Millions of yen		
Year ended March 31, 2023	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥44,273	Advanced Components
	The Kansai Electric Power Co., Inc.	21,272	Power Products

	Thousands of U.S. dollars		
Year ended March 31, 2023	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	$331,558	Advanced Components
	The Kansai Electric Power Co., Inc.	159,305	Power Products

	Millions of yen		
Year ended March 31, 2022	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥32,463	Advanced Components
	The Kansai Electric Power Co., Inc.	20,873	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
Not applicable for the years ended March 31, 2023 and 2022.

(8) Information on amortization of goodwill and its unamortized balance by reportable segment Not applicable for the years ended March 31, 2023 and 2022.

(9) Information on gain on bargain purchase by reportable segment
Not applicable for the years ended March 31, 2023 and 2022.

23. Subsequent events

(Significant subsequent events)

1. Transaction under common control

Absorption-type merger of consolidated subsidiary

The Company resolved to merge with DAIHEN Techno Support Corporation, a wholly-owned consolidated subsidiary of the Company, at the Board of Directors meeting held on February 3, 2023, and entered into a merger agreement with the company on the same date. The merger took place on April 1, 2023.

(1) Outline of the transaction

1) Names of the parties to the combination and description of their businesses

Name of surviving company	DAIHEN Corporation
Description of business	Manufacture and sale of various transformers, power receiving anddistribution systems control and telecommunications equipment, dispersed power equipment, welding machines, cutting machines, industrial robots, power sources for plasma generation, etc.
Name of merged company	DAIHEN Techno Support Corporation
Description of business	Sale, maintenance, and inspection of welding machines, cutting machines, industrial robots, etc.

2) Date of the business combination

April 1, 2023

3) Legal format of the business combination

An absorption-type merger with the Company as the surviving company, and DAIHEN Techno Support Corporation has been dissolved.

4) Name of the combined enterprise

DAIHEN Corporation

5) Other matters related to the outline of the transaction

The Company determined to merge with DAIHEN Techno Support Corporation, a domestic sales subsidiary for the Welding & Mechatronics Business, and integrate its sales function into the Company for the purpose of strengthening the business.

(2) Outline of the implemented accounting methods

The Company has treated the transaction as a transaction under common control in accordance with the Accounting Standards for Business Combinations and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

2. Acquisition of company by share acquisition

The Company resolved at the Board of Directors meeting held on May 10, 2023, to enter into a share transfer agreement to acquire 70% shares in Tohoku Electric Manufacturing Co., Ltd., which is a joint venture of Tohoku Electric Power Co., Inc. and Hitachi, Ltd.

(1) Purpose of the share acquisition

The Company will acquire the shares for the purpose of expanding sales in the Tohoku region and strengthening the production system through synergies with Tohoku Electric Manufacturing Co., Ltd. by making Tohoku Electric Manufacturing Co., Ltd. a subsidiary.

(2) Counterparty of share acquisition

Tohoku Electric Power Co., Inc., Hitachi, Ltd.

(3) Name, line of business, and size of the company to be acquired

(Fiscal year ended March 31, 2023)

Name	Tohoku Electric Manufacturing Co., Ltd.
Location	2-1 Miyauchi 2-chome, Tagajo, Miyagi Prefecture
Line of business	Manufacture, repair, sales, and installation of transformers for power distribution, distribution panels, etc.
Net assets	9,500 million yen ($71,145 thousand)
Total assets	11,548 million yen ($86,482 thousand)
Net sales	8,327 million yen ($62,361 thousand)
Operating profit	142 million yen ($1,063 thousand)
Ordinary profit	196 million yen ($1,468 thousand)
Net profit	126 million yen ($944 thousand)

(4) Date of share acquisition

October 2, 2023 (planned)

(5) Number of shares to be acquired, acquisition cost, and ownership ratio after acquisition

1) Number of shares to be acquired: 249,480 shares

2) Acquisition cost: Undisclosed based on confidentiality agreement between the parties

3) Ownership ratio after acquisition: 70%

3. Change in reportable segments

The Company set “Energy Management,” “Factory Automation,” and “Material Processing” as new technology domains in its medium-term plan drafted in FY2015 and has focused on development in each of these, with the aim of becoming a development-focused company that helps solve social issues. As a result, the Company has expanded its business to domains such as EMS products that contribute to the achievement of a decarbonized society, production automation systems that are useful in solving labor shortages, line of products that help in the high precision processing of various metallic materials, which will be needed in the future. The Company has realized a certain level of success, which has been recognized by stakeholders.

Therefore, we have decided to realign the reportable segments from the previous “Power Products,” “Welding & Mechatronics”, and “Advanced Components” to technology domains.

The main products comprising each reportable segment are as follows.

Old segments	Main products
Power Products	Transformers
	Power receiving and distribution systems
	Control and t elecommunications equipment
	Charging systems
	Dispersed power equipment, etc.
Welding & Mechatronics	Welding machines
	Plasma cutting machines
	Industrial robots
Advanced Components	Power sources for plasma generation
	Clean transport robots

⇒

New segments	Main products
Energy Management	Transformers
	Power receiving and distribution systems
	Control and telecommunications equipment
	Charging systems
	Dispersed power equipment, etc.
Factory Automation	Industrial robots
	Clean transport robots
Material Processing	Welding machines
	Plasma cutting machines
	Power sources for plasma generation

The Company will shift to the new reportable segments from the next fiscal year.

Segment information for the fiscal year under review after the change in reportable segments is as follows.

Year ended March 31, 2023	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥75,371	¥33,579	¥76,157	¥185,107	¥181	¥185,288
Intersegment	—	34	2	36	—	36
Total	¥75,371	¥33,613	¥76,159	¥185,143	¥1891	¥185,324
Segment income	¥3,665	¥4,323	¥12,372	¥20,360	¥56	¥20,416
Assets	78,037	37,779	74,128	189,943	1,253	191,196
Other items						
Depreciation (*2)	2,294	773	1,229	4,296	24	4,320
Increase in property, plant and equipment and intangible assets (*3)	1,620	1,152	1,292	4,064	5	4,069

Year ended March 31, 2023	Thousands of U.S. dollars					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	$564,450	$251,471	$570,336	$1,386,257	$1,356	$1,387,613
Intersegment	—	255	15	270	—	270
Total	$564,450	$251,726	$570,351	$1,386,527	$1,356	$1,387,883
Segment income	$27,447	$32,375	$92,653	$152,475	$419	$152,894
Assets	584,407	282,925	555,141	1,422,474	9,384	1,431,858
Other items						
Depreciation (*2)	17,181	5,788	9,204	32,173	179	32,352
Increase in property, plant and equipment and intangible assets (*3)	12,132	8,627	9,676	30,435	38	30,473

(*1) The "Other" category is business segments not included in the reportable segments, including the real estate rental business.

(*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.

Information that disaggregates revenue from contracts with customers for the fiscal year under review after the change in reportable segments is as follows.

Year ended March 31, 2023

	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	¥71,645	¥10,277	¥64,605	¥146,527	¥9	¥146,536
North Americas	–	4,080	2,107	6,187	–	6,187
Asia	3,725	15,218	7,953	26,896	–	26,896
Other	1	4,004	1,492	5,497	–	5,497
Revenues from contracts with customers	¥75,371	¥33,579	¥76,157	¥185,107	¥9	¥185,116
Other	–	–	–	–	172	172
Sales to external customers	¥75,371	¥33,579	¥76,157	¥185,107	¥181	¥185,288

	Thousands of U.S. dollars					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	$536,546	$76,964	$483,824	$1,097,334	$67	$1,097,401
North Americas	–	30,555	15,779	46,334	–	46,334
Asia	27,896	113,966	59,560	201,422	–	201,422
Other	8	29,986	11,173	41,167	–	41,167
Revenues from contracts with customers	$564,450	$251,471	$570,336	$1,386,257	$67	$1,386,324
Other	–	–	–	–	1,289	1,289
Sales to external customers	$564,450	$251,471	$570,336	$1,386,257	$1,356	$1,387,613

(*) The “Other” category is business segments not included in the reportable segments, including the real estate rental business.

4. Acquisition of company by equity acquisition

The Company resolved at the Board of Directors meeting held on August 29, 2023, to make Lorch Schweißtechnik GmbH (“LORCH”) a wholly owned subsidiary, and entered into an equity transfer agreement with Lorch Holding GmbH on the same date.

(1) Purpose of the equity acquisition

The Company has developed many proprietary bonding machines including our innovative joining systems that help reduce vehicle body weight of EVs, and new bonding machines to dramatically enhance the productivity of thick plate welding used for steel beams, construction machines, wind power, etc. Although adoption of such machines has grown steadily mainly among Japanese leading manufacturers, there are still few cases among European manufacturers.

Through the acquisition of LORCH, we will accelerate sales expansion of our proprietary bonding machines in Western Europe by utilizing its Western European sales network, and direct selling systems to major users that belong to the company. Also in the FA robot business, we will meet LORCH customers’ diverse needs for automation by utilizing German system integrators (LASOtech in fiscal 2019, Femitec in fiscal 2022) acquired by the Company up to this point as measures to strengthen our business in Europe.

Additionally, a sales expansion of LORCH products in Eastern Europe is also expected by utilizing the sales network of VARSTROJ, the No. 1 welding machine manufacturer in Eastern Europe, which was acquired by the Company in fiscal 2014.

Through these achievements, we will aim to be the No. 1 manufacturer in European markets in the areas of the welding machine and arc welding robot industries and increase net sales in Europe to more than 20,000 million yen (more than three times the 6,000 million yen in fiscal 2022 and nearly twelve times the 1,700 million yen in fiscal 2013, which was before starting to strengthen our business in Europe). Furthermore, we will aim for worldwide sales expansion in new areas including EV, wind power, and other industries by taking the heightened recognition of our business in European markets as an opportunity.

(2) Counterparty of equity acquisition

Lorch Holding GmbH

(3) Name, line of business, and size of the company to be acquired

Fiscal year ended December 31, 2022

Name	Lorch Schweißtechnik GmbH
Location	Auenwald, Baden-Württemberg, Germany (Im Anwänder 24-26, 71549 Auenwald, Germany)
Line of business	Development, manufacture, repair, and sales of welding machines
Net assets	3,987 thousand euro ($4,636 thousand)
Total assets	25,904 thousand euro ($30,136 thousand)
Net sales	54,246 thousand euro ($63,109 thousand)
Operating profit	(507) thousand euro ($(584) thousand)
Ordinary profit	220 thousand euro ($255 thousand)
Net profit	313 thousand euro ($359 thousand)

(4) Date of equity acquisition

January 15, 2024 (planned)

(5) Acquisition cost, and ownership ratio after acquisition

1) Acquisition cost: 21,000 thousand euro ($24,432 thousand)

2) Ownership ratio after acquisition: 100%

(6) Principal acquisition related expenses

Advisory fees, etc.: 150million yen($1,123thousand)-estimated amount

(7) Information on the conditional consideration for acquisition stipulated in the business combination agreements and the accounting policy for and after the fiscal year under review

In accordance with the equity transfer agreement, the final acquisition cost may change because of certain accompanying events occurring in the future. If a change in acquisition cost is incurred, we will revise the acquisition cost, deeming the revised cost as incurred at the time of acquisition, and revise the amount and amortization of goodwill.

Independent Auditor’s Report

DAIHEN Corporation

For the Years ended March 31,
2023 and 2022

KPMG AZSA LLC
September 2023

This independent auditor’s report prepared by KPMG AZSA LLC (including the one that is signed with electoronic signatures) shall not be reprinted, disclosed, quoted, summarized, translated, cited, circulated or otherwise used, in whole or in part, to any third party including posting on the web without prior written consent as specified by KPMG AZSA LLC, except for the purpose of compliance with laws, regulations and the like, or for usage in response to an order or request from an administrative or judicial body.

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, 2023 and 2022, 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, 2023 and 2022, 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.

<table>
<tr><th colspan="2">Appropriateness of the Company’s determination of the accounting period in which revenue was recognized from sales</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The amount of revenue from sales of DAIHEN Corporation and its consolidated subsidiaries (hereinafter referred to as the “DAIHEN Group”) amounted to ¥185,288 million in the consolidated fiscal year ended March 31, 2023.

As described in Note 2(20), “Summary of significant accounting policies - Basis for recognition of significant revenue and expenses” and Note 21(2), “Revenue recognition - Information that serves as the basis for understanding revenue from contracts with customers”, the DAIHEN Group's main business is the manufacture, sale, and repair of various transformers, various welding machines, industrial robots, power sources for plasma generation, clean transport robots, etc. In principle, revenue from the sale of this merchandise or finished goods is recognized at the time of delivery of the merchandise or finished goods. In cases in which the period from shipping of the merchandise or finished goods to the transfer of control to the customer is ordinary, domestic sales are recognized at the time of shipping. In addition, export sales are recognized at the time of shipment as the time when the risk burden is transferred to the customer mainly based on the trade conditions specified in Incoterms, etc. For certain merchandise or finished goods that require on-site installation adjustment, revenue is recognized when performance confirmation is completed after completion of the on-site installation adjustment. Furthermore, revenue from the repair of merchandise or finished goods is recognized when the repair is completed.

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 addition, because sales in the 4th quarter were ¥58,042 million and accounted for approximately 30% of the 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 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 31, 2023 and, accordingly, a key audit matter.</td>
<td>The primary procedures we performed to assess whether revenue from sales was recognized in the appropriate accounting period included the following. As part of these procedures, we requested the component auditor of the overseas consolidated subsidiary to perform audits and evaluated the reports of the component auditor as to whether sufficient and appropriate audit evidence was obtained from the following procedures, among others:

(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 to ensure that sales were attributable to the appropriate accounting period by comparing the evidence that shows the fact of shipment or 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 its 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 recorded near the end of the consolidated fiscal year in particular were recorded in an appropriate accounting period by comparing them with the materials that support sales;

● confirmed that sales recorded at the end of the consolidated fiscal year were recorded in an appropriate accounting period by directly sending confirmations with specific customers and directly receiving and confirming the responses;

● confirmed 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.</td></tr>
</table>

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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 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.

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, 2023 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.

Miho Shibasaki
Designated Engagement Partner
Certified Public Accountant

Kyoichi Seishi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 29, 2023