

FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2025 AND 2024

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



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

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2025 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2025	2024	2025
ASSETS			
Current assets:			
Cash and deposits (Note 10 and 14)	¥30,355	¥23,328	\$203,016
Receivables —			
Notes and accounts receivable-trade (Note 11, and 14)			
Unconsolidated subsidiaries and affiliates	145	624	970
Other	55,332	57,122	370,064
Loans and other accounts	4,678	4,273	31,287
Allowance for doubtful accounts	(1,255)	(786)	(8,394)
	58,900	61,233	393,927
Inventories (Note 13)	101,708	99,014	680,230
Other current assets	2,605	3,394	17,423
Total current assets	193,568	186,969	1,294,596
Property, plant and equipment (Note 16 and 18):			
Land	13,693	13,162	91,580
Buildings and structures	60,627	56,870	405,478
Machinery and equipment	77,572	73,286	518,807
Lease assets	1,577	1,476	10,547
Construction in progress	4,011	4,438	26,826
Total	157,480	149,232	1,053,238
Accumulated depreciation	(104,458)	(100,345)	(698,622)
Net property, plant and equipment	53,022	48,887	354,616
Intangible assets:			
Software	2,354	2,056	15,744
Goodwill	525	591	3,511
Other intangible assets	2,188	2,336	14,633
Total intangible assets	5,067	4,983	33,888
Investments and other assets:			
Investment securities (Note 14 and 15)	12,170	12,640	81,394
Investments in unconsolidated subsidiaries and affiliates (Note 14)	3,811	1,896	25,488
Deferred tax assets (Note 20)	1,388	1,370	9,283
Net defined benefit asset (Note 22)	18,507	17,649	123,776
Other	2,731	2,852	18,265
Allowance for doubtful accounts	(29)	(46)	(194)
Total investments and other assets	38,578	36,361	258,012
Total assets	¥290,235	¥277,200	\$1,941,112

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2025 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2025	2024	2025
LIABILITIES			
Current liabilities:			
Short-term loans (Note 14, 18 and 19)	¥23,885	¥30,192	\$159,745
Long-term debt due within one year (Note 14, 18 and 19)	6,160	5,212	41,199
Notes and accounts payable-trade (Note 14)			
Unconsolidated subsidiaries and affiliates	95	83	655
Other	21,486	19,958	143,680
Electronically recorded obligations –operating (Note 14)	15,265	15,411	102,093
Accrued employees' bonuses	5,145	3,286	34,410
Accrued directors' and corporate auditors' bonuses	144	79	963
Allowance for loss on construction contracts	166	123	1,110
Income taxes payable	3,510	2,185	23,475
Other current liabilities (Note 12)	11,035	10,109	73,803
Total current liabilities	86,891	86,638	581,133
Long-term liabilities:			
Long-term debt (Note 14, 18 and 19)	38,900	31,048	260,166
Net defined benefit liability (Note 22)	3,265	2,955	21,837
Reserve for directors' and corporate auditors' retirement benefits	104	110	696
Asset retirement obligation	121	108	809
Deferred tax liabilities (Note 20)	4,426	4,856	29,601
Provision for construction expenses related to earthquake resistance renovation	564	578	3,772
Provision for share awards	163	—	1,090
Provision for loss on guarantees	614	766	4,106
Provision for product safety measures	3	3	20
Other noncurrent liabilities	1,898	1,542	12,694
Total long-term liabilities	50,058	41,966	334,791
Total liabilities	136,949	128,604	915,924
Contingent liabilities (Note 23)			
NET ASSETS (Note 24)			
Shareholders' equity:			
Common stock — (Note 9)	10,596	10,596	70,867
Authorized - 108,000 thousand shares in 2025 and 2024			
Issued - 25,603 thousand shares in 2024			
25,603 thousand shares in 2024			
Capital surplus	10,075	10,011	67,382
Retained earnings	101,796	94,768	680,819
Treasury stock, at cost — (Note 9)			
— 1,299 thousand shares in 2025			
— 1,186 thousand shares in 2024	(4,926)	(2,349)	(32,945)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	6,040	6,208	40,396
Foreign currency translation adjustments	9,294	9,104	62,159
Remeasurements of defined benefit plans	5,498	5,799	36,771
Total accumulated other comprehensive income	20,832	21,111	139,326
Noncontrolling interests	14,913	14,459	99,739
Total net assets	153,286	148,596	1,025,188
Total liabilities and net assets	¥290,235	¥277,200	\$1,941,112

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years Ended March 31, 2025 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2025	2024	2025
Net sales (Note 16 and 25)	¥226,376	¥188,572	\$1,514,018
Cost of sales (Note 13, 16 and 22)	162,516	135,167	1,086,918
Gross profit	63,860	53,405	427,100
Selling, general and administrative expenses (Note 22)	47,686	38,259	318,927
Operating income	16,174	15,146	108,173
Other income (expenses):			
Interest and dividend income	776	473	5,190
Interest expense	(904)	(524)	(6,046)
Foreign currency exchange gain (loss)	47	443	314
Gain on sales of investment securities	1,111	265	7,430
Share of profit of entities accounted for using equity method	7	235	47
Loss on step acquisitions	0	(4,600)	0
Provision for loss on guarantees	0	(113)	0
Provision of allowance for doubtful accounts	(478)	(277)	(3,197)
Compensation expense for damage	(124)	(46)	(829)
Extra payments for early retirements	(38)	—	(254)
Subsidy income	780	188	5,217
Loss on revision of retirement benefit plan	426	(99)	(642)
Reversal provision for loss on guarantees	152	—	1,017
Gain on bargain purchase	—	9,920	0
Impairment loss on investment securities	—	—	—
Other, net	426	168	2,848
Total other income (expenses)	1,659	6,033	11,095
Income before income taxes	17,833	21,179	119,268
Income taxes (Note 20):			
Current	5,192	3,900	34,724
Deferred	(282)	385	(1,886)
Profit	¥12,923	¥16,894	\$86,430
Profit attributable to noncontrolling interests	962	399	6,434
Profit attributable to owners of parent	11,961	16,495	79,996
Per share of common stock: (Note 2 (22))	Yen		U.S. dollars (Note 1)
Net income per share	493.31	¥673.20	\$3.30
Cash dividends applicable to the year	¥165.00	¥165.00	\$1.10

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years Ended March 31, 2025 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2025	2024	2025
Profit	¥12,923	¥16,894	\$86,430
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	(168)	2,386	(1,124)
Net deferred gains and losses on hedges	0	(0)	0
Foreign currency translation adjustments	68	2,790	455
Remeasurment of defined benefit plans	(395)	3,479	(2,642)
Share of other comprehensive income of affiliates accounted for using equity method	3	60	20
Total other comprehensive income (Note 8)	(492)	8,715	(3,291)
Comprehensive income	¥12,431	¥25,609	\$83,139
Attributable to:			
Owners of parent	¥11,566	¥24,947	\$77,354
Noncontrolling interests	¥865	¥662	\$5,785

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years Ended March 31, 2025 and 2024

	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, 2023	¥10,596	¥10,034	¥85,393	¥(4,823)	¥3,821	—	¥6,322	¥2,449	¥6,105	¥119,906
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	¥10,596	¥10,034	¥85,393	¥(4,823)	¥3,821	—	¥6,322	¥2,449	¥6,105	¥119,906
Cash dividends paid - ¥169.5 per share -(Note 9)	—	—	(4,173)	—	—	—	—	—	—	(4,173)
Profit attributable to owners of parent	—	—	16,495	—	—	—	—	—	—	16,495
Treasury stock, net	—	12	—	(4)	—	—	—	—	—	8
Cancellation of treasury shares	—	(3,002)	—	3,002	—	—	—	—	—	0
Increase interests of parent company stock held by consolidated subsidiaries	—	—	—	(524)	—	—	—	—	—	(524)
Changes in equity of parent from transaction of non controlling interest	—	11	—	—	—	—	—	—	—	11
Transfer to capital surplus from retained earnings	—	2,947	(2,947)	—	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	2,387	(0)	2,782	3,350	8,354	16,873
Balance at March 31, 2024	¥10,596	¥10,011	¥94,768	¥(2,349)	¥6,208	(0)	¥9,104	¥5,799	¥14,459	¥148,596
Cash dividends paid - ¥165.0 per share -(Note 9)	—	—	(4,029)	—	—	—	—	—	—	(4,029)
Profit attributable to owners of parent	—	—	11,961	—	—	—	—	—	—	11,961
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	(173)	—	—	—	—	—	—	(173)
Treasury stock, net	—	(1,302)	—	(2,577)	—	—	—	—	—	(3,879)
Changes in equity of parent from transaction of non controlling interest	—	2	—	—	—	—	—	—	—	2
Transfer to capital surplus from retained earnings	—	1,302	(1,302)	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	571	—	—	—	—	—	—	571
Additional purchase of shares of consolidated subsidiaries	—	62	—	—	—	—	—	—	—	62
Net changes in items other than shareholders' equity	—	—	—	—	(168)	0	190	(301)	454	175
Balance at March 31, 2025	¥10,596	¥10,075	¥101,796	¥(4,926)	¥6,040	¥0	¥9,294	¥5,498	¥14,913	¥153,286

	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, 2024	\$70,867	\$66,954	\$633,815	\$(15,710)	\$41,519	\$0	\$60,888	\$38,784	\$96,703	\$993,820
Cash dividends paid - \$1.10 per share -(Note 9)	—	—	(26,946)	—	—	—	—	—	—	(26,946)
Profit attributable to owners of parent	—	—	79,996	—	—	—	—	—	—	79,996
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	(1,157)	—	—	—	—	—	—	(1,157)
Treasury stock, net	—	(8,708)	—	(17,235)	—	—	—	—	—	(25,943)
Changes in equity of parent from transaction of non controlling interest	—	13	—	—	—	—	—	—	—	13
Transfer to capital surplus from retained earnings	—	8,708	(8,708)	—	—	—	—	—	—	0
Change in scope of consolidation	—	—	3,819	—	—	—	—	—	—	3,819
Additional purchase of shares of consolidated subsidiaries	—	415	—	—	—	—	—	—	—	415
Net changes in items other than shareholders' equity	—	—	—	—	(1,123)	0	1,271	(2,013)	3,036	1,171
Balance at March 31, 2025	\$70,867	\$67,382	\$680,819	\$(32,945)	\$40,396	\$0	\$62,159	\$36,771	\$99,739	\$1,025,188

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years Ended March 31, 2025 and 2024

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2025	2024	2025
Cash flows from operating activities:			
Profit before income taxes	¥17,833	¥21,178	\$119,268
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	6,497	5,324	43,452
Amortization of goodwill	68	—	455
Gain on bargain purchase	—	(9,920)	—
Loss on step acquisitions	—	4,600	—
Increase (decrease) in allowance for doubtful accounts	454	258	3,036
Increase (decrease) in provision for bonuses	1,857	(1,182)	12,420
Increase (decrease) in allowance for loss on construction contracts	43	10	288
Increase (decrease) in provision for loss on guarantees	(152)	113	(1,017)
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(14)	(44)	(94)
Increase (decrease) in provision for product safety measures	(0)	(2)	(0)
Increase (decrease) in net defined benefit liability	370	811	2,475
Decrease (increase) in net defined benefit asset	(1,496)	(235)	(10,005)
Interest and dividend income	(776)	(473)	(5,190)
Interest expense	904	524	6,046
Share of loss (profit) of entities accounted for using equity method	(7)	(235)	(47)
Loss (gain) on valuation of investment securities	(1,111)	(265)	(7,430)
Compensation expenses for damage	124	46	829
Subsidy income	(780)	(188)	(5,217)
Decrease (increase) in trade receivable	2,506	(2,889)	16,760
Decrease (increase) in inventories	(1,751)	(10,459)	(11,711)
Increase (decrease) in trade payables	932	(9,744)	6,233
Other, net	1,454	(1,108)	9,725
Subtotal	26,955	(3,880)	180,276
Interest and dividends received	790	493	5,284
Interest paid	(902)	(526)	(6,033)
Subsidies received	780	188	5,217
Payments for compensation expenses for damage	(124)	(46)	(829)
Income taxes paid	(3,489)	(5,222)	(23,334)
Net cash provided by (used in) operating activities	24,010	(8,993)	160,581
Cash flows from investing activities:			
Net decrease in time deposits	31	(400)	207
Purchases of property, plant and equipment	(7,950)	(6,913)	(53,170)
Proceeds from sales of property, plant and equipment	78	40	522
Proceeds from sales of intangible assets	(792)	(570)	(5,297)
Purchases of investment in securities	(8)	(7)	(54)
Proceeds from sale of investment securities	1,458	305	9,751
Net decrease (increase) in short-term loans receivable	(360)	(277)	(2,408)
Purchase of shares of subsidiaries	(1,990)	—	(13,309)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,647)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	2,407	—
Purchase of equity of subsidiaries resulting in change in scope of consolidation	—	(2,631)	—
Other, net	(69)	(872)	(461)
Net cash used in investing activities	(9,602)	(10,565)	(64,219)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(6,367)	20,240	(42,583)
Proceeds from long-term loans	14,068	15,000	94,088
Repayment of long-term loans	(5,303)	(4,884)	(35,467)
Repayment of lease obligations	(118)	(157)	(789)
Purchase of treasury stock	(3,901)	(11)	(26,090)
Cash dividends paid	(4,023)	(4,167)	(26,906)
Other, net	(338)	(66)	(2,261)
Net cash provided by (used in) financing activities	(5,982)	25,955	(40,008)
Effect of exchange rate changes on cash and cash equivalents	(600)	828	(4,013)
Net increase (decrease) in cash and cash equivalents	7,826	7,225	52,341
Cash and cash equivalents at beginning of year	22,078	14,853	147,659
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	165	—	1,104
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(1,213)	—	(8,113)
Cash and cash equivalents at end of year (Note 10)	¥28,856	¥22,078	\$192,991

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, 2025, which was ¥149.52 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 30 and 29 consolidated subsidiaries as of March 31, 2025 and 2024, respectively. There were 2 and 2 companies accounted for using the equity method as of March 31, 2025 and 2024.

Names of the consolidated subsidiaries.

OTC DAIHEN INDIA Pvt. Ltd., which had previously been a non-consolidated subsidiary, has been included in the scope of consolidation from the fiscal year ended March 31, 2025 due to increased materiality.

For other consolidated subsidiaries and affiliates accounted for using equity method which close their accounts on December 31, their financial statements are based on the provisional closing of accounts at the consolidated closing date. There were 13 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 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, DAIHEN VARSTROJ welding cutting and robotics did, and one affiliate accounted for using equity method, namely, OTC DAIHEN Bangkok Co., Ltd.

Previously, Lorch Schweißtechnik GmbH was consolidated based on its financial statements as of December 31, with necessary adjustments made for any material transactions occurred between its fiscal year-end and the consolidated fiscal year-end. However, in order to enhance the appropriateness of disclosures in the consolidated financial statements, Lorch Schweißtechnik

GmbH has adopted provisional closing as of the consolidated fiscal year-end starting from the beginning of the fiscal year ended March 31, 2025.

The profit or loss for the three-month period from January 1, 2024 to March 31, 2024 for Lorch Schweißtechnik GmbH has been adjusted as a change in retained earnings and is reflected in “Adjustments due to change in the fiscal period of consolidated subsidiaries” in the Consolidated Statement of Changes in Equity. The change in cash and cash equivalents is presented in “Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries” in the Consolidated Statement of Cash Flows.

(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 depreciated by the straight-line method. The useful life of an asset is determined in accordance with the Corporation Tax Law.

(7) Intangible assets (except for lease assets)

Software for internal use is measured using the straight-line method over the internal useful life (five years). Software for market sale is measured based on the projected sales quantity.

Customer-related assets and other identifiable intangible assets acquired through business combinations are amortized using the straight-line method over the estimated useful life (10 to 20 years).

Other intangible assets are measured using the straight-line method.

The Group adopts amortization periods using the same standards as those in the Corporation Tax Act.

(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 mainly over 13 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 share awards

To prepare for the delivery of shares of the Company to employees in accordance with the share delivery rules, the estimated obligation as of the end of the fiscal year ended March 31, 2025 is recorded.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) Research and development expenses

Research and development expenses, which are charged to income as incurred, amounted to ¥7,012million (\$46,897 thousand) and ¥6,152million in 2025 and 2024, respectively.

(20) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize gains and losses resulting from changes in the fair value, except when derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains and losses resulting from changes in the fair value of the derivative financial instruments until the related losses and gains on the hedged items are recognized.

Also, if 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.

(21) 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.

(22) 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, 2025 and 2024 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.

(23) Amortization method and period of goodwill
Goodwill is depreciated by the straight-line method over 9 years.

3. Significant accounting estimates

Year ended March 31, 2025 (April 1, 2024 to March 31, 2025)

(Valuation of goodwill and intangible assets)

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2025

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Goodwill	¥525	¥—	\$3,511
Intangible assets, Other	1,900	—	12,707

(2) Information on the significant accounting estimates for identified items

Following the consolidation of Lorch Schweißtechnik GmbH as a subsidiary, goodwill and intangible assets such as customer-related assets (collectively, “goodwill, etc.”) were recorded on the consolidated balance sheet. Goodwill, etc. is amortized systematically over the period in which it is expected to generate benefits, and the unamortized balance is subject to impairment.

To identify indicators of impairment of goodwill, etc., the Company compares the actual performance against the business plan established at the time of acquisition, assessing for significant declines in profitability or other indicators. If impairment indicators are identified, the Company evaluates the necessity of recognizing impairment loss by comparing the book value to the total undiscounted future cash flows.

In the fiscal year ended March 31, 2025, due to a deterioration in business performance as compared to the business plan at the time of acquisition caused by a market downturn, the Company determined that indicators of impairment were present. Consequently, the business plan was revised, and the necessity of impairment loss was assessed. As a result, it was concluded that the total undiscounted future cash flows expected from use and eventual disposal of the asset group exceeded the book value, and thus, no impairment loss was recognized.

The undiscounted future cash flows were calculated based on the revised business plan. The key assumptions underlying the plan are net sales growth and cost reduction. The projected net sales growth incorporates expected expansion in sales volume through enhanced product offerings by leveraging group synergies and restructuring of the sales organization, taking into account market forecasts. The projected cost reduction reflects cost-cutting through utilization of group production bases and workforce optimization.

If the key assumptions incorporated in the business plan require revision due to changes in the economic environment or other factors, impairment loss may need to be recognized in the following consolidated fiscal year.

Year ended March 31, 2024 (April 1, 2023 to March 31, 2024)

Not applicable.

4. Standard and guidance not yet adopted

“Accounting Standard for Leases ” (ASBJ Statement No. 34, September 13, 2024)

“Implementation Guidance on Accounting Standard for Leases” (ASBJ Guidance No. 33, September 13, 2024)

Other related amendments to Accounting Standards, Implementation Guidance for Accounting Standards, Practical Solution Reports, and Transferred Guidance

(1) Overview

The accounting standard and guidance prescribe accounting treatments such as recognition of assets and liabilities for all leases by lessees, similar to international accounting standards.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2028.

(3) Effects of application

The Company and its consolidated subsidiaries are currently in the process of determining the effects of the new standard and guidance on the consolidated financial statements.

5. Changes in presentation

(Consolidated Statement of Income)

In the previous consolidated fiscal year, the materiality of “Compensation expenses for damage”, “Subsidy income”, and “Loss on revision of retirement benefit plan”, which had been included in “Other” under “Other income (expenses)” has increased. Accordingly, the figures for the previous consolidated fiscal year have been reclassified in the consolidated financial statements to reflect this change in presentation.

As a result, of ¥211 million previously presented as “Other”, ¥46 million has been reclassified as “Compensation expenses for damage”, ¥188 million as “Subsidy income”, ¥99 million as “Loss on revision of retirement benefit plan”, and ¥168 million as “Other”.

6. Changes in accounting estimates

(Change in the amortization period for actuarial differences related to retirement benefit)

The Company previously amortized actuarial differences arising from retirement benefit over a fixed period of 15 years, which was within the average remaining service period of employees. However, since the average remaining service period has become shorter, the amortization period has been changed to 13 years from the fiscal year ended March 31, 2025. As a result, as compared to using the previous amortization period, operating profit, ordinary profit, and profit before income taxes for the fiscal year ended March 31, 2025 increased by ¥303 million (\$2,025 thousand), respectively.

7. Transactions involving delivery of the Company’s shares to employees through a trust

To enhance the welfare system for employees of the Company and its subsidiaries, and to increase employees’ sense of belonging and participation in management, thereby contributing to the Company’s medium- to long-term corporate value enhancement, the Company has introduced a share-based incentive plan for employees (hereinafter referred to as “the Plan”).

(1) Outline of the transaction

Under the Plan, a trust (hereinafter referred to as “the Trust”) is established using cash contributed by the Company as the source of funds. The Trust acquires shares of the Company’s common stock (hereinafter referred to as “Company shares”) and delivers the shares to employees who meet certain conditions, based on the number of points granted to them. These points are granted in accordance with the share delivery rules established by the Board of Directors, and the number of Company shares delivered to each employee is determined based on the number of points granted.

(2) The Company’s shares remaining in the Trust

The Company’s shares held in the Trust are recorded in net assets as treasury stock at the book value of the Trust (excluding incidental costs). The book value of these treasury shares is ¥1,025 million (\$6,852 thousand) , and the number of shares at the end of the consolidated fiscal year is 113,500 shares.

8. 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
	2025	2024	2025
Net unrealized holding gains and losses on securities arising during the year	¥641	¥3,694	\$4,287
Reclassification adjustments	(776)	(265)	(5,190)
Subtotal, before income taxes and tax effects	(135)	¥3,429	(903)
Income taxes and tax effects	(33)	(1,043)	(221)
Subtotal, net of tax	¥(168)	¥2,386	\$(1,124)
Net deferred gains and losses on hedges arising during the year	¥—	¥(0)	\$—
Reclassification adjustments	0	—	0
Subtotal, before income taxes and tax effects	0	(0)	0
Income taxes and tax effects	(0)	0	(0)
Subtotal, net of tax	¥0	¥(0)	\$0
Foreign currency translation adjustments arising during the year	¥68	¥2,790	\$455
Remeasurements of defined benefit plans arising during the year	¥546	¥5,457	\$3,652
Reclassification adjustments	(1,072)	(368)	(7,170)
Subtotal, before income taxes and tax effects	(526)	5,089	(3,518)
Income taxes and tax effects	131	(1,610)	876
Subtotal, net of tax	¥(395)	¥3,479	\$(2,642)
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥3	¥60	\$20
Total other comprehensive income	¥(492)	¥8,715	\$(3,291)

9. Consolidated Statement of Changes in Net Assets

Fiscal year ended March 31, 2025 (April 1, 2024 to March 31, 2025)

(1) Items related to common stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2024	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2025
Common stock	25,603	—	400	25,203

(Overview of reasons for fluctuations)

The decrease of 400 thousand treasury common stock consists of

: the decrease of 400 thousand treasury stock caused by cancellation of treasury stock by a resolution of the Board of Directors

(2) Items related to treasury stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2024	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of March 31, 2025
Treasury stock	1,186	515	402	1,299

(Note) The number of common stock includes 113,500 shares held in the stock benefit trust for employees as of the end of the fiscal year ended March 31, 2025.

(Overview of reasons for fluctuations)

The increase of 515 thousand treasury common stock consists of

: the increase of 400 thousand treasury stock caused by the acquisition of treasury stock by a resolution of the Board of Directors

: the increase of 113 thousand treasury stock caused by the acquisition through the stock benefit trust

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

The decrease of 402 thousand treasury common stock consists of

: the decrease of 400 thousand treasury stock caused by cancellation of treasury stock by a resolution of the Board of Directors

: the decrease of 0 thousand treasury stock caused by disposal through the stock benefit trust

: the decrease of 2 thousand treasury stock caused by disposal of treasury stock as restricted stock

: the decrease of 0 thousand treasury stock caused by sale of fractional shares

(3) Items related to dividends

(Resolution)	Type of shares	Dividends paid		Dividends per share		Record date	Effective date
		(Millions of yen)	Thousands of U.S. dollars	(Yen)	Thousands of U.S. dollars		
June 26, 2024 Annual General Meeting of Shareholders	Common stock	2,014	13,470	82.50	0.55	March 31, 2024	June 27, 2024
November 6, 2024, Board of Directors	Common stock	2,015	13,476	82.50	0.55	September 30, 2024	December 3, 2024

(Note) The total amount of dividends by the resolution of the Board of Directors on November 6, 2024 includes ¥9 million (\$60 thousand) in dividends to shares held in the stock benefit trust for employees.

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

(Resolution)	Type of shares	Source of dividends	Dividends paid		Dividends per share		Record date	Effective date
			(Millions of yen)	Thousands of U.S. dollars	(Yen)	Thousands of U.S. dollars		
June 26, 2025 Annual General Meeting of Shareholders	Common stock	Retained earnings	1,981	13,249	82.50	0.55	March 31, 2025	June 27, 2025

(Note) The total amount of dividends by the resolution of the Annual General Meeting of Shareholders on June 26, 2025, includes ¥9 (\$60 thousand) million in dividends to shares held in the stock benefit trust for employees.

Fiscal year ended March 31, 2024 (April 1, 2023 to March 31, 2024)

(1) Items related to common stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2023	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2024
Common stock	27,103	—	1,500	25,603

(Overview of reasons for fluctuations)

The decrease of 1,500 thousand common stock consists of

: the decrease of 1,500 thousand treasury stock caused by cancellation of treasury stock

(2) Items relate to treasury stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2023	Increase in number of shares (*1)	Decrease in number of shares (*2)	Number of shares as of March 31, 2024
Treasury stock	2,564	125	1,503	1,186

(Overview of reasons for fluctuations)

The increase of 125 thousand treasury common stock consists of

: the increase of 124 thousand treasury stock caused by increases of parent company stock held by consolidated subsidiaries

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

The decrease of 1,503 thousand treasury common stock consists of

: the decrease of 1,500 thousand treasury stock caused by cancellation of treasury stock

: the decrease of 3 thousand treasury stock caused by disposal of treasury stock as restricted stock units compensation

: the decrease of 0 thousand treasury stock caused by sale of fractional shares

(3) Items relate to dividends

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 28, 2023 Annual General Meeting of Shareholders	Common stock	2,142	87.00	March 31, 2023	June 29, 2023
November 2, 2023, Board of Directors	Common stock	2,031	82.50	September 30, 2023	December 5, 2023

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

(Resolution)	Type of shares	Source of dividends	Dividends paid (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 26, 2024 Annual General Meeting of Shareholders	Common stock	Retained earnings	2,014	82.50	March 31, 2024	June 27, 2024

10. 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, 2025 and 2024 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Cash and deposits	¥30,355	¥23,328	\$203,016
Time deposits with maturities exceeding three months	(1,499)	(1,250)	(10,025)
Cash and cash equivalents	¥28,856	¥22,078	\$192,991

Major breakdown of assets and liabilities of the companies newly consolidated as a result of the acquisition of shares

Year ended March 31, 2025

Not applicable

Year ended March 31, 2024

(1) The following is the breakdown of the assets and liabilities of Tohoku Electric Manufacturing Co., Ltd. at the time of its consolidation due to the acquisition of its shares, and the relationship between the acquisition cost of its shares and the payments (net amount) for the acquisition of the company.

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Current assets	¥5,563	\$36,741
Non-current assets	4,494	29,681
Current liabilities	(1,406)	(9,286)
Non-current liabilities	(877)	(5,792)
Non-controlling interests	(2,332)	(15,402)
Gain on bargain purchase	(1,971)	(13,017)
Acquisition cost of the shares	¥3,471	\$22,925
Cash and cash equivalents	(1,824)	(12,047)
Net: payments for the acquisition shares	¥1,647	\$10,878

(2) The following is the breakdown of the assets and liabilities of SHIHEN TECHNICAL Corporation at the time of its consolidation due to the acquisition of its shares, and the relationship between the acquisition cost of its shares and the proceeds (net amount) from the acquisition of the company.

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Current assets	¥15,581	\$102,906
Non-current assets	4,883	32,250
Current liabilities	(4,711)	(31,114)
Non-current liabilities	(1,034)	(6,829)
Non-controlling interests	(5,107)	(33,730)
Gain on bargain purchase	(7,949)	(52,500)
Acquisition cost of the shares	¥1,663	\$10,983
Valuation of the equity method up to the time of acquisition of control	(5,583)	(36,873)
Loss on step acquisition	4,600	30,381
Acquisition cost of additional shares	679	4,485
Cash and cash equivalents	(3,086)	(20,382)
Net: proceeds from the acquisition of the shares	¥(2,407)	\$(15,897)

(3) The following is the breakdown of the assets and liabilities of Lorch Schweißtechnik GmbH at the time of its consolidation due to the acquisition of equity interest, and the relationship between the acquisition cost of its interest and the payments (net amount) for the acquisition of the company.

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Current assets	¥2,679	\$17,694
Non-current assets	1,459	9,636
Goodwill	2,041	13,480
Current liabilities	2,558	(16,895)
Non-current liabilities	(981)	(6,479)
Acquisition cost of the interest	¥2,640	\$17,436
Cash and cash equivalents	(9)	(59)
Net: payments for the acquisition of the interest	¥2,631	\$17,377

11. 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
	2025	2024	2025
Notes receivable - trade	¥9,280	¥4,035	\$62,065
Accounts receivable - trade	¥46,197	¥48,072	\$308,969

12. Contract liabilities

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

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Contract liabilities	¥1,810	¥1,403	\$12,105

13. Inventories

(1) Inventories at March 31, 2025 and 2024 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Merchandise and finished goods	¥31,329	¥30,680	\$209,530
Work-in-process	19,573	16,793	130,906
Raw materials and supplies	50,806	51,541	339,794
	<u>¥101,708</u>	<u>¥99,014</u>	<u>\$680,230</u>

(2) The write-down of book values for inventories held for sale in the course of business due to decreased profitability for the years ended March 31, 2025 and 2024 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Cost of sales	¥562	¥313	\$3,759

14. 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 exchange rates, mitigated through foreign exchange forward contracts. Investment securities, consisting mainly of stocks held primarily to build and maintain good business relationships with business partners, including financial institutions, are exposed to the risk of 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 8 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(20) explains the Companies' hedge accounting policy, and "Derivative financial instruments and hedging transactions" in Note 17 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, 2025 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 subsidiary 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 17, "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 12.9% and 14.0% at March 31, 2025 and 2024, 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, 2025 and 2024 are set forth in the table below. Certain financial instruments were excluded from the tables as their fair values were not available.

Year ended March 31, 2025	Millions of yen		
	Book value	Fair value	Difference
Investment securities			
Other securities stock	¥11,677	¥11,677	¥—
Total assets	¥11,677	¥11,677	¥—
Long-term debt	44,706	42,588	(2,118)
Total liabilities	¥44,706	¥42,588	¥(2,118)
Derivatives (*2)	¥(29)	¥(29)	¥—

Year ended March 31, 2025	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Investment securities			
Other securities stock	\$78,097	\$78,097	\$—
Total assets	\$78,097	\$78,097	\$—
Long-term debt	298,997	284,831	(14,166)
Total liabilities	\$298,997	\$284,831	\$(14,166)
Derivatives (*2)	\$(194)	\$(194)	\$—

(*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, 2024	Millions of yen		
	Book value	Fair value	Difference
Investment securities			
Other securities stock	¥12,139	¥12,139	¥—
Total assets	¥12,139	¥12,139	¥—
Long-term debt	35,972	35,044	(928)
Total liabilities	¥35,972	¥35,044	¥(928)
Derivatives (*2)	¥(30)	¥(30)	¥—

(*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.

(b) The aggregate maturities subsequent to March 31, 2025 and 2024 for financial assets with maturities were as follows:

Year ended March 31, 2025	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥30,355	¥—	¥—
Notes and accounts receivable - trade	55,477	—	—
Total	¥85,832	¥—	¥—

Year ended March 31, 2025	Thousands of U.S. dollars		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	\$203,016	\$—	\$—
Notes and accounts receivable - trade	371,034	—	—
Total	\$574,050	\$—	\$—

Year ended March 31, 2024	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥23,328	¥—	¥—
Notes and accounts receivable - trade	57,746	—	—
Total	¥81,074	¥—	¥—

(c) The aggregate maturities subsequent to March 31, 2025 and 2024 for long-term debt were as follows:

Year ended March 31, 2025	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	¥6,038	¥7,943	¥7,903	¥7,403	¥7,152	¥8,267

Year ended March 31, 2025	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	\$40,383	\$53,123	\$52,856	\$49,512	\$47,833	\$55,290

Year ended March 31, 2024	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	¥5,122	¥4,033	¥5,928	¥5,896	¥5,396	¥9,596

(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, 2025

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	¥11,677	¥—	¥—	¥11,677
Total assets	¥11,677	¥—	¥—	¥11,677
Derivative transactions	¥—	¥(29)	¥—	¥(29)
Total liabilities	¥—	¥(29)	¥—	¥(29)

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	\$78,097	\$—	\$—	\$78,097
Total assets	\$78,097	\$—	\$—	\$78,097
Derivative transactions	\$—	\$(194)	\$—	\$(194)
Total liabilities	\$—	\$(194)	\$—	\$(194)

For the fiscal year ended March 31, 2024

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	¥12,139	¥—	¥—	¥12,139
Total assets	¥12,139	¥—	¥—	¥12,139
Derivative transactions	¥—	¥30	¥—	¥30
Total liabilities	¥—	¥30	¥—	¥30

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

For the fiscal year ended March 31, 2025

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term debt	¥—	¥42,588	¥—	¥42,588
Total liabilities	¥—	¥42,588	¥—	¥42,588

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Long-term debt	\$—	\$284,831	\$—	\$284,831
Total liabilities	\$—	\$284,831	\$—	\$284,831

For the fiscal year ended March 31, 2024

Division	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term debt	¥—	¥35,044	¥—	¥35,044
Total liabilities	¥—	¥35,044	¥—	¥35,044

(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 currency swaps and forward exchange contracts is measured mainly using forward exchange rates.

The fair value of currency swaps and forward exchange contracts is measured based on models using observable inputs, primarily foreign exchange rates, and is classified as Level 2.

Long-term borrowings

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.

15. 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, 2025 and 2024:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥2,645	¥2,973	\$17,690
Bonds	—	—	—
Other	—	—	—
	¥2,645	¥2,973	\$17,690
Book value:			
Equity securities	¥11,677	¥12,139	\$78,097
Bonds	—	—	—
Other	—	—	—
	¥11,677	¥12,139	\$78,097
Difference:			
Equity securities	¥9,032	¥9,166	\$60,407
Bonds	—	—	—
Other	—	—	—
	¥9,032	¥9,166	\$60,407
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥—	¥—	\$—
Bonds	—	—	—
Other	—	—	—
	¥—	¥—	\$—
Book value:			
Equity securities	¥—	¥—	\$—
Bonds	—	—	—
Other	—	—	—
	¥—	¥—	\$—
Difference:			
Equity securities	¥—	¥—	\$—
Bonds	—	—	—
Other	—	—	—
	¥—	¥—	\$—
Total			
Acquisition cost	¥2,645	¥2,973	\$17,690
Book value (fair value)	11,677	12,139	78,097
Difference	¥9,032	¥9,166	\$60,407

(2) Total sales of available-for-sale securities
Year ended of March 31, 2025

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥1,458	\$9,751
Bonds	—	—
Other	—	—
	<u>¥1,458</u>	<u>\$9,751</u>
Gain on sales:		
Equity securities	¥1,111	\$7,430
Bonds	—	—
Other	—	—
	<u>¥1,111</u>	<u>\$7,430</u>
Loss on sales:		
Equity securities	¥—	\$—
Bonds	—	—
Other	—	—
	<u>¥—</u>	<u>\$—</u>

Year ended of March 31, 2024

	Millions of yen
Amount of total sales:	
Equity securities	¥305
Bonds	—
Other	—
	<u>¥305</u>
Gain on sales:	
Equity securities	¥265
Bonds	—
Other	—
	<u>¥265</u>
Loss on sales:	
Equity securities	¥—
Bonds	—
Other	—
	<u>¥—</u>

(3) Impairment loss on investment securities

Year ended March 31, 2025

Impairment losses are recognized for certain securities. However, details are omitted as they are immaterial.

Year ended March 31, 2024

Not applicable.

16. 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 ¥32 million (\$214 thousand) and ¥27 million for the years ended March 31, 2025 and 2024, 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, 2025 and 2024 were as follows:

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2025	March 31, 2024	Changes during the year	March 31, 2025	March 31, 2025
Rental property	¥1,345	¥(7)	¥1,338	¥4,216

	Thousands of U.S. dollars			
Year ended	Book value			Fair value
March 31, 2025	March 31, 2024	Changes during the year	March 31, 2025	March 31, 2025
Rental property	\$8,996	\$(47)	\$8,949	\$28,197

	Millions of yen			
Year ended	Book value			Fair value
March 31, 2024	March 31, 2023	Changes during the year	March 31, 2024	March 31, 2024
Rental property	¥1,310	¥35	¥1,345	¥3,994

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

The main increase during the fiscal year ended March 31, 2024 was ¥83 million (\$555 thousand) due to the consolidation of SHIHEN TECHNICAL Corporation, while the main decrease was depreciation. The main decrease during the fiscal year ended March 31, 2025 was depreciation.

The fair value at the end of the fiscal year is based mainly on appraisal reports prepared by external real estate appraisers.

17. Derivative financial instruments and hedging transactions

(1) Derivatives not subject to hedge accounting

(a) Currency related

Year ended March 31, 2025

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	¥291	¥97	¥(29)	¥(29)
Total		¥291	¥97	¥(29)	¥(29)

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	\$1,946	\$649	\$(194)	\$(194)
Total		\$1,946	\$649	\$(194)	\$(194)

Year ended March 31, 2024

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	¥161	¥129	¥(30)	¥(30)
Total		¥161	¥129	¥(30)	¥(30)

(2) Derivatives subject to hedge accounting

(a) Currency related

Year ended March 31, 2025

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Allocation method (*)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	¥28	¥—	¥—
	Sell: Euro		217	—	—
	Sell: Korean won		174	—	—
	Sell: Taiwan dollar		253	—	—
	Buy: U.S. dollar	Accounts payable - trade	83	—	—
	Buy: Euro		31	—	—
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	1,190	—	—
Total			¥1,976	¥—	¥—

Year ended March 31, 2025

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Allocation method (*)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	\$188	\$—	\$—
	Sell: Euro		1,451	—	—
	Sell: Korean won		1,164	—	—
	Sell: Taiwan dollar		1,692	—	—
	Buy: U.S. dollar	Accounts payable - trade	555	—	—
	Buy: Euro		207	—	—
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	7,959	—	—
Total			\$13,216	\$—	\$—

Year ended March 31, 2024

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Deferred Hegde Accounting	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	¥23	¥—	¥(0)
Allocation method (*)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	¥2,606	¥—	¥—
	Sell: Euro		803	—	—
	Sell: Korean won		111	—	—
	Sell: Taiwan dollar		183	—	—
	Buy: Euro	Accounts payable - trade	0	—	—
	Currency swap				
Euro Yen receipt/ Foreign currency payment	Loan receivable	712	—	—	
Total			¥4,438	¥—	¥(0)

(*) 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

(b) Interest rate related

Not applicable for the years ended March 31, 2025 and 2024.

18. Pledged assets

The following assets were pledged as collateral for short-term loans payable and long-term debt of ¥2,247 million (\$15,028 thousand) and ¥2,311million at March 31, 2025 and 2024 respectively.

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Property, plant and equipment - net of accumulated depreciation	¥11,923	¥11,481	\$79,742

19. Short-term loans, long-term debt

The weighted average interest rate on short-term loans payable was 1.8% and 1.1% for each of the years ended March 31, 2025 and 2024, respectively.

Long-term debt at March 31, 2025 and 2024 consisted of the following:

Substantially all of the loans with banks are made under general agreements as is customary in Japan.

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Loans from banks and insurance companies maturing through 2033 with interest rates ranging from 0.2% to 4.4%			
Secured	¥2,247	¥2,311	\$15,028
Unsecured	42,459	33,661	283,969
Lease obligations	354	288	2,368
	45,060	36,260	301,365
Less amount due within one year	(6,160)	(5,212)	(41,199)
	<u>¥38,900</u>	<u>¥31,048</u>	<u>\$260,166</u>

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, 2025 and 2024 were as follows:

Year ended March 31, 2025

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2026	¥6,160	\$41,199
2027	8,046	53,812
2028	7,984	53,398
2029	7,442	49,773
2030	7,161	47,893
2031 and thereafter	8,267	55,290
	<u>¥45,060</u>	<u>\$301,365</u>

Year ended March 31, 2024

Years ending March 31	Millions of yen
2025	¥5,212
2026	4,111
2027	5,991
2028	5,938
2029	5,408
2030 and thereafter	9,600
	¥36,260

20. 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, 2025 and 2024.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2025 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Deferred tax assets:			
Liability for retirement benefits	¥974	835	\$6,514
Nondeductible bonuses accrued	1,536	977	10,273
Write-down of inventories	1,231	1,121	8,233
Unrealized gains of inventories	870	1,012	5,819
Provision for construction expenses related to earthquake resistance renovation	193	192	1,291
Retirement benefit trust assets	652	1,075	4,361
Carryforward tax loss (*1)	335	216	2,241
Other	1,999	1,561	13,369
Subtotal deferred tax assets	7,790	6,989	52,101
Valuation allowance for carryforward tax loss (*1)	(335)	(90)	(2,241)
Valuation allowance for deductible temporary differences	(491)	(426)	(3,284)
Valuation allowance – total	(826)	(516)	(5,525)
Total deferred tax assets	¥6,964	¥6,473	\$46,576
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(1,050)	¥(1,020)	\$(7,022)
Retained earnings appropriated for allowable tax reserves	(462)	(477)	(3,090)
Net unrealized gains on “available-for-sale-securities”	(2,810)	(2,780)	(18,794)
Land and buildings revaluation difference	(2,283)	(2,308)	(15,269)
Retirement benefit assets	(3,142)	(3,141)	(21,014)
Other	(256)	(232)	(1,712)
Total deferred tax liabilities	¥(10,003)	¥(9,958)	\$(66,901)
Net deferred tax assets	¥(3,039)	¥(3,485)	\$(20,325)

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

Year ended March 31, 2025

	Millions of yen						
	2025	2026	2027	2028	2029	2030 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥335	¥335
Valuation allowance	—	—	—	—	—	(335)	(335)
Net deferred tax assets	—	—	—	—	—	—	—
	Thousands of U.S.dollars						
	2025	2026	2027	2028	2029	2030 and beyond	Total
Carryforward tax loss (*)	\$—	\$—	\$—	\$—	\$—	\$2,241	\$2,241
Valuation allowance	—	—	—	—	—	(2,241)	(2,241)
Net deferred tax assets	—	—	—	—	—	—	—

Year ended March 31, 2024

	Millions of yen						
	2024	2025	2026	2027	2028	2029 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥216	¥216
Valuation allowance	—	—	—	—	—	(90)	(90)
Net deferred tax assets	—	—	—	—	—	126	126

(*) 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, 2025 and 2024 was as follows:

	2025	2024
Statutory income tax rate	30.6%	30.6%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	1.1%	0.6%
Permanent difference (dividend income, etc.)	(0.6)%	(0.2)%
Inhabitants tax on per capita basis	0.3%	0.2%
Fluctuation in deferred tax assets valuation allowance account	(1.0)%	(0.5)%
Share of profit of entities accounted for using equity method	0.0%	(0.3)%
Different tax rates applied to foreign subsidiaries	(2.1)%	(1.8)%
Tax credit for research and development	(3.5)%	(2.2)%
Gain on bargain purchase	— %	(14.3)%
Loss on step acquisitions	— %	6.6%
Others	0.7%	1.5%
Effective income tax rate	27.5%	20.2%

Adjustment of deferred tax assets and liabilities due to change in tax rate

Following the enactment of the “Act for Partial Revision of the Income Tax Act, etc. (Act No. 13 of 2025)” on March 31, 2025, a special corporate tax for defense will be imposed starting from the consolidated fiscal year beginning on or after April 1, 2026.

Due to this tax rate change, deferred tax liabilities (net of deferred tax assets) increased by ¥72 million (\$482 thousand) , income taxes - deferred (credit) increased by ¥8 million (\$54 thousand) , and valuation difference on available-for-sale securities decreased by ¥80 million (\$536 thousand) .

21. Business Combinations

(Finalization of provisional accounting for business combination)

The provisional accounting applied in the previous consolidated fiscal year to the business combination for Lorch Schweißtechnik GmbH, conducted on January 1, 2024 (the acquisition date), was finalized during the fiscal year ended March 31, 2025.

In line with the finalization of the provisional accounting, the comparative information in the consolidated financial statements for the fiscal year ended March 31, 2025, reflects significant revisions to the acquisition cost initially allocated.

As a result, the provisional goodwill amount of ¥2,041 million (\$13,651 thousand) was reduced by ¥1,450 million (\$9,698 thousand) to ¥591 million (\$3,953 thousand) . This reduction was due to an increase of ¥2,026 million (\$13,550 thousand) in other intangible assets (e.g., customer-related assets), and an increase of ¥576 million (\$3,852 thousand) in deferred tax liabilities.

In addition, in the consolidated balance sheet for the previous consolidated fiscal year, other intangible assets (customer-related assets) increased by ¥2,026 million (\$13,550 thousand) , and deferred tax liabilities increased by ¥576 million (\$3,852 thousand).

The amortization period for goodwill is nine years, and the amortization period for other intangible assets (customer-related assets) is 10 to 20 years.

22. 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, 2025 and 2024 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2025 and 2024 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Balance at April 1	¥19,504	¥15,410	\$13,444
Service cost	810	651	5,417
Interest cost	177	177	1,184
Actuarial gain (loss)	(1,066)	(320)	(7,129)
Benefits paid	(1,403)	(1,397)	(9,383)
Recognition of past service cost	96	99	642
Adjustments due to new consolidations	11	4,858	74
Other	16	26	106
Balance at March 31	¥18,145	¥19,504	\$121,355

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Balance at April 1	¥34,198	¥24,690	\$228,719
Expected return on plan assets	558	445	3,732
Actuarial gain (loss)	(456)	5,472	(3,050)
Contributions paid by the employer	622	699	4,160
Benefits paid	(1,535)	(1,326)	(10,266)
Adjustments due to new consolidations	—	4,858	—
Balance at March 31	¥33,387	¥34,198	\$223,295

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

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Funded retirement benefit obligations	¥14,880	¥16,549	\$99,519
Plan assets	(33,387)	(34,198)	(223,295)
	(18,507)	(17,649)	(123,776)
Unfunded retirement benefit obligations	3,265	2,955	21,837
Total net defined benefit liability (asset) at March 31	¥(15,242)	¥(14,694)	\$(101,939)
Net defined benefit liability	¥3,265	¥2,955	\$21,837
Net defined benefit asset	(18,507)	(17,649)	(123,776)
Total net defined benefit liability (asset) at March 31	¥(15,242)	¥(14,694)	\$(101,939)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Service cost	¥810	¥651	\$5,417
Interest cost	177	177	1,184
Expected return on plan assets	(557)	(445)	(3,725)
Net actuarial loss amortization	(1,136)	(704)	(7,598)
Past service cost	96	99	642
Total retirement benefit expenses for the fiscal year ended March 31	¥(610)	¥(222)	\$(4,080)

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

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Actuarial gains and losses	¥(526)	¥5,089	\$(3,518)
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥(526)	¥5,089	\$(3,518)

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

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Unrecognized actuarial gains and losses	¥8,187	¥8,714	\$54,755
Total balance at March 31	¥8,187	¥8,714	\$54,755

(7) Plan assets

Plan assets comprise:

	2025	2024
Bonds	28.5%	28.3%
Equity Securities	45.1%	45.4%
Others	26.4%	26.3%
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

	2025	2024
Discount rates	1.0%~2.3%	0.4%~1.3%
Long-term expected rate of return	0.5%~3.0%	0.5%~3.0%

The contribution required to the defined contribution plan of the Companies was ¥577 million (\$3,859 thousand) and ¥586 million for the years ended March 31, 2025 and 2024, respectively.

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

23. Contingent liabilities

Contingent liabilities at March 31, 2025 and 2024 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Loan guarantees: Femitech GmbH	¥648	¥245	\$4,334
Loan guarantees: LASOtech Systems GmbH(*)	629	486	\$4,207
Loan guarantees:SHIHEN VIETNAM CO.,LTD.	—	30	—
Loan guarantees:SHIHEN (THAILAND) CO.,LTD.	—	21	—
Loan guarantees:Rolan RoboticsB.V.	49	—	328

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

24. Net assets

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

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

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

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

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

25. Revenue recognition

(1) Information that disaggregates revenue from contracts with customers

Year ended March 31, 2025

	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	¥114,966	¥9,267	¥55,366	¥179,599	¥7	¥179,606
North Americas	—	3,051	2,705	5,756	—	5,756
Asia	5,608	15,878	8,024	29,510	—	29,510
Other	241	4,524	6,554	11,319	—	11,319
Revenues from contracts with customers	¥120,815	¥32,720	¥72,649	¥226,184	¥7	¥226,191
Other	—	—	—	—	¥185	¥185
Sales to external customers	¥120,815	¥32,720	¥72,649	¥226,184	¥192	¥226,376

	Thousands of U.S. dollars					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	\$768,900	\$61,979	\$370,292	\$1,201,171	\$47	\$1,201,218
North Americas	—	20,405	18,091	38,496	—	38,496
Asia	37,507	106,193	53,665	197,365	—	197,365
Other	1,612	30,257	43,833	75,702	—	75,702
Revenues from contracts with customers	\$808,019	\$218,834	\$485,881	\$1,512,734	\$47	\$1,512,781
Other	—	—	—	—	¥1,237	¥1,237
Sales to external customers	\$808,019	\$218,834	\$485,881	\$1,512,734	\$1,284	\$1,514,018

Year ended March 31, 2024

	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	¥93,080	¥11,057	¥44,724	¥148,861	¥8	¥148,869
North Americas	—	3,940	2,377	6,317	—	6,317
Asia	4,475	16,063	7,343	27,881	—	27,881
Other	47	3,789	1,491	5,327	—	5,327
Revenues from contracts with customers	¥97,602	¥34,849	¥55,935	¥188,386	¥8	¥188,394
Other	—	—	—	—	¥178	¥178
Sales to external customers	¥97,602	¥34,849	¥55,935	¥188,386	¥186	¥188,572

(*) 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
	2025	2024	2025
Receivables arising from contracts with customers (beginning balance)	¥57,746	¥44,802	\$386,209
Receivables arising from contracts with customers (ending balance)	¥55,477	¥57,746	\$371,034
Contract liabilities (beginning balance)	¥1,403	¥1,695	\$9,383
Contract liabilities (ending balance)	¥1,810	¥1,403	\$12,105

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, 2025 that was included in the contract liability balance at the beginning of the period amounted to ¥1,313 million (\$8,781thousand).

The amount of revenue recognized in the fiscal year ended March 31, 2024 that was included in the contract liability balance at the beginning of the period amounted to ¥1,350 million

(b) Transaction price allocated to remaining performance obligations

The total amount of transaction price allocated to residual performance obligations was ¥109,352 million (\$731,354thousand) on March 31, 2025.

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 ¥94,511 million on March 31, 2024.

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.

26. 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 organizational structure, in which each division formulates comprehensive domestic and international strategies for its products and services and conducts business activities accordingly.

Based on this structure, the Company has identified three technology domains: “Energy Management,” “Factory Automation,” and “Material Processing” as its reportable segments.

The main products for each reportable segment and their explanations are as follows.

	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

Energy Management : This field aims to support the electric power infrastructure and contribute to the realization of a decarbonized society through equipment and systems that contribute to utilizing and expanding renewable energy, in addition to the conventional electric power equipment products for electric power companies and general consumer demand.

Factory Automation : This field is where we aim to contribute to automation and labor saving in factories around the world, not only with welding robots, which is the Company’s strength, but also with various industrial robots and transport systems for handling, assembly, processing, etc.

Material Processing : This field is where we aim to expand the business in a wide range of processing areas such as precision joining, cutting, deposition, surface treatment, and modeling of metals, semiconductors, and resin materials through high-precision control technology of various energy sources.

(2) Accounting methods for net sales, income (loss), assets and other items for reportable segments
The accounting policies for the reportable segments are consistent with those disclosed in “Summary of significant accounting policies.”

The amount of segment income corresponds to that of operating profit. Intersegment sales and transfer prices are calculated based on market value.

Year ended March 31, 2025	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥120,815	¥32,720	¥72,649	¥226,184	¥192	¥226,376
Intersegment	—	54	8	62	—	62
Total	¥120,815	¥32,774	¥72,657	¥226,246	¥192	¥226,438
Segment income	¥11,478	¥2,275	¥6,985	¥20,738	¥34	¥20,772
Assets	128,037	47,473	91,730	267,240	1,073	268,313
Other items						
Depreciation (*2)	3,100	882	1,736	5,718	—	5,718
Amortization of goodwill	—	—	68	68	—	68
Increase in property, plant and equipment and intangible assets (*3,4)	4,665	964	2,296	7,925	—	7,925

Year ended March 31, 2025	Thousands of U.S. dollars					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	\$808,019	\$218,834	\$485,881	\$1,512,734	\$1,284	\$1,514,018
Intersegment	0	361	54	415	0	415
Total	\$808,019	\$219,195	\$485,935	\$1,513,149	\$1,284	\$1,514,433
Segment income	\$76,766	\$15,215	\$46,716	\$138,697	\$228	\$138,925
Assets	856,320	317,503	613,496	1,787,319	7,177	1,794,496
Other items						
Depreciation (*2)	20,733	5,899	11,610	38,242	—	38,242
Amortization of goodwill	—	—	455	455	—	455
Increase in property, plant and equipment and intangible assets (*3,4)	31,200	6,447	15,356	53,003	—	53,003

Year ended March 31, 2024	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	¥97,602	¥34,849	¥55,935	¥188,386	¥186	¥188,572
Intersegment	—	19	3	22	—	22
Total	¥97,602	¥34,868	¥55,938	¥188,408	¥186	¥188,594
Segment income	¥8,344	¥4,103	¥6,325	¥18,772	¥29	¥18,801
Assets	122,276	46,765	85,888	254,929	1,216	256,145
Other items						
Depreciation (*2)	2,579	792	1,216	4,587	0	4,587
Increase in property, plant and equipment and intangible assets (*3,4)	3,093	810	3,591	7,494	2	7,496

(*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) Increase in property, plant and equipment and intangible assets does not include the increase of those arising from new consolidations.

(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
	2025	2024	2025
Reportable segment	¥226,246	¥188,408	\$1,513,149
Sales of other	192	186	1,284
Segment adjustments	(62)	(22)	(415)
Consolidated net sales	¥226,376	¥188,572	\$1,514,018

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Reportable segment	¥20,738	¥18,772	\$138,697
Income of other	34	29	227
Segment adjustments	1	(1)	7
Company expenses	(4,599)	(3,654)	(30,758)
Consolidated operating income	¥16,174	¥15,146	\$108,173

(*)“Company expenses” are operating expenses which cannot be allocated to any reportable segments.

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2025	2024	2025
Reportable segment	¥267,240	¥254,929	\$1,787,319
Assets of other	1,073	1,216	7,176
Corporate assets	22,129	20,898	148,000
Other adjustments	(207)	(419)	(1,383)
Consolidated total assets	¥290,235	¥276,624	\$1,941,112

(*)“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

	Millions of yen			
Year ended March 31, 2025	Reportable segment	Other	Adjustment	Consolidated
Depreciation	¥5,718	—	¥779	¥6,497
Amortization of Goodwill	68	—	—	68
Increase in property, plant and equipment and intangible assets	7,925	—	1,768	9,693

	Thousands of U.S. dollars			
Year ended March 31, 2025	Reporting segment	Other	Adjustment	Consolidated
Depreciation	\$38,242	—	\$5,210	\$43,452
Amortization of Goodwill	455	—	—	455
Increase in property, plant and equipment and intangible assets	53,003	—	11,824	64,827

Year ended March 31, 2024	Millions of yen			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	¥4,587	¥0	¥737	¥5,324
Increase in property, plant and equipment and intangible assets	7,494	1	784	8,279

(*) “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, 2025 and 2024 was as follows:

(a) Net sales

Year ended March 31, 2025	Millions of yen				
	Japan	North America	Asia	Other	Total
Net sales	¥179,791	¥5,756	¥29,510	¥11,319	¥226,376

Year ended March 31, 2025	Thousands of U.S. dollars				
	Japan	North America	Asia	Other	Total
Net sales	\$1,202,455	\$38,496	\$197,365	\$75,702	\$1,514,018

Year ended March 31, 2024	Millions of yen				
	Japan	North America	Asia	Other	Total
Net sales	¥149,048	¥6,317	¥27,881	¥5,326	¥188,572

(b) Tangible fixed assets

Year ended March 31, 2025	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥43,441	¥317	¥5,651 ¥3,584	¥3,613	¥53,022

Year ended March 31, 2025	Thousands of U.S. dollars				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	\$290,536	\$2,120	\$37,794 \$23,970	\$24,166	\$354,616

Year ended March 31, 2024	Millions of yen				
	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	¥40,759	¥343	¥5,482 ¥3,264	¥2,303	¥48,887

(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, 2025 and 2024 was as follows:

Year ended March 31, 2025	Millions of yen		
	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	¥35,913	Material Processing
	The Kansai Electric Power Co., Inc.	25,120	Energy Management
Year ended March 31, 2025	Thousands of U.S. dollars		
	Major customers	Revenue	Related segments
	Tokyo Electron Miyagi Limited	\$240,189	Material Processing
	The Kansai Electric Power Co., Inc.	168,004	Energy Management
Year ended March 31, 2024	Millions of yen		
	Major customers	Revenue	Related segments
	The Kansai Electric Power Co., Inc.	¥25,482	Energy Management
	Tokyo Electron Miyagi Limited	25,338	Material Processing

(*) 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, 2025 and 2024.

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

Year ended March 31, 2025.

Millions of yen							
	Reportable segments				Other	Corporate / Elimination	Total
	Energy Management	Factory Automation	Material Processing	Subtotal			
(Goodwill)							
Amortization for the fiscal year	—	—	¥68	¥68	—	—	¥68
Balance at the end of the fiscal year	—	—	¥525	¥525	—	—	¥525

Thousands of U.S. dollars

	Reportable segments				Other	Corporate / Elimination	Total
	Energy Management	Factory Automation	Material Processing	Subtotal			
(Goodwill)							
Amortization for the fiscal year	—	—	\$455	\$455	—	—	\$455
Balance at the end of the fiscal year	—	—	\$3,511	\$3,511	—	—	\$3,511

Year ended March 31, 2024

Millions of yen

	Reportable segments				Other	Corporate / Elimination	Total
	Energy Management	Factory Automation	Material Processing	Subtotal			
(Goodwill)							
Amortization for the fiscal year	—	—	—	—	—	—	—
Balance at the end of the fiscal year	—	—	¥591	¥591	—	—	¥591

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

Year ended March 31, 2025

Not applicable

Year ended March 31, 2024.

In the “Energy Management” segment, a gain on bargain purchase of ¥1,971 million was recorded due to the acquisition of shares of Tohoku Electric Manufacturing Co., Ltd. on October 1, 2023 as the date of business combination, making it a consolidated subsidiary.

In the “Energy Management” segment, a gain on bargain purchase of ¥7,949 million was recorded due to the additional acquisition of shares of SHIHEN TECHNICAL Corporation on October 1, 2023 as the date of business combination, making it a consolidated subsidiary.

27. Additional Information

Audit remuneration

(1) Remuneration of the Auditor

Millions of yen

	Fiscal year ended March 31, 2025		Fiscal year ended March 31, 2024	
	Remuneration for audit and attestation service	Remuneration for non-audit services	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	¥95	¥38	¥95	¥56
Consolidated subsidiaries	—	—	—	—
Total	¥95	¥38	¥95	¥56

	Thousands of U.S. dollars	
	Fiscal year ended March 31, 2025	
	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	\$635	\$254
Consolidated	—	—
subsidiaries		
Total	\$635	\$254

(Note) The non-audit services for the Company consisted of advisory services for financial and tax due diligence.

(2) Remuneration of the network firms to which the Auditor (KPMG network firm), excluding Remuneration of the Auditor

	Millions of yen			
	Fiscal year ended March 31, 2025		Fiscal year ended March 31, 2024	
	Remuneration for audit and attestation service	Remuneration for non-audit services	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	—	—	—	—
Consolidated	¥16	¥17	¥16	¥21
subsidiaries				
Total	¥16	¥17	¥16	¥21

	Thousands of U.S. dollars	
	Fiscal year ended March 31, 2025	
	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	—	—
Consolidated	\$107	¥114
subsidiaries		
Total	\$107	¥114

(Note) The non-audit services for the consolidated subsidiaries consisted of advisory services for taxation, etc

(3) Remuneration based on other significant audit and attestation services

Not applicable



Independent Auditor's Report

DAIHEN Corporation

For the Years ended March 31,
2025 and 2024

KPMG AZSA LLC
September 2025

This independent auditor's report prepared by KPMG AZSA LLC (including the one that is signed with electronic 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.:

Report on the Audit of the Consolidated Financial Statements

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, 2025 and 2024, 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, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of the Company's determination of the accounting period in which revenue was recognized from sales	
The key audit matter	How the matter was addressed in our audit
The amount of revenue from sales of DAIHEN Corporation and its consolidated subsidiaries (hereinafter referred to as the "DAIHEN Group") amounted to ¥226,375 million in the consolidated fiscal year ended March 31, 2025. As described in Note 2(21), "Summary of significant accounting policies - Basis for recognition of significant revenue and expenses" and Note 25(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 ¥70,550 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, 2025 and, accordingly, a key audit matter.	The primary procedures we performed to assess whether revenue from sales was recognized in the appropriate accounting period included the following. As part of these procedures, we engaged the auditors of significant overseas consolidated subsidiaries, provided direction to them, supervised them, and reviewed the audit work they performed: (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 five 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 and meet certain conditions were recorded in an appropriate accounting period by comparing them with the materials that support sales; ● confirmed that sales recorded at near 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.

Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose 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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are described in "Audit remuneration" included in "27. Additional Information" of the Annual Report.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2025 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.

Takehiro Nakamura
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 30, 2025