FINANCIAL STATEMENTS

YEARS ENDED 31ST MARCH, 2024 AND 2023

WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DAIHEN Corporation

2-1-11, Tagawa Yodogawa-ku

Osaka, Japan

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2024 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2024	2023	2024
ASSETS			
Current assets:			
Cash and deposits (Note 5 and 9)	¥23,328	¥15,266	$154,072
Receivables —			
Notes and accounts receivable-trade (Note 6, 9 and 18)			
Unconsolidated subsidiaries and affiliates	624	497	4,121
Other	57,122	44,304	377,267
Loans and other accounts	4,273	3,374	28,221
Allowance for doubtful accounts	(786)	(482)	(5,191)
	61,233	47,693	404,418
Inventories (Note 8)	99,014	78,636	653,946
Other current assets	3,394	2,329	22,416
Total current assets	186,969	143,924	1,234,852
Property, plant and equipment (Note 11 and 13):			
Land	13,162	8,921	86,930
Buildings and structures	56,870	48,601	375,603
Machinery and equipment	73,286	60,638	484,024
Lease assets	1,476	1,469	9,748
Construction in progress	4,438	1,264	29,311
Total	149,232	120,893	985,616
Accumulated depreciation	(100,345)	(82,838)	(662,737)
Net property, plant and equipment	48,887	38,055	322,879
Intangible assets:			
Software	2,056	1,898	13,579
Goodwill	2,041		13,480
Other intangible assets	310	221	2,047
Total intangible assets	4,407	2,119	29,106
Investments and other assets:			
Investment securities (Note 9 and 10)	12,640	8,661	83,482
Investments in unconsolidated subsidiaries and affiliates (Note 9)	1,896	6,425	12,522
Deferred tax assets (Note 15)	1,370	1,287	9,048
Net defined benefit asset (Note 17)	17,649	11,155	116,564
Other	2,852	1,115	18,837
Allowance for doubtful accounts	(46)	(50)	(304)
Total investments and other assets	36,361	28,593	240,149
Total assets	¥276,624	¥212,691	$1,826,986

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Balance Sheets
Years Ended March 31, 2024 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2024	2023	2024
LIABILITIES			
Current liabilities:			
Short-term loans (Note 9, 13 and 14)	¥30,192	¥8,103	$199,406
Long-term debt due within one year (Note 9, 13 and 14)	5,212	4,901	34,423
Notes and accounts payable-trade (Note 9)			
Unconsolidated subsidiaries and affiliates	83	298	548
Other	19,958	19,489	131,814
Electronically recorded obligations –operating (Note 9)	15,411	19,470	101,783
Accrued employees’ bonuses	3,286	3,928	21,703
Accrued directors' and corporate auditors' bonuses	79	125	522
Allowance for loss on construction contracts	123	113	812
Income taxes payable	2,185	2,935	14,431
Other current liabilities (Note 7)	10,109	7,740	66,766
Total current liabilities	86,638	67,102	572,208
Long-term liabilities:			
Long-term debt (Note 9, 13 and 14)	31,048	20,203	205,059
Net defined benefit liability (Note 17)	2,955	1,875	19,517
Reserve for directors’ and corporate auditors’ retirement benefits	110	60	727
Asset retirement obligation	108	73	713
Deferred tax liabilities (Note 15)	4,280	941	28,268
Provision for construction expenses related to earhquake resistance renovation	578	622	3,817
Provision for loss on guarantees	766	652	5,059
Provision for product safety measures	3	5	20
Other noncurrent liabilities	1,542	1,252	10,184
Total long-term liabilities	41,390	25,683	273,364
Total liabilities	128,028	92,785	845,572
Contingent liabilities (Note 18)			
NET ASSETS (Note 20)			
Shareholders' equity:			
Common stock — (Note 4)	10,596	10,596	69,982
Authorized - 108,000 thousand shares in 2023 and 2022			
Issued - 27,103 thousand shares in 2023 and 2022			
Capital surplus	10,011	10,043	66,118
Retained earnings	94,768	85,393	625,903
Treasury stock, at cost — (Note 4)			
— 2,564 thousand shares in 2023			
— 2,567 thousand shares in 2022	(2,349)	(4,823)	(15,514)
Accumulated other comprehensive income:			
Net unrealized holding gains and losses on available-for-sale securities	6,208	3,821	41,001
Foreign currency translation adjustments	9,104	6,322	60,128
Remeasurements of defined benefit plans	5,799	2,449	38,300
Total accumulated other comprehensive income	21,111	12,592	139,429
Noncontrolling interests	14,459	6,105	95,496
Total net assets	148,596	119,906	981,414
Total liabilities and net assets	¥276,624	¥212,691	$1,826,986

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Comprehensive Income
Years Ended March 31, 2024 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2024	2023	2024
Profit	¥16,894	¥13,431	$111,578
Other comprehensive income			
Net unrealized holding gains and losses on available-for-sale securities	2,386	(49)	15,759
Net deferred gains and losses on hedges	—	—	0
Foreign currency translation adjustments	2,790	2,993	18,427
Remeasurment of defined benefit plans	3,479	731	22,977
Share of other comprehensive income of affiliates accounted	60	—	396
for using equity method	0	(6)	0
Total other comprehensive income (Note 4)	8,715	3,669	57,559
Comprehensive income	¥25,609	¥17,100	$169,137
Attributable to:			
Owners of parent	¥24,947	¥12,138	$164,765
Noncontrolling interests	¥662	¥270	$4,372

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statement of Changes in Net Assets
Years ended March 31, 2024 and 2023

	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, 2022	¥10,596	¥10,034	¥74,981	¥(4,825)	¥3,876	—	¥3,332	1,699	¥5,943	¥105,636
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	¥10,596	¥10,034	¥74,981	¥(4,825)	¥3,876	—	¥3,332	1,699	¥5,943	¥105,636
Cash dividends paid - ¥135.0 per share -(Note 4)	—	—	(3,323)	—	—	—	—	—	—	(3,323)
Profit attributable to owners of parent	—	—	13,194	—	—	—	—	—	—	13,194
Adjustments due to change in the fiscal period of consolidated subsidiaries	—	—	541	—	—	—	—	—	—	541
Treasury stock, net	—	10	—	2	—	—	—	—	—	12
Additional purchase of shares of consolidated subsidiaries	—	(1)	—	—	—	—	—	—	—	(1)
Net changes in items other than shareholders' equity	—	—	—	—	(55)	—	2,990	750	162	3,847
Balance at March 31, 2023	¥10,596	¥10,043	¥85,393	¥(4,823)	¥3,821	—	¥6,322	¥2,449	¥6,105	¥119,906
Cash dividends paid - ¥169.5 per share -(Note 4)	—	—	(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 byconsolidated 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

	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, 2023	$69,982	$66,330	$563,985	$(31,854)	$25,236	—	$41,754	$16,175	$40,321	$791,929
Cash dividends paid - $1.12 per share -(Note 4)	—	—	-27,561	—	—	—	—	—	—	-27,561
Profit attributable to owners of parent	—	—	108,943	—	—	—	—	—	—	108,943
Treasury stock, net	—	79	—	(26)	—	—	—	—	—	53
Cancellation of treasury shares	—	(19,827)	—	19,827	—	—	—	—	—	0
Increase interests of parent company stock held by consolidated subsidiaries	—	—	—	(3,461)	—	—	—	—	—	(3,461)
Changes in equity of parent from transaction of non controlling interest	—	72	—	—	—	—	—	—	—	72
Transfer to capital surplus from retained earnings	—	19,464	(19,464)	—	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	15,765	(0)	18,374	22,125	55,175	111,439
Balance at March 31, 2024	$69,982	$66,118	$625,903	$(15,514)	$41,001	(0)	$60,128	$38,300	$95,496	$981,414

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Income
Years Ended March 31, 2024 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2024	2023	2024
Net sales (Note 11 and 20)	¥188,572	¥185,288	$1,245,440
Cost of sales (Note 8, 11 and 17)	135,167	132,101	892,722
Gross profit	53,405	53,187	352,718
Selling, general and administrative expenses (Note 17)	38,259	36,619	252,685
Operating income	15,146	16,568	100,033
Other income (expenses):			
Interest and dividend income	473	399	3,124
Interest expense	(524)	(313)	(3,461)
Foreign currency exchange gain (loss)	443	209	2,926
Gain on sales of investment securities	265	414	1,750
Share of profit of entities accounted for using equity method	235	182	1,552
Loss on step acquisitions	(4,600)	—	(30,381)
Provision for loss on guarantees	(113)	(135)	(746)
Provision of allowance for doubtful accounts	(277)	(48)	(1,829)
Reversal of allowance for doubtful accounts	—	—	—
Gain on bargain purchase	9,920	—	65,517
Impairment loss on investment securities	—	(7)	—
Other, net	211	615	1,394
Total other income (expenses)	6,033	1,316	39,845
Income before income taxes	21,179	17,884	139,878
Income taxes (Note 15):			
Current	3,900	5,044	25,758
Deferred	385	(591)	2,543
Profit	¥16,894	¥13,431	$111,577
Profit attributable to noncontrolling interests	399	237	2,635
Profit attributable to owners of parent	16,495	13,194	108,942

Per share of common stock: (Note 2 (21))	Yen		U.S. dollars (Note 1)
Net income per share	¥673.20	¥537.67	$4.45
Cash dividends applicable to the year	¥165.00	¥162.00	$1.09

See accompanying Notes to Consolidated Financial Statements.

DAIHEN CORPORATION
Consolidated Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2024	2023	2024
Cash flows from operating activities:			
Profit before income taxes	¥21,178	¥17,884	$139,872
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation	5,324	5,069	35,163
Gain on bargain purchase	(9,920)	—	(65,517)
Loss on step acquisitions	4,600	—	30,381
Increase (decrease) in allowance for doubtful accounts	258	26	1,704
Increase (decrease) in provision for bonuses	(1,182)	368	(7,807)
Increase (decrease) in allowance for loss on construction contracts	10	33	66
Increase (decrease) in provision for loss on guarantees	113	135	746
Increase (decrease) in provision for construction expenses related	—	—	—
Increase(decrease) in provision for construction expenses related to errthquakes resistan	(44)	(2)	(291)
Increase (decrease) in provision for product safety measures	(2)	(9)	(13)
Increase (decrease) in net defined benefit liability	811	(66)	5,356
Decrease (increase) in net defined benefit asset	(235)	(444)	(1,552)
Interest and dividend income	(473)	(399)	(3,124)
Interest expense	524	313	3,461
Share of loss (profit) of entities accounted for using equity method	(235)	(182)	(1,552)
Loss (gain) on valuation of investment securities	(265)	7	(1,750)
Loss (gain) on sale of investment securities	—	(414)	—
Loss on valuation of investments in capital of subsidiaries and associates	—	—	—
Decrease (increase) in trade receivable	(2,889)	(8,798)	(19,081)
Decrease (increase) in inventories	(10,459)	(14,360)	(69,077)
Increase (decrease) in trade payables	(9,744)	(204)	(64,355)
Other, net	(1,108)	(1,202)	(7,318)
Subtotal	(3,738)	(2,245)	(24,688)
Interest and dividends received	493	414	3,256
Interest paid	(526)	(319)	(3,474)
Income taxes paid	(5,222)	(5,082)	(34,489)
Net cash provided by (used in) operating activities	(8,993)	(7,232)	(59,395)
Cash flows from investing activities:			
Net decrease in time deposits	(400)	—	(2,642)
Purchases of property, plant and equipment	(6,913)	(4,471)	(45,657)
Proceeds from sales of property, plant and equipment	40	44	264
Purchases of intangible assets	305	(724)	2,014
Proceeds from sales of intangible assets	(570)	—	(3,765)
Purchases of investment in securities	(7)	(17)	(46)
Net decrease (increase) in short-term loans receivable	(277)	—	(1,829)
Payments for investments in capital	—	619	—
Purchase of subsidiary investment	—	(214)	—
Proceeds from divestments	—	10	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolida	2,407	—	15,897
Purchase of equity of subsidiaries resulting in change in scope of consolidation	(2,631)	—	(17,377)
Other, net	(872)	35	(5,759)
Net cash used in investing activities	(10,565)	(4,718)	(69,778)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	20,240	2,308	133,677
Proceeds from long-term loans	15,000	7,500	99,069
Repayment of long-term loans	(4,884)	(4,384)	(32,257)
Repayment of lease obligations	(157)	(134)	(1,037)
Purchase of treasury stock	(11)	(6)	(73)
Cash dividends paid	(4,167)	(3,327)	(27,521)
Other, net	(66)	(62)	(436)
Net cash provided by (used in) financing activities	25,955	1,895	171,422
Effect of exchange rate changes on cash and cash equivalents	828	298	5,469
Net increase (decrease) in cash and cash equivalents	7,225	(9,757)	47,718
Cash and cash equivalents at beginning of year	14,853	24,409	98,098
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	—	—
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	—	201	—
Cash and cash equivalents at end of year (Note 5)	¥22,078	¥14,853	$145,816

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, 2024, which was ¥151.41 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

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

There were 29 and 27 consolidated subsidiaries as of March 31, 2024 and 2023, respectively. There were 2 and 3 companies accounted for using the equity method as of March 31, 2024 and 2023.

Names of the consolidated subsidiaries.

- An absorption-type merger was carried out on April 1, 2023, with the Company as the surviving company, and DAIHEN Techno Support Corporation, which was a consolidated subsidiary, as the dissolved company.
- Tohoku Electric Manufacturing Co., Ltd. is included in the scope of consolidation from the fiscal year ended March 31, 2024 because it became a subsidiary due to the acquisition of shares.

・SHIHEN TECHNICAL Corporation, which was an affiliate accounted for using equity method is included in the scope of consolidation from the fiscal year ended March 31, 2024 because it became a subsidiary due to the acquisition of additional shares.
・Lorch Schweißtechnik GmbH is included in the scope of consolidation from the fiscal year ended March 31, 2024 because it became a subsidiary due to the acquisition of shares.

In consolidated subsidiaries, the fiscal year-end of Lorch Schweißtechnik GmbH is December 31. Accordingly, its financial statements as of that date have been used in the consolidated financial statements upon adjustment for any material transactions arising thereafter up to the consolidated closing date.
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 d.d., and one affiliate accounted for using equity method, namely, OTC DAIHEN Bangkok Co., Ltd.

(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 amortized using the straight-line method over the estimated useful life of 5 years. Software for sale is amortized using the estimated sales method. Other intangible assets are amortized using the straight-line method over the useful life determined in accordance with the Corporation Tax Law.

(8) Lease assets
Lease assets with respect to finance leases that do not transfer ownership of the leased property are depreciated using the straight-line method, with the assumption that the useful life of the asset is the term of the lease and that the residual value is zero.

(9) Accrued employees' bonuses
As of the balance sheet date, accrued employees' bonuses are recorded in the amount of the estimated bonuses attributable to the respective fiscal year. Accrued bonuses to directors and corporate auditors also are provided for based on the estimated amounts attributable to the respective fiscal year.

(10) Allowance for loss on construction contracts
Allowance for loss on construction contracts is provided with respect to construction projects for which eventual losses can be reasonably estimated.

(11) Reserve for employees' severance and retirement benefits
In determining retirement benefit obligations, the estimated amount of retirement benefits is attributed to periods of service on the benefit formula basis.

Differences generated from changes in actuarial assumptions are charged or credited to income in an amount allocated on a straight-line method mainly over 15 years, which is shorter than the average remaining service period of the employees, beginning with the term in which the differences are generated.

In calculating the liability for employees' severance and retirement benefits and retirement benefit expenses, certain consolidated subsidiaries adopt a simplified method in which the amount required to be paid if all the employees retired voluntarily at the fiscal year end is regarded as retirement benefit obligation.

(12) Reserve for directors' and corporate auditors' retirement benefits
Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. The reserve for directors' and corporate auditors' retirement benefits is provided for in the amount deemed to be paid in accordance with the internal rules as if the directors and corporate auditors had retired at the fiscal year-end.

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

(14) Provision for construction expenses related to earthquake resistance renovation
An allowance for the estimated removal costs is provided with respect to anti-earthquake reinforcement work for the building and plant in the Juso and Mie business office.

(15) Provision for product safety measures
An allowance for the estimated future costs is provided with respect to inspections of and repairs on electric water heaters, manufactured and sold at one of the consolidated subsidiaries, Kyuhen Co., Inc.

(16) Income taxes
The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carry-forwards and the expected future tax consequences of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(17) Translation of foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income.

Income and expense items denominated in foreign currencies are translated using the rate on the date of the transaction. Related exchange gains and losses are credited or charged to income as incurred.

For the financial statements of overseas subsidiaries and affiliates, assets and liabilities are translated at the foreign exchange rates prevailing at each balance sheet date. Revenue and expenses are translated at the average rates of exchange for the respective years. Net assets accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

(18) Research and development expenses
Research and development expenses, which are charged to income as incurred, amounted to ¥6,152 million ($40,633 thousand) and ¥6,311 million in 2024 and 2023, respectively.

(19) Derivatives and hedge accounting

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

Also, if foreign exchange forward contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

(20) Basis for recognition of significant revenue and expenses

The Companies' main business is the manufacture, sale, and repair of various transformers, various welding machines, industrial robots, power sources for plasma generation, clean transport robots, etc.

In principle, revenue from the sale of this merchandise or finished goods is recognized at the time of delivery of the merchandise or finished goods because it is in principle determined that the customer gains control over the merchandise or finished good at the time of delivery and that the Companies' performance obligation is satisfied.

In cases in which the period from shipping of the merchandise or finished goods to the transfer of control to the customers is ordinary, domestic sales are recognized at the time of shipping. In addition, export sales are recognized at the time of shipment as the time when the risk burden is transferred to the customer mainly based on the trade conditions specified in Incoterms, etc.

For certain merchandise or finished goods that require on-site installation adjustment, revenue is recognized when performance confirmation is completed after completion of the on-site installation adjustment.

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

(21) Per share information

Computations of net income per share of common stock are based on the weighted average number of shares of common stock outstanding during the fiscal year. Diluted net income per share for the year ended March 31, 2024 and 2023 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.

(22) Amortization method and period of goodwill

Goodwill is depreciated by the straight-line method over 9 years.

3. Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Net unrealized holding gains and losses on securities arising during the year	¥3,694	¥370	$24,397
Reclassification adjustments	(265)	(407)	(1,750)
Subtotal, before tax	3,429	(37)	22,647
Tax effects	(1,043)	(12)	(6,888)
Subtotal, net of tax	¥2,386	¥(49)	$15,759
Net deferred gains and losses on hedges arising during the year	¥(0)	¥—	$(0)
Reclassification adjustments	—	—	—
Subtotal, before tax	(0)	—	(0)
Tax effects	0	—	0
Subtotal, net of tax	¥(0)	¥—	$(0)
Foreign currency translation adjustments arising during the year	¥2,790	¥2,993	$18,427
Remeasurements of defined benefit plans arising during the year	¥5,457	¥1,132	$36,041
Reclassification adjustments	(368)	(80)	(2,431)
Subtotal, before tax	5,089	1,052	33,610
Tax effects	(1,610)	(321)	(10,633)
Subtotal, net of tax	¥3,479	¥731	$22,977
Share of other comprehensive income of associates accounted for using the equity method arising during the year	¥60	¥(6)	$(369)
Total other comprehensive income	¥8,715	¥3,669	$57,559

4. Consolidated Statement of Changes in Net Assets

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 related 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 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 28, 2023 Annual General Meeting of Shareholders	Common stock	2,142	14,147	87.00	0.57	March 31, 2023	June 29, 2023
November 2, 2023, Board of Directors	Common stock	2,031	13,414	82.50	0.54	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		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	Retained earnings	2,014	13,302	82.50	0.54	March 31, 2024	June 27, 2024

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

(1) Items related to common stock

(Thousands of shares)

Type of shares	Number of shares as of April 1, 2022	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2023
Common stock	27,103	–	–	27,103

(2) Items relate to treasury stock

(Thousands of shares)

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

(Overview of reasons for fluctuations)

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

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

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

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

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

(3) Items relate to dividends

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 28, 2022 Annual General Meeting of Shareholders	Common stock	1,477	60.00	March 31, 2022	June 29, 2022
November 2, 2022, Board of Directors	Common stock	1,846	75.00	September 30, 2022	December 5, 2022

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

(Resolution)	Type of shares	Source of dividends	Dividends paid (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 28, 2023 Annual General Meeting of Shareholders	Common stock	Retained earnings	2,141	87.00	March 31, 2023	June 29, 2023

5. 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, 2024 and 2023 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Cash and deposits	¥23,328	¥15,266	$154,072
Time deposits with maturities exceeding three months	(1,250)	(413)	(8,256)
Cash and cash equivalents	¥22,078	¥14,853	$145,816

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

Year ended March 31,2023
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 2024	Thousands of U.S. dollars 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 2024	Thousands of U.S. dollars 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

6. 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
	2024	2023	2024
Notes receivable - trade	¥4,035	¥8,219	$26,649
Accounts receivable - trade	¥48,072	¥36,582	$317,496

7. Contract liabilities

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

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Contract liabilities	¥1,403	¥1,695	$9,266

8. Inventories

(1) Inventories at March 31, 2024 and 2023 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Merchandise and finished goods	¥30,680	¥24,431	$202,629
Work-in-process	16,793	14,841	110,911
Raw materials and supplies	51,541	39,364	340,407
	¥99,014	¥78,636	$653,947

(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, 2024 and 2023 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Cost of sales	¥313	¥464	$2,067

9. Financial instruments and related disclosures

(1) Qualitative information on financial instruments
(a) Policies for using financial instruments
The Companies policy on cash investments is to invest mainly in short-term bank deposits. The Companies raise funds necessary for operating and investing activities through loans from banks and other financial institutions. The policy requires that the Companies use derivatives only to mitigate the risks described below and not to conduct speculative transactions for trading purposes.

(b) Details of financial instruments used and exposures to risks
Notes and trade accounts receivable - trade are exposed to credit risks associated with customers. Trade receivables denominated in foreign currencies generated through global business operations are exposed to the risk of fluctuations in exchanges rates, mitigated through foreign exchange forward contracts. Investment securities, consisting mainly of stocks held primarily to build and maintain good business relationships with business partners, including financial institutions, are exposed to the risk of fluctuation in prices.
Notes and accounts payable - – trade and electronically recorded obligations - operating, which are trade liabilities, are due within one year. Some of these are exposed to foreign exchange rate fluctuation risk generated through the import of raw materials denominated in foreign currencies, which is mitigated principally through foreign exchange forward contracts. Loans are used primarily to raise short-term funds for operating activities, and long-term funds are used for investing activities. The final maturity of long-term debt is 9 years after the fiscal year-end.

Derivative transactions comprise foreign exchange forward contracts and currency swaps used to hedge the foreign exchange risk of receivables and payables - trade and loans receivable denominated in foreign currency as well as interest rate swaps used to hedge interest rate risks of some long-term debt. “Summary of significant accounting policies,” in Note 2(19) explains the Companies’ hedge accounting policy, and “Derivative financial instruments and hedging transactions” in Note 12 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, 2024 was represented by the book value of the financial instruments exposed to credit risk on the consolidated balance sheet.

(ii) Market risk management (managing the risks arising from fluctuations in exchange rates, interest rates and other indicators)

The Companies utilize mainly foreign exchange forward contracts and currency swap contracts in respect to accounts receivable - trade, accounts payable - trade and loans receivable denominated in foreign currencies to mitigate exchange rate fluctuation risk, which is monitored monthly for each currency. Monitoring foreign exchange markets closely, the Company applies foreign exchange forward contracts and currency swap contracts to expected export transactions. The Companies also utilize interest rate swap contracts to mitigate the floating interest expense risk of long-term debt. For investment securities, the Companies manage the risk of fluctuations in stock prices by periodically assessing the stock prices and the financial positions of the issuers. The Companies evaluate whether to continue holding such investments, taking into account their fair values and the business relationship with the issuers.

The chief of the accounting division at the Company's headquarters and each consolidated subsidiaries consider, trade and manage derivatives according to the Company's policies.

(iii) Liquidity risk management (managing the risks that the Companies may not be able to meet their obligations on their scheduled due dates)

The Company minimizes liquidity risk through the accounting division's timely preparation of cash flow plans based on reports from each division, business units and major subsidiaries.

(d) Supplemental information on fair values

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 12, "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

Rade receivables related to certain large customers was 14.0% and 19.6% at March 31, 2024 and 2023, 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, 2024 and 2023 are set forth in the table below. Certain financial instruments were excluded from the tables as their fair values were not available.

	Millions of yen		
Year ended March 31, 2024	Book value	Fair value	Difference
Investment securities			
Other securities	¥12,139	¥12,139	¥—
stock			
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)	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2024	Book value	Fair value	Difference
Investment securities			
Other securities	$80,173	$80,173	$—
stock			
Total assets	$80,173	$80,173	$—
Long-term debt	237,580	231,451	(6,129)
Total liabilities	$237,580	$231,451	$(6,129)
Derivatives (*2)	$(198)	$(198)	$—

(*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.

	Millions of yen		
Year ended March 31, 2023	Book value	Fair value	Difference
Investment securities			
Other securities	¥8,173	¥8,173	¥—
stock			
Total assets	¥8,173	¥8,173	¥—
Long-term debt	24,786	24,374	(412)
Total liabilities	¥24,786	¥24,374	¥(412)
Derivatives (*2)	¥(7)	¥(7)	¥—

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

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

(b) The aggregate maturities subsequent to March 31, 2024 and 2023 for financial assets with maturities were as follows:

	Millions of yen		
Year ended March 31, 2024	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	¥—	¥—

	Thousands of U.S. dollars		
Year ended March 31, 2024	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	$154,072	$—	$—
Notes and accounts receivable - trade	381,388	—	—
Total	$535,460	$—	$—

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

(c) The aggregate maturities subsequent to March 31, 2024 and 2023 for long-term debt were as follows:

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

Year ended March 31, 2024	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	$33,829	$26,636	$39,152	$38,941	$35,638	$63,378

Year ended March 31, 2023	Millions of yen					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt	¥4,784	¥4,684	¥3,684	¥4,634	¥4,500	¥2,500

(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, 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

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Stock	$80,173	$—	$—	$80,173
Total assets	$80,173	$—	$—	$80,173
Derivative transactions	$—	$198	$—	$198
Total liabilities	$—	$198	$—	$198

For the fiscal year ended March 31, 2023

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

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

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

Division	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Long-term debt	$—	$224,800	$—	$224,800
Total liabilities	$—	$224,800	$—	$224,800

For the fiscal year ended March 31, 2023

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

(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.

10. 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, 2024 and 2023:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Securities with fair values exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥2,973	¥2,773	$19,635
Bonds	—	—	—
Other	—	—	—
	¥2,973	¥2,773	$19,635
Book value:			
Equity securities	¥12,139	¥8,092	$80,173
Bonds	—	—	—
Other	—	—	—
	¥12,139	¥8,092	$80,173
Difference:			
Equity securities	¥9,166	¥5,319	$60,538
Bonds	—	—	—
Other	—	—	—
	¥9,166	¥5,319	$60,538
Securities with fair values not exceeding acquisition cost			
Acquisition cost:			
Equity securities	¥—	¥96	$—
Bonds	—	—	—
Other		—	—
	¥—	¥96	$—
Book value:			
Equity securities	¥—	¥81	$—
Bonds	—	—	—
Other	—	—	—
	¥—	¥81	$—
Difference:			
Equity securities	¥—	¥(15)	$—
Bonds	—	—	—
Other	—	—	—
	¥—	¥(15)	$—
Total			
Acquisition cost	¥2,973	¥2,869	$19,635
Book value (fair value)	12,139	8,173	80,173
Difference	¥9,166	¥5,304	$60,538

(2) Total sales of available-for-sale securities
Year ended of March 31, 2024

	Millions of yen	Thousands of U.S. dollars
Amount of total sales:		
Equity securities	¥305	$2,014
Bonds	—	—
Other	—	—
	¥305	$2,014
Gain on sales:		
Equity securities	¥265	$1,750
Bonds	—	—
Other	—	—
	¥265	$1,750
Loss on sales:		
Equity securities	¥—	$—
Bonds	—	—
Other	—	—
	¥—	$—

Year ended of March 31, 2023

	Millions of yen
Amount of total sales:	
Equity securities	¥619
Bonds	—
Other	—
	¥619
Gain on sales:	
Equity securities	¥414
Bonds	—
Other	—
	¥414
Loss on sales:	
Equity securities	¥—
Bonds	—
Other	—
	¥—

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

Year ended March 31, 2024
Not applicable.

11. 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 ¥27 million ($178 thousand) and ¥54 million for the years ended March 31, 2024 and 2023, 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, 2024 and 2023 were as follows:

	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

	Thousands of U.S. dollars			
Year ended	Book value			Fair value
March 31, 2024	March 31, 2023	Changes during the year	March 31, 2024	March 31, 2024
Rental property	$8,652	$231	$8,883	$26,379

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

The book value represents the net amount of acquisition cost less accumulated depreciation.
The main decrease during the fiscal year ended March 31, 2023 was depreciation.
The main increase during the fiscal year ended March 31, 2024 was ¥83 million due to the consolidation of SHIHEN TECHNICAL Corporation, while the main decrease was due to depreciation.
The fair value is based mainly on appraisal reports prepared by external real estate appraisers.

12. Derivative financial instruments and hedging transactions

(1) Derivatives not subject to hedge accounting

(a) Currency related

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)

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	$1,063	$852	$(198)	$(198)
Total		$1,063	$852	$(198)	$(198)

Year ended March 31, 2023

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

(2) Derivatives subject to hedge accounting

(a) Currency related

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)

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	$152	$–	$(0)
Allocation method (*)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	$17,212	$–	$–
	Sell: Euro		5,303	–	–
	Sell: Korean won		733	–	–
	Sell: Taiwan dollar		1,209	–	–
	Buy: Euro	Accounts payable - trade	0		
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	4,702	–	–
Total			$29,311	$–	$(0)

Year ended March 31, 2023

Hedge accounting method	Type of derivatives	Hedged item	Millions of yen		
			Contract amount	Portion over one year	Fair value
Allocation method (*)	Foreign exchange forward contracts				
	Sell: U.S. dollar	Accounts receivable - trade	¥1,890	¥–	¥–
	Sell: Euro		555	–	–
	Sell: Korean won		173	–	–
	Sell: Taiwan dollar		279	–	–
	Currency swap				
	Euro Yen receipt/ Foreign currency payment	Loan receivable	435	–	–
Total			¥3,346	¥–	¥–

(*) The allocation method requires recognized foreign currency receivables and payables to be translated using corresponding foreign exchange forward contract rates. The fair value of gain or loss resulting from foreign exchange forward contracts embedded in receivables and payables subject to hedging is included in the fair value of the corresponding receivable or payable.

(b) Interest rate related

Not applicable for the years ended March 31, 2024 and 2023.

13. Pledged assets

The following assets were pledged as collateral for short-term loans payable and long-term debt of ¥1,830 million ($12,086 thousand) and ¥1,680 million at March 31, 2024 and 2023 respectively.

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Property, plant and equipment - net of accumulated depreciation	¥8,725	¥8,159	$57,627

Assets were pledged as collateral for business transaction guarantees.
Year ended March 31,2023
Property, plant and equipment provided for trade guarantees amounted to ¥391 million.

Year ended March 31,2024
Not applicable

14. Short-term loans, long-term debt

The weighted average interest rate on short-term loans payable was 1.1% and 1.1% for each of the years ended March 31, 2024 and 2023, respectively.

Long-term debt at March 31, 2024 and 2023 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Loans from banks and insurance companies maturing through 2033 with interest rates ranging from 0.2% to 2.2%			
Secured	¥1,830	¥1,650	$12,086
Unsecured	34,142	23,136	225,494
Lease obligations	288	318	1,902
	36,260	25,104	239,482
Less amount due within one year	(5,212)	(4,901)	(34,423)
	¥31,048	¥20,203	$205,059

Substantially all of the loans with banks are made under general agreements as is customary in Japan. These agreements provide that, with respect to all present and future indebtedness to the banks, the Company and its consolidated domestic subsidiaries shall provide collateral at the request of any such bank, that any collateral provided under any agreement will be applicable to all indebtedness to the bank and that the lending bank has the right to offset deposits with them against any debt or obligation that becomes due and, in cases of default or certain other specified events, against all debts payable to the bank.

The aggregate annual maturities of long-term debt at March 31, 2024 and 2023 were as follows:

Year ended March 31, 2024

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2025	¥5,212	$34,423
2026	4,111	27,151
2027	5,991	39,568
2028	5,938	39,218
2029	5,408	35,718
2030 and thereafter	9,600	63,404
	¥36,260	$239,482

Year ended March 31, 2023

Years ending March 31	Millions of yen
2024	¥4,901
2025	4,771
2026	3,733
2027	4,672
2028	4,521
2029 and thereafter	2,506
	¥25,104

15. 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, 2024 and 2023.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2024 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Deferred tax assets:			
Liability for retirement benefits	¥835	¥525	$5,515
Nondeductible bonuses accrued	977	1,177	6,452
Write-down of inventories	1,121	993	7,404
Unrealized gains of inventories	1,012	719	6,684
Provision for construction expenses related to earthquake resistance renovation	192	205	1,268
Retirement benefit trust assets	1,075	1,245	7,100
Carryforward tax loss (*1)	216	181	1,427
Other	1,561	1,195	10,310
Subtotal deferred tax assets	6,989	6,240	46,160
Valuation allowance for carryforward tax loss (*1)	(90)	(126)	(595)
Valuation allowance for deductible temporary differences	(426)	(367)	(2,814)
Valuation allowance – total	(516)	(493)	(3,409)
Total deferred tax assets	¥6,473	¥5,747	$42,751
Deferred tax liabilities:			
Gain on securities contributed to the retirement benefit trust	¥(1,020)	¥(1,020)	$(6,737)
Retained earnings appropriated for allowable tax reserves	(477)	(492)	(3,150)
Net unrealized gains on "available-for-sale-securities"	(2,780)	(1,608)	(18,361)
Land and buildings revaluation difference	(1,733)	(868)	(11,446)
Other	(3,373)	(1,413)	(22,277)
Total deferred tax liabilities	¥(9,383)	¥(5,401)	$(61,971)
Net deferred tax assets	¥2,910	¥346	$(19,220)

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

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
	Thousands of U.S.dollars						
	2024	2025	2026	2027	2028	2029 and beyond	Total
Carryforward tax loss (*)	$—	$—	$—	$—	$—	$1,427	$1,427
Valuation allowance	—	—	—	—	—	(595)	(595)
Net deferred tax assets	—	—	—	—	—	832	832

Year ended March 31, 2023

	Millions of yen						
	2023	2024	2025	2026	2027	2028 and beyond	Total
Carryforward tax loss (*)	¥—	¥—	¥—	¥—	¥—	¥181	¥181
Valuation allowance	—	—	—	—	—	(126)	(126)
Net deferred tax assets	—	—	—	—	—	55	55

(*) 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, 2024 and 2023 was as follows:

	2024	2023
Statutory income tax rate	30.6%	30.6%
(Reconciliation)		
Permanent difference (meals and entertainment, etc.)	0.6%	0.3%
Permanent difference (dividend income, etc.)	(0.2)%	(0.2)%
Inhabitants tax on per capita basis	0.2%	0.2%
Fluctuation in deferred tax assets valuation allowance account	(0.5)%	(1.7)%
Share of profit of entities accounted for using equity method	(0.3)%	(0.3)%
Different tax rates applied to foreign subsidiaries	(1.8)%	(1.9)%
Tax credit for research and development	(2.2)%	(2.6)%
Gain on bargain purchase	(14.3)%	– %
Loss on step acquisitions	6.6%	– %
Others	1.5%	0.5%
Effective income tax rate	20.2%	24.9%

16. Business Combinations

Transaction under common control

1. Absorption-type merger of a non-consolidated subsidiary

(1) Outline of the transaction

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

Name of surviving company	DAIHEN Corporation
Description of business	Manufacture and sale of a variety of transformers, power distribution equipment, control and telecommunications equipment, dispersed power equipment, welding machines, cutting machines, industrial robots, RF generators for plasma applications, etc.
Name of merged company	DAIHEN Techno Support Corporation
Description of business	Sale, maintenance, and inspection of welding machines, cutting machines, industrial robots, etc.

2) Date of the business combination

April 1, 2023

3) Legal format of the business combination

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

4) Name of the combined enterprise

DAIHEN Corporation

5) Other matters related to the transaction

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

(2) Outline of the implemented accounting methods

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

Business combination through acquisition

(1) Outline of the business combination

1) Name of acquired company and description of its business

Name of acquired company	Tohoku Electric Manufacturing Co., Ltd.
Description of business	Manufacture, repair, sales, and installation of transformers for power distribution, distribution panels, etc.

2) Main purpose of the business combination

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

3) Date of the business combination

October 1, 2023

4) Legal format of the business combination

Acquisition of shares for consideration in cash

5) Name of the combined enterprise

No change in the company name

6) Ratio of voting rights acquired

70%

7) Major grounds for deciding on the acquiring company

The Company acquired 70% of voting rights of Tohoku Electric Manufacturing Co., Ltd. through the acquisition of shares for consideration in cash.

(2) Period of performance of the acquired company included in the consolidated statements

From October 1, 2023 to March 31, 2024

(3) Acquisition cost of the acquired company and breakdown by type of consideration

	Millions of yen 2024	Thousands of U.S. dollars 2024
Consideration for acquisition Cash	¥3,471	$22,925
Acquisition cost	¥3,471	$22,925

(4) Principal acquisition related expenses

	Millions of yen 2024	Thousands of U.S. dollars 2024
Advisory fees, etc	¥15	$99

(5) Amount of gain on bargain purchase accrued and the cause of the accrual

1) Amount of gain on bargain purchase accrued

Millions of yen 2024	Thousands of U.S. dollars 2024
¥1,971	$13,018

2) Cause of the accrual

Since the market value of net assets at the time of business combination exceeded the acquisition cost, the difference is recorded as a gain on bargain purchase.

(6) Amount and details of the assets acquired and liabilities assumed on the date of business combination

	Millions of yen 2024	Thousands of U.S. dollars 2024
Current assets	¥5,563	$36,741
Non-current assets	4,495	29,668
Total assets	¥10,058	$66,429
Current liabilities	1,406	9,286
Non-current liabilities	878	5,799
Total liabilities	¥2,284	$15,085

(7) Estimated impact on the consolidated statement of income for the fiscal year with the method of its calculation, assuming that the business combination was completed at the beginning of the consolidated fiscal year

	Millions of yen 2024	Thousands of U.S. dollars 2024
Net sales	¥3,500	$23,116
Ordinary profit	¥42	$277
Profit before income taxes	¥42	$277

(Calculation method of the estimated amount)

The difference between net sales and profit and loss information , calculated on the assumption that the business combination was completed at the beginning of the consolidated fiscal year, and net sales and profit and loss information in the consolidated statement of income of the acquiring company is used as the estimated impact. This notes has not been audited.

Business combination through acquisition

(1) Outline of the business combination

1) Name of acquired company and description of its business

Name of acquired company	SHIHEN TECHNICAL Corporation
Description of business	Manufacture, sales, and repair of transformers, distribution panels, generators, etc.

2) Main purpose of the business combination

The Company acquired additional shares of SHIHEN TECHNICAL Corporation, an equity method affiliate, and made it a consolidated subsidiary for the purpose of implementing the division of labor for the production of electronic equipment products within the Group more flexibly than ever before.

3) Date of the business combination

October 1, 2023

4) Legal format of the business combination

Acquisition of shares for consideration in cash

5) Name of the combined enterprise

No change in the company name

6) Ratio of voting rights acquired

Ratio of voting rights held immediately prior to the business combination	38.6%
Ratio of voting rights additionally acquired on the date of the business combination	26.7%
Ratio of voting rights after acquisition	65.3%

7) Major grounds for deciding on the acquiring company

The Company acquired 65.3% of voting rights of SHIHEN TECHNICAL Corporation through the acquisition of shares for consideration in cash.

(2) Period of performance of the acquired company included in the consolidated statements

From October 1, 2023 to March 31, 2024

(3) Acquisition cost of the acquired company and breakdown by type of consideration

	Millions of yen 2024	Thousands of U.S. dollars 2024
Market value of shares held immediately prior to the business combination on the date of the business combination	¥983	$6,492
Consideration for additional acquisition Cash	680	4,491
Acquisition cost	¥1,663	$10,983

(4) Difference between the acquisition cost of the acquired company and the total acquisition cost for each transaction that led to the acquisition

	Millions of yen 2024	Thousands of U.S. dollars 2024
Loss on step acquisitions	¥4,600	$30,381

(5) Principal acquisition related expenses

	Millions of yen 2024	Thousands of U.S. dollars 2024
Advisory fees, etc.	¥9	$59

(6) Amount of gain on bargain purchase accrued and the cause of the accrual

1) Amount of gain on bargain purchase accrued

Millions of yen 2024	Thousands of U.S. dollars 2024
¥7,949	$52,500

2) Cause of the accrual

Since the market value of net assets at the time of business combination exceeded the acquisition cost, the difference is recorded as a gain on bargain purchase.

(7) Amount and details of the assets acquired and liabilities assumed on the date of business combination

	Millions of yen 2024	Thousands of U.S. dollars 2024
Current assets	¥15,581	$102,906
Non-current assets	4,883	32,250
Total assets	¥20,464	$135,156
Current liabilities	4,711	31,114
Non-current liabilities	1,035	6,836
Total liabilities	¥5,746	$37,950

(8) Estimated impact on the consolidated statement of income for the fiscal year with the method of its calculation, assuming that the business combination was completed at the beginning of the consolidated fiscal year

	Millions of yen 2024	Thousands of U.S. dollars 2024
Net sales	¥6,413	$42,355
Ordinary profit	¥482	$3,183
Profit before income taxes	¥482	$3,183

(Calculation method of the estimated amount)

The difference between net sales and profit and loss information, calculated on the assumption that the business combination was completed at the beginning of the consolidated fiscal year, and net sales and profit and loss information in the consolidated statement of income of the acquiring company is used as the estimated impact. This note has not been audited.

Business combination through acquisition

(1) Outline of the business combination

1) Name of acquired company and description of its business

Name of acquired company	Lorch Schweißtechnik GmbH
Description of business	Development, manufacture, and sales of welding machinesand sales of industrial robots, etc.

2) Main purpose of the business combination

The Company acquired the interests for the purpose of expanding worldwide sales in new areas including EV, wind power, and other industries by taking the heightened recognition of its business in European markets as an opportunity, with the aim to be the No. 1 manufacturer in European markets in the areas of the welding machine
and arc welding robot industries, by making Lorch Schweißtechnik GmbH a subsidiary.

3) Date of the business combination

April 1, 2024

4) Legal format of the business combination

Acquisition of shares for consideration in cash

5) Name of the combined enterprise

No change in the company name

6) Ratio of voting rights acquired

100%

7) Major grounds for deciding on the acquiring company

The Company acquired 100% of voting rights of Lorch Schweißtechnik GmbH through the acquisition of shares for consideration in cash.

(2) Period of performance of the acquired company included in the consolidated statements

Even though the closing date of the acquired company is December 31, the financial statements of the acquired company as of that date are used in preparing the consolidated financial statements, as the difference in the company's closing date and the consolidated closing date does not exceed three months. Given that the projected date of acquisition for the business combination is January 1, 2024, and that only the balance sheet is consolidated, the performance of the acquired company is not included in the consolidated statement of income.

(3) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	21,000 thousand euro
Acquisition cost		21,000 thousand euro

(Note) The consideration for acquisition includes the conditional consideration for acquisition of 4,200 thousand euro, but the final acquisition cost is undermined at present.

(4) Principal acquisition related expenses

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Advisory fees, etc.	¥174	$1,149

(5) Amount of goodwill accrued, the cause of the accrual, and the method and period of amortization

1) Amount of goodwill accrued

Millions of yen	Thousands of U.S. dollars
2024	2024
¥2,041	$13,480

2) Cause of the accrual

Since the acquisition cost exceeded the market value of net assets at the time of business combination, the difference is recorded as goodwill.

3) Method and period of amortization

Depreciated by the straight-line method over 9 years.

(6) Allocation of acquisition cost

At the end of the consolidated fiscal year identifiable assets and liabilities as of the date of business combination have not been determined and the market value thereof has not been calculated. Since the allocation of acquisition cost is not completed, provisional accounting treatment has been applied based on reasonable information available at the time.

(7) Amount and details of the assets acquired and liabilities assumed on the date of business combination

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Current assets	¥2,679	$17,694
Non-current assets	1,458	9,629
Total assets	¥4,137	$27,323
Current liabilities	2,558	16,895
Non-current liabilities	981	6,479
Total liabilities	¥3,539	$23,374

(8) Information on the conditional consideration for acquisition stipulated in the business combination agreements and the accounting policy for and after the fiscal year In accordance with the equity transfer agreement, the final acquisition cost may change because of certain accompanying events occurring in the future. If a change in acquisition cost occurs, we will revise the acquisition cost, deeming the revised cost as incurred at the time of acquisition, and revise the amount and amortization of goodwill.

(9) Estimated impact on the consolidated statement of income for the fiscal year, with the method of its calculation, assuming that the business combination was completed at the beginning of the consolidated fiscal year

	Millions of yen	Thousands of U.S. dollars
	2024	2024
Net sales	¥7,702	$50,869
Ordinary profit	¥(291)	$(1,922)
Profit before income taxes	¥(291)	$(1,922)

(Calculation method of the estimated amount)

The difference between net sales and profit and loss information, calculated on the assumption that the business combination was completed at the beginning of the consolidated fiscal year, and net sales and profit and loss information in the consolidated statement of income of the acquiring company is used as the estimated impact. In addition, the amount of amortization is calculated assuming that the goodwill recognized at the time of business combination occurred at the beginning of the consolidated fiscal year and is included in the estimated amount.

This note has not been audited.

17. 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, 2024 and 2023 and retirement benefit expenses in the consolidated statements of income for the years ended March 31, 2024 and 2023 consisted of the following:

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Balance at April 1	¥15,410	¥16,562	$101,777
Service cost	651	539	4,300
Interest cost	177	68	1,169
Actuarial gain (loss)	(320)	(907)	(2,113)
Benefits paid	(1,397)	(897)	(9,227)
Adjustments due to change in the fiscal period	—	23	—
Adjustments due to new consolidations	4,858	—	32,085
Other	125	22	825
Balance at March 31	¥19,504	¥15,410	$128,816

(2) Plan assets

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Balance at April 1	¥24,690	¥24,324	$163,067
Expected return on plan assets	445	412	2,940
Actuarial gain (loss)	5,472	312	36,140
Contributions paid by the employer	699	840	4,617
Benefits paid	(1,326)	(1,198)	(8,758)
Adjustments due to new consolidations	4,218	—	27,858
Balance at March 31	¥34,198	¥24,690	$225,864

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

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Funded retirement benefit obligations	¥16,549	¥13,535	$109,300
Plan assets	(34,198)	(24,690)	(225,864)
	(17,649)	(11,155)	(116,564)
Unfunded retirement benefit obligations	2,955	1,875	19,517
Total net defined benefit liability (asset) at March 31	¥(14,694)	¥(9,280)	$(97,047)
Net defined benefit liability	¥2,955	¥1,875	$19,517
Net defined benefit asset	(17,649)	(11,155)	(116,564)
Total net defined benefit liability (asset) at March 31	¥(14,694)	¥(9,280)	$(97,047)

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Service cost	¥651	¥539	$4,300
Interest cost	177	68	1,169
Expected return on plan assets	(445)	(412)	(2,939)
Net actuarial loss amortization	(704)	(167)	(4,650)
Past service cost	99	—	654
Total retirement benefit expenses for the fiscal year ended March 31	¥(222)	¥28	$(1,466)

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

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Actuarial gains and losses	¥5,089	¥1,053	$33,611
Total remeasurements of defined benefit plans for the fiscal years ended March 31	¥5,089	¥1,053	$33,611

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

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Unrecognized actuarial gains and losses	¥(8,714)	¥(3,625)	$(57,552)
Total balance at March 31	¥(8,714)	¥(3,625)	$(57,552)

(7) Plan assets

Plan assets comprise:

	2024	2023
Bonds	28.3%	28.0%
Equity Securities	45.4%	37.1%
Others	26.3%	34.9%
Total	100.0%	100.0%

Long-term expected rate of return

In current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

	2024	2023
Discount rates	0.4%~1.3%	0.0%~1.3%
Long-term expected rate of return	0.5%~3.0%	1.5%~3.0%

The contribution required to the defined contribution plan of the Companies was ¥586 million ($3,870 thousand) and ¥581 million for the years ended March 31, 2024 and 2023, respectively.

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

18. Contingent liabilities

Contingent liabilities at March 31, 2024 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Loan guarantees: LASOtech Systems GmbH(*)	¥486	¥334	$3,210
Loan guarantees: Femitech GmbH	245	73	1.618
Loan guarantees:SHIHEN VIETNAM CO.,LTD.	30	—	198
Loan guarantees:SHIHEN (THAILAND) CO.,LTD.	21	—	139

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

19. 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.

20. Revenue recognition

(1) Information that disaggregates revenue from contracts with customers

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	0	3,940	2,377	6,317	0	6,317
Asia	4,475	16,063	7,343	27,881	0	27,881
Other	47	3,789	1,491	5,327	0	5,327
Revenues from contracts with customers	¥97,602	¥34,849	¥55,935	¥188,386	¥8	¥188,394
Other	0	0	0	0	178	178
Sales to external customers	¥97,602	¥34,849	¥55,935	¥188,368	¥186	¥188,572

	Thousands of U.S. dollars					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	$614,755	$73,027	$295,383	$983,165	$53	$983,218
North Americas	0	26,022	15,699	41,721	0	41,721
Asia	29,556	106,089	48,497	184,142	0	184,142
Other	310	25,025	9,848	35,183	0	35,183
Revenues from contracts with customers	$644,621	$230,163	$369,427	$1,244,211	$53	$1,244,264
Other	0	0	0	0	1,176	1,176
Sales to external customers	$644,621	$230,163	$369,427	$1,244,211	$1,229	$1,245,440

Year ended March 31, 2023

	Millions of yen					
	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*)	Total
Japan	¥71,645	¥10,276	¥64,604	¥146,527	¥8	¥146,535
North Americas	–	4,079	2,107	6,186	–	6,186
Asia	3,724	15,218	7,952	26,895	–	26,895
Other	1	4,004	1,492	5,497	–	5,497
Revenues from contracts with customers	¥75,371	¥33,579	¥76,157	¥185,107	¥8	¥185,115
Other	–	–	–	–	172	172
Sales to external customers	¥75,371	¥33,579	¥76,157	¥185,107	¥180	¥185,288

(*) 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
	2024	2023	2024
Receivables arising from contracts with customers (beginning balance)	¥44,802	¥32,245	$295,899
Receivables arising from contracts with customers (ending balance)	¥57,746	¥44,801	$381,388
Contract liabilities (beginning balance)	¥1,695	¥3,802	$11,195
Contract liabilities (ending balance)	¥1,403	¥1,695	$9,266

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, 2024 that was included in the contract liability balance at the beginning of the period amounted to ¥1,350 million ($8,916 thousand).
The amount of revenue recognized in the fiscal year ended March 31, 2023 that was included in the contract liability balance at the beginning of the period amounted to ¥3,792 million

(b) Transaction price allocated to remaining performance obligations
The total amount of transaction price allocated to residual performance obligations was ¥94,511 million ($624,206 thousand) 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.
The total amount of transaction price allocated to residual performance obligations was ¥69,573 million on March 31, 2023.
Approximately 90% of these performance obligations will be recognized as revenue within two years after the balance sheet date and the remaining 10% within three years thereafter.

21. 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.

From the fiscal year ended March 31, 2024, the Company has reorganized its reportable segments from the “Power Products,” “Welding & Mechatronics,” and “Advanced Components” segments, which were conventionally classified based on product groups, into the segments based on three technology domains: “Energy Management,” “Factory Automation,” and “Material Processing,” which the Company will aim for the future.

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

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

⇒

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

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.

From the fiscal year ended March 31, 2024, the Company has changed to new reportable segments. The segment information for the fiscal year ended March 31, 2023 is presented based on the new segmentation.

(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.

	Millions of yen					
Year ended March 31, 2024	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)	3,093	810	3,591	7,494	2	7,496

	Thousands of U.S. dollars					
Year ended March 31, 2024	Energy Management	Factory Automation	Material Processing	Subtotal	Other (*1)	Total
Net sales:						
Customers	$644,621	$230,163	$369,427	$1,244,211	$1,229	$1,245,440
Intersegment	—	125	20	145	—	145
Total	$644,621	$230,288	$369,447	$1,244,356	$1,229	$1,245,585
Segment income	$55,109	$27,099	$41,773	$123,981	$192	$124,173
Assets	807,582	308,863	567,255	1,683,700	8,031	1,691,731
Other items						
Depreciation (*2)	17,033	5,231	8,031	30,295	—	30,295
Increase in property, plant and equipment and intangible assets (*3)	20,428	5,350	23,717	49,495	13	49,508

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

(*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
	2024	2023	2024
Reportable segment	¥188,408	¥185,143	$1,244,356
Sales of other	186	181	1,228
Segment adjustments	(22)	(36)	(144)
Consolidated net sales	¥188,572	¥185,288	$1,245,440

(b) Segment income

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Reportable segment	¥18,772	¥20,360	$123,981
Income of other	29	56	192
Segment adjustments	(1)	0	(7)
Company expenses	(3,654)	(3,848)	(24,133)
Consolidated operating income	¥15,146	¥16,568	$100,033

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

(c) Segment assets

	Millions of yen		Thousands of U.S. dollars
	2024	2023	2024
Reportable segment	¥254,929	¥189,943	$1,683,700
Assets of other	1,216	1,253	8,031
Corporate assets	20,898	21,888	138,023
Other adjustments	(419)	(393)	(2,768)
Consolidated total assets	¥276,624	¥212,691	$1,826,986

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

(d) Other items

Year ended March 31, 2024	Millions of yen			
	Reportable 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

Year ended March 31, 2024	Thousands of U.S. dollars			
	Reporting segment	Other	Adjustment	Consolidated
Depreciation	$30,295	$0	$4,868	$40,037
Increase in property, plant and equipment and intangible assets	49,495	7	10,349	65,022

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

(*1) “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.
(*2) Increase in property, plant and equipment and intangible assets does not include the increase of those arising from new consolidations.

(5) Geographic segment information for the years ended March 31, 2024 and 2023 was as follows:

(a) Net sales

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

	Thousands of U.S. dollars				
Year ended March 31, 2024	Japan	North America	Asia	Other	Total
Net sales	$984,400	$41,721	$184,142	$35,177	$1,245,440

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

(b) Tangible fixed assets

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

	Thousands of U.S. dollars				
Year ended March 31, 2024	Japan	North America	Asia (Thailand)	Other	Total
Tangible fixed assets	$269,196	$2,265	$36,206 $21,557	$15,212	$322,879

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

(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, 2024 and 2023 was as follows:

	Millions of yen		
Year ended March 31, 2024	Major customers	Revenue	Related segments
	The Kansai Electric Power Co., Inc.	¥25,482	Energy Management
	Tokyo Electron Miyagi Limited	25,338	Material Processing

	Thousands of U.S. dollars		
Year ended March 31, 2024	Major customers	Revenue	Related segments
	The Kansai Electric Power Co., Inc.	$168,298	Energy Management
	Tokyo Electron Miyagi Limited	167,347	Material Processing

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

(*) 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, 2024 and 2023.

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

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	–	–	¥2,041	¥2,041	–	–	¥2,041

Thousands of U.S. dollars

	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	–	–	$13,480		–	–	$13,480

(9) Information on gain on bargain purchase by reportable segment
Year ended March 31, 2023.
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.

22. Additional Information

Audit remuneration

(1) Remuneration of the Auditor

	Millions of yen			
	Fiscal year ended March 31, 2024		Fiscal year ended March 31, 2023	
	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	¥56	¥61	—
Consolidated subsidiaries	—	—	—	—
Total	¥95	¥95	¥61	—

	Thousands of U.S. dollars	
	Fiscal year ended March 31, 2024	
	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	$627	$370
Consolidated subsidiaries	—	—
Total	$627	¥370

(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, 2024		Fiscal year ended March 31, 2023	
	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 subsidiaries	¥16	¥21	¥18	¥23
Total	¥16	¥21	¥18	¥23

	Thousands of U.S. dollars	
	Fiscal year ended March 31, 2024	
	Remuneration for audit and attestation service	Remuneration for non-audit services
The Company	—	—
Consolidated subsidiaries	$106	¥139
Total	$106	¥139

(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,
2024 and 2023

KPMG AZSA LLC
September 2024

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

Independent Auditor's Report

To the Board of Directors of DAIHEN Corporation.:

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, 2024 and 2023, 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, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Appropriateness of the Company’s determination of the accounting period in which revenue was recognized from sales</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The amount of revenue from sales of DAIHEN Corporation and its consolidated subsidiaries (hereinafter referred to as the “DAIHEN Group”) amounted to ¥188,572 million in the consolidated fiscal year ended March 31, 2024.

As described in Note 2(20), “Summary of significant accounting policies - Basis for recognition of significant revenue and expenses” and Note 20(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 ¥61,335 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, 2024 and, accordingly, a key audit matter.</td>
<td>The primary procedures we performed to assess whether revenue from sales was recognized in the appropriate accounting period included the following. As part of these procedures, we requested the component auditor of the overseas consolidated subsidiary to perform audits and evaluated the reports of the component auditor as to whether sufficient and appropriate audit evidence was obtained from the following procedures, among others:

(1) Internal control testing

We tested the design and operating effectiveness of internal controls relevant to the process of recognizing revenue. In particular, we focused our testing on controls to ensure that sales were attributable to the appropriate accounting period by comparing the evidence that shows the fact of shipment or confirms the customer inspection.

(2) Assessment of whether revenue was recognized in the appropriate accounting period

In order to assess whether the revenue from sales was recognized in the appropriate accounting period for the sales of DAIHEN Corporation and its 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 in particular 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.</td></tr>
</table>

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 report thereon.

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

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 "22. 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, 2024 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

Kyoichi Seishi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 30, 2024