

CONSOLIDATED FINANCIAL STATEMENTS

TAMURA CORPORATION

AS OF MARCH 31, 2019

## Independent Auditor's Report

The Board of Directors  
TAMURA CORPORATION

We have audited the accompanying consolidated financial statements of TAMURA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAMURA CORPORATION and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1(a).

June 26, 2019  
Tokyo, Japan

**TAMURA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2019	2018	2019
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash on hand and in banks (Notes 4 and 5)	¥ 15,990	¥ 14,954	\$ 144,054
Trade notes and accounts receivable (Note 5)	22,100	22,773	199,099
Inventories (Note 7)	13,424	12,680	120,937
Other current assets	2,853	2,555	25,703
Allowance for doubtful accounts	(58)	(98)	(523)
Total current assets	<u>54,309</u>	<u>52,864</u>	<u>489,270</u>
<b>Property, Plant and Equipment: (Notes 15)</b>			
Buildings and structures	21,007	17,741	189,252
Machinery and equipment	26,098	26,500	235,117
Lease assets	891	709	8,027
	<u>47,996</u>	<u>44,950</u>	<u>432,396</u>
Accumulated depreciation	(32,175)	(32,889)	(289,864)
	<u>15,821</u>	<u>12,061</u>	<u>142,532</u>
Land	5,159	5,889	46,477
Construction in progress	1,515	2,231	13,649
Property, plant and equipment, net	<u>22,495</u>	<u>20,181</u>	<u>202,658</u>
<b>Investments and Other Assets:</b>			
Investment securities in other than non-consolidated subsidiaries and affiliates (Notes 5 and 6)	1,719	2,373	15,486
Investment securities in non-consolidated subsidiaries and affiliates	2,256	2,320	20,324
Net defined benefit asset (Note 9)	1,994	1,754	17,964
Deferred tax assets (Note 14)	1,189	328	10,712
Intangible assets	1,581	1,663	14,243
Other assets	593	688	5,344
Allowance for doubtful accounts	(63)	(74)	(568)
Total investments and other assets	<u>9,269</u>	<u>9,052</u>	<u>83,505</u>
<b>Total assets</b>	<u>¥ 86,073</u>	<u>¥ 82,097</u>	<u>\$ 775,433</u>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2019	2018	2019
<b>LIABILITIES AND NET ASSET</b>			
<b>Current Liabilities:</b>			
Trade notes and accounts payable (Note 5)	¥ 12,095	¥ 12,646	\$ 108,964
Short-term loans (Notes 5 and 8)	7,591	4,395	68,387
Current portion of long-term debt (Notes 5 and 8)	282	5,973	2,541
Lease obligations (Notes 5 and 8)	195	201	1,757
Income taxes payable (Note 5)	824	1,375	7,423
Accrued bonuses	1,055	1,142	9,505
Accrued bonuses for directors	75	64	676
Other current liabilities	3,294	4,308	29,675
Total current liabilities	<u>25,411</u>	<u>30,104</u>	<u>228,928</u>
<b>Long-term Liabilities:</b>			
Long-term debt (Notes 5 and 8)	9,279	4,754	83,595
Lease obligations (Notes 5 and 8)	531	348	4,784
Deferred tax liabilities (Note 14)	94	136	847
Net defined benefit liability (Note 9)	3,136	3,226	28,252
Other long-term liabilities	467	533	4,207
Total long-term liabilities	<u>13,507</u>	<u>8,997</u>	<u>121,685</u>
<b>Net Assets</b>			
Shareholders' Equity:			
Common stock:	11,829	11,829	106,568
Authorized - 252,000,000 shares			
Issued and outstanding – 82,771,473 shares			
Additional paid-in capital	17,038	17,037	153,495
Retained earnings	18,924	13,346	170,486
Treasury stock (Note 11)	(274)	(288)	(2,468)
Total shareholders' equity	<u>47,517</u>	<u>41,924</u>	<u>428,081</u>
Accumulated Other Comprehensive Income:			
Unrealized holding gain (loss) on securities	78	472	703
Translation adjustments	(37)	1,428	(333)
Retirement benefits liability adjustments (Note 9)	(793)	(1,215)	(7,144)
Total accumulated other comprehensive income	<u>(752)</u>	<u>685</u>	<u>(6,774)</u>
Share Subscription Rights	153	143	1,378
Non-controlling Interests	237	244	2,135
Total net assets	<u>47,155</u>	<u>42,996</u>	<u>424,820</u>
<b>Total liabilities and net assets</b>	<u>¥ 86,073</u>	<u>¥ 82,097</u>	<u>\$ 775,433</u>

The accompanying notes are an integral part of these statements.

**TAMURA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME AND**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(CONSOLIDATED STATEMENT OF INCOME)**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	Year ended March 31,		Year ended March 31,
	2019	2018	2019
<b>Net Sales</b>	¥ 87,008	¥ 85,558	\$ 783,856
<b>Cost of Sales (Note 13)</b>	61,448	59,609	553,586
Gross profit	25,560	25,949	230,270
<b>Selling, general and administrative expenses</b> (Notes 12, 13 and 20)	20,960	20,542	188,829
Operating income	4,600	5,407	41,441
<b>Other Income (Expenses):</b>			
Interest and dividend income	146	131	1,315
Equity in earnings of affiliates	186	210	1,676
Interest expense	(235)	(218)	(2,117)
Foreign exchange loss	(70)	(113)	(631)
Other income	2,725	288	24,550
Other expenses	(236)	(248)	(2,126)
	2,516	50	22,667
Profit before income taxes	7,116	5,457	64,108
<b>Income Taxes (Note 14)</b>			
Current	1,363	1,293	12,279
Prior years' adjustment	—	583	—
Deferred	(652)	(60)	(5,874)
	711	1,816	6,405
<b>Profit</b>	6,405	3,641	57,703
<b>Profit attributable to:</b>			
Non-controlling interests	8	11	72
Owners of parent	¥ 6,397	¥ 3,630	\$ 57,631
	Yen		U.S. dollars
<b>Per Share:</b>			
Basic profit attributable to owners of parent	¥ 78.00	¥ 44.27	\$ 0.70
Diluted profit attributable to owners of parent	77.51	44.00	0.70
Cash dividends per share	10.00	9.00	0.09

The accompanying notes are an integral part of these statements.

**(CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME)**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	Year ended March 31,		Year ended March 31,
	2019	2018	2019
<b>Profit</b>	¥ 6,405	¥ 3,641	\$ 57,703
<b>Other Comprehensive Income (Note 10):</b>			
Unrealized holding gain on securities	(394)	151	(3,550)
Deferred gain (loss) from hedging instruments	—	1	—
Translation adjustments	(1,348)	509	(12,144)
Retirement benefits liability adjustments	422	622	3,802
Share of other comprehensive income of affiliates accounted for by the equity method	(124)	56	(1,117)
<b>Total other comprehensive income</b>	<b>(1,444)</b>	<b>1,339</b>	<b>(13,009)</b>
<b>Comprehensive income</b>	<b>¥ 4,961</b>	<b>¥ 4,980</b>	<b>\$ 44,694</b>
<b>Total comprehensive income attributable to:</b>			
Owners of parent	¥ 4,960	¥ 4,959	\$ 44,685
Non-controlling interests	1	21	9

The accompanying notes are an integral part of these statements.

**TAMURA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

For the year ended March 31, 2019

	Millions of yen					
	Number of shares issued	Shareholders' equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock (Note 11)	Total shareholders' equity
Balance at April 1, 2018	82,771,473	¥ 11,829	¥ 17,037	¥ 13,346	¥ (288)	¥ 41,924
Changes during the year						
Cash dividends paid				(819)		(819)
Profit attributable to owners of parent for the period				6,397		6,397
Purchases of treasury stock					(0)	(0)
Disposal of treasury stock			1	(0)	14	15
Net changes in items other than those in shareholders' equity						
Total changes during the year		—	1	5,578	14	5,593
Balance as of March 31, 2019	<u>82,771,473</u>	<u>¥ 11,829</u>	<u>¥ 17,038</u>	<u>¥ 18,924</u>	<u>¥ (274)</u>	<u>¥ 47,517</u>

	Millions of yen						
	Accumulated other comprehensive income						
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefits liability adjustments (Note 9)	Total accumulated other comprehensive income	Share Subscription rights	Non- controlling interests	Total net assets
Balance at April 1, 2018	¥ 472	¥ 1,428	¥ (1,215)	¥ 685	¥ 143	¥ 244	¥ 42,996
Changes during the year							
Cash dividends paid							(819)
Profit attributable to owners of parent for the period							6,397
Purchases of treasury stock							(0)
Disposal of treasury stock							15
Net changes in items other than those in shareholders' equity	(394)	(1,465)	422	(1,437)	10	(7)	(1,434)
Total changes during the year	<u>(394)</u>	<u>(1,465)</u>	<u>422</u>	<u>(1,437)</u>	<u>10</u>	<u>(7)</u>	<u>4,159</u>
Balance as of March 31, 2019	<u>¥ 78</u>	<u>¥ (37)</u>	<u>¥ (793)</u>	<u>¥ (752)</u>	<u>¥ 153</u>	<u>¥ 237</u>	<u>¥ 47,155</u>

For the year ended March 31, 2018

	Millions of yen					
	Number of shares issued	Shareholders' equity				Total shareholders' equity
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock (Note 11)	
Balance at April 1, 2017	82,771,473	¥ 11,829	¥ 17,037	¥ 10,454	¥ (281)	¥ 39,039
Changes during the year						
Cash dividends paid				(738)		(738)
Profit attributable to owners of parent for the period				3,630		3,630
Purchases of treasury stock					(7)	(7)
Disposal of treasury stock			0		0	0
Net changes in items other than those in shareholders' equity						
Total changes during the year		—	0	2,892	(7)	2,885
Balance as of March 31, 2018	82,771,473	¥ 11,829	¥ 17,037	¥ 13,346	¥ (288)	¥ 41,924

	Millions of yen							
	Accumulated other comprehensive income							Total net assets
	Unrealized holding gain (loss) on securities	Deferred gain (loss) from hedging instruments	Translation adjustments	Retirement benefits liability adjustments (Note 9)	Total accumulated other comprehensive income	Share Subscription rights	Non- controlling interests	
¥ 321								
Balance at April 1, 2017								
Changes during the year								
Cash dividends paid								(738)
Profit attributable to owners of parent for the period								3,630
Purchases of treasury stock								(7)
Disposal of treasury stock								0
Net changes in items other than those in shareholders' equity	151	1	562	622	1,336	16	171	1,523
Total changes during the year	151	1	562	622	1,336	16	171	4,408
Balance as of March 31, 2018	¥ 472	¥ —	¥ 1,428	¥ (1,215)	¥ 685	¥ 143	¥ 244	¥ 42,996



For the year ended March 31, 2019

	Thousands of U.S. dollars (Note 1(a))					
	Number of shares issued	Shareholders' equity				Total shareholders' equity
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock (Note 11)	
Balance at April 1, 2018	82,771,473	\$ 106,568	\$ 153,486	\$ 120,233	\$ (2,594)	\$ 377,693
Changes during the year						
Cash dividends paid				(7,378)		(7,378)
Profit attributable to owners of parent for the period				57,631		57,631
Purchases of treasury stock					(0)	(0)
Disposal of treasury stock			9	(0)	126	135
Net changes in items other than those in shareholders' equity						
Total changes during the year		—	9	50,253	126	50,388
Balance as of March 31, 2019	82,771,473	\$ 106,568	\$ 153,495	\$ 170,486	\$ (2,468)	\$ 428,081

	Thousands of U.S. dollars (Note 1(a))						
	Accumulated other comprehensive income						
	Unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefits liability adjustments (Note 9)	Total accumulated other comprehensive income	Share Subscription rights	Non- controlling interests	Total net assets
Balance at April 1, 2018	\$ 4,253	\$ 12,865	\$ (10,946)	\$ 6,172	\$ 1,288	\$ 2,198	\$ 387,351
Changes during the year							
Cash dividends paid							(7,378)
Profit attributable to owners of parent for the period							57,631
Purchases of treasury stock							(0)
Disposal of treasury stock							135
Net changes in items other than those in shareholders' equity	(3,550)	(13,198)	3,802	(12,946)	90	(63)	(12,919)
Total changes during the year	(3,550)	(13,198)	3,802	(12,946)	90	(63)	37,469
Balance as of March 31, 2019	\$ 703	\$ (333)	\$ (7,144)	\$ (6,774)	\$ 1,378	\$ 2,135	\$ 424,820

The accompanying notes are an integral part of these statements.

**TAMURA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	Year ended March 31,		Year ended March 31,
	2019	2018	2019
<b>Cash Flows from Operating Activities:</b>			
Profit before income taxes	¥ 7,116	¥ 5,457	\$ 64,108
Depreciation	2,219	2,001	19,991
Changes in accrued bonuses	(87)	45	(784)
Changes in accrued bonuses for directors	10	(5)	90
Changes in allowance for doubtful accounts	(44)	(56)	(396)
Changes in net defined benefit liability	(49)	(215)	(441)
Interest and dividend income	(146)	(131)	(1,315)
Interest expense	235	218	2,117
Foreign exchange loss (gain)	7	154	63
Equity in earnings of affiliates	(186)	(210)	(1,676)
Loss (gain) on sales of investment securities	(164)	(93)	(1,477)
Changes in trade receivable	(75)	(2,276)	(676)
Changes in inventories	(1,434)	(1,374)	(12,919)
Changes in trade payable	(83)	984	(748)
Other	(741)	(487)	(6,676)
Subtotal	<u>6,578</u>	<u>4,012</u>	<u>59,261</u>
Interest and dividends received	261	208	2,351
Interest paid	(249)	(228)	(2,243)
Income taxes paid	(1,921)	(1,340)	(17,306)
Net cash provided by operating activities	<u>4,669</u>	<u>2,652</u>	<u>42,063</u>
<b>Cash Flows from Investing Activities:</b>			
Purchase of tangible fixed assets	(6,302)	(3,491)	(56,775)
Proceeds from sale of tangible fixed assets	1,544	186	13,910
Purchase of investment securities	(43)	(357)	(387)
Proceeds from sale of investment securities	344	299	3,099
Purchase of subsidiaries' shares resulting in changes in scope of consolidation (Note 4)	—	(1,113)	—
Other	359	(347)	3,234
Net cash used in investing activities	<u>(4,098)</u>	<u>(4,823)</u>	<u>(36,919)</u>
<b>Cash Flows from Financing Activities:</b>			
Changes in short-term loans	3,321	1,062	29,919
Increase in long-term debt	4,831	890	43,523
Repayment of long-term debt	(5,992)	(3,547)	(53,983)
Repayment of lease obligations	(236)	(238)	(2,126)
Purchase of treasury stock	(0)	(6)	—
Proceeds from sales of treasury stock	0	0	0
Cash dividends paid	(816)	(736)	(7,351)
Cash dividends paid to non-controlling shareholders	(12)	(0)	(108)
Net cash provided by (used in) financing activities	<u>1,096</u>	<u>(2,575)</u>	<u>9,874</u>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<u>(427)</u>	<u>77</u>	<u>(3,847)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>1,240</u>	<u>(4,669)</u>	<u>11,171</u>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<u>14,601</u>	<u>19,270</u>	<u>131,541</u>
<b>Cash and Cash Equivalents at the End of the Year (Note 4)</b>	<u>¥ 15,841</u>	<u>¥ 14,601</u>	<u>\$ 142,712</u>

## TAMURA CORPORATION AND CONSOLIDATED SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Significant Accounting Policies

#### (a) Basis of presentation of the consolidated financial statements

The accompanying consolidated financial statements of TAMURA CORPORATION (the "Company") and its consolidated subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Local Finance Bureau in Japan as required by the Financial Instruments and Exchange Law of Japan have been reclassified for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥111=U.S. \$1, the approximate rate of exchange on March 31, 2019 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the above rate or any other rate.

#### (b) Principles of consolidation and accounting for investments in non-consolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and, with the exception of entities which are not material, those of its 32 majority owned subsidiaries. All significant inter-company accounts and transactions have been eliminated on consolidation.

Effective from the year ended March 31, 2019, the following companies have been excluded from consolidation: ANZEN DENGU (HUI ZHOU) CO.,LTD. as a result of the transfer of the entire equity interests; and GUNMA TAMURA CORPORATION following the completion of their liquidations . TAMURA DEUTSCHLAND GmbH, ELSOLD GmbH & Co. KG and ELSOLD VERWALTUNG GmbH merged and the company name was changed to TAMURA ELSOLD GmbH. TAMURA KAKEN TECH CO.,LTD. and TAMURA POWER TECHNOLOGY CO.,LTD. merged and the company name was changed to TAIWAN TAMURA TECHNOLOGY CO.,LTD.. TAMURA PENSION UK LIMITED was added as consolidated subsidiaries because it was newly established by the Company.

Investments in non-consolidated subsidiaries and affiliates are carried at cost since their total assets, net sales and the Company's interests in their net income (loss), or retained earnings, in aggregate, do not have a material effect on the consolidated financial statements.

The fiscal year end of the foreign consolidated subsidiaries is December 31. The necessary adjustments for significant transactions between the fiscal year end of the Company and the fiscal year end of the foreign consolidated subsidiaries, if any, are made in the preparation of the consolidated financial statements.

(c) Financial instruments

(1) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives designated as "hedging instruments" (see Note 1(c)(3) Hedge accounting below).

(2) Securities

Securities held by the Companies are classified as follows:

Available-for-sale securities with market values are stated at fair value. Net unrealized gains and losses on these securities are reported as a separate component of shareholders' equity at a net-of-tax amount.

Available-for-sale securities without market values are stated at cost determined by the moving average method, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by non-consolidated subsidiaries and affiliates, or available-for-sale securities, has declined significantly and such impairment of the value is not deemed temporary, these securities are written down to their fair value and the resulting losses are included in net profit or loss for the period.

(3) Hedge accounting

Deferral hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred as a component of net assets.

The derivatives designated as hedging instruments by the Companies are principally forward exchange contracts and interest rate swaps. The underlying hedged items are trade accounts receivable and trade accounts payable denominated in foreign currencies, forecast transactions denominated in foreign currencies and interest on long-term bank loans.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risk of exchange rate and interest rate fluctuations. Thus, the Companies' purchases of the hedging instruments are limited to, at maximum, the amount of the hedged items.

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the underlying hedged items from the commencement of the hedges.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of collectability of receivables from companies in financial difficulty.

(e) Inventories

Inventories are principally stated at cost determined by the following methods:

- Finished goods and work-in-process:
  - Electronic Components business, Electronic Chemicals business and Information Equipment business: Mainly periodic average method (Inventories with lower profitability are written down)
  - FA Systems business: Specific identification method (Inventories with lower profitability are written down)
- Merchandise and raw materials: Mainly periodic average method (Inventories with lower profitability are written down)
- Supplies: Mainly last purchase price method (Inventories with lower profitability are written down)

(f) Property, plant and equipment, and depreciation (excluding lease assets)

Property, plant and equipment, including significant capital expenditures and additions, are stated at cost and are principally depreciated using the declining-balance method at rates based on the estimated useful lives of the assets. Repairs and maintenance expenses are charged to income as incurred. Intangible assets are amortized by the straight-line method over their respective estimated useful lives.

(g) Accrued bonuses

The Company and its domestic consolidated subsidiaries have provided the estimated amounts of bonus to employees.

(h) Reserve for directors' bonus

The Company and its domestic consolidated subsidiaries have provided the estimated amounts of directors' bonus as a reserve for directors' bonus.

(i) Reserve for retirement benefits

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets.

The unrecognized prior service costs are amortized on a straight-line basis over a period of 5 to 12 years from the year in which they arise. The unrecognized actuarial differences are amortized on a straight-line basis over a period of 5 to 12 years from the year following the year in which they arise.

(j) Reserve for loss of transfer

Reserve for loss on office transfer, etc. for consolidated subsidiaries is provided at the estimated amount of future loss related to non-cancelable periods of real estate leasing contracts.

(k) Amortization of goodwill

Goodwill is amortized on a straight-line basis over 10 years.

(l) Income taxes

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

Deferred tax assets relating to tax loss carryforwards are recorded because the Japanese accounting standard requires that the benefit of tax loss carryforwards be estimated and recorded as an asset, with deduction of a valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

(m) Foreign currency translation

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheets dates. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts. Revenue and expenses are translated using the average exchange rates for the respective periods.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date. Revenue accounts and expense accounts of the foreign consolidated subsidiaries are translated into yen at the average exchange rate for the year. Differences arising from the translation are presented as translation adjustments and minority interests in the consolidated financial statements.

(n) Accounting for consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(o) Profit per share

Basic profit per share of common stock is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years, and diluted profit per share of common stock is computed on the basis of the weighted average number of shares of common stock outstanding during the respective year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options. Cash dividends per share represent the dividends declared as applicable to the respective period.

The basis of the calculation of basic profit per share and diluted profit per share for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Basic profit per share			2019
Profit attributable to owners of parent for the period	¥ 6,397	¥ 3,630	\$ 57,631
Amount not attributable to common stock	¥ —	¥ —	\$ —
Total profit attributable to common stock	¥ 6,397	¥ 3,630	\$ 57,631
Average number of shares outstanding during the year [thousands of shares]	82,019	82,010	82,019
Diluted profit per share			
Increase in common stock:			
Subscription rights to shares [thousands of shares]	524	506	524

## 2. Unapplied Accounting Standards, etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No.29, issued March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30, issued March 30, 2018)

### (a) Overview

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and issued "Revenue from Contracts with Customers" in May 2014 (IFRS 15 by the IASB, ASC 606 by the FASB). Considering that IFRS 15 is applied from fiscal years beginning January 1, 2018 and ASC 606 from fiscal years beginning after December 15, 2017, the ASBJ developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance. The fundamental policy for developing the accounting standard for revenue recognition by the ASBJ was that the accounting standard would incorporate the fundamental principles of IFRS 15 as the starting point from the perspective of comparability of financial statements, which is the one of the benefits of achieving consistency with IFRS 15. For matters to be taken into consideration in Japan with regard to accounting practices, etc., alternative treatments are provided within a range that would not impair financial statement comparability.

### (b) Date of adoption

This accounting standard and implementation guidance will be adopted from the fiscal year beginning on April 1, 2021.

### (c) Impact of the adoption of accounting standard, etc.

The Company is currently evaluating the effects of adopting Accounting Standard for Revenue Recognition, etc. on its consolidated financial statements.

### 3. Accounting Changes

(a) Change in accounting policies  
Not applicable.

(b) Change in presentation

(Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

As a result, on the consolidated balance sheet for the previous fiscal year, "Deferred tax assets" in "Current Assets" decreased by 936 million yen and "Deferred tax assets" in "Investments and Other Assets" increased by 267 million yen. In addition, "Other current liabilities" in "Current Liabilities" decreased by 25 million yen and "Deferred tax liabilities" in "Long-term Liabilities" decreased by 643 million yen.

Furthermore, deferred tax assets and deferred tax liabilities for a particular tax-paying company and within a particular tax jurisdiction are presented on a net basis, and therefore total assets decreased by 669 million yen compared with the amount before the change.

Also, "Note 14. Income Taxes" in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 14 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

### 4. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits with a maturity of 3 months or less and which represent a minor risk of fluctuation in value.

As of March 31, 2019 and 2018, cash and cash equivalents consisted of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Cash on hand and in banks	¥ 15,990	¥ 14,954	\$ 144,054
Time deposits with maturities of over 3 months	(149)	(353)	(1,342)
Cash and cash equivalents	<u>¥ 15,841</u>	<u>¥ 14,601</u>	<u>\$ 142,712</u>

In the year ended March 31, 2018, TAMURA DEUTSCHLAND GmbH, ELSOLD GmbH & Co. KG, ELSOLD VERWALTUNG GmbH and ESE INDUSTRIES (THAI) CO., LTD. were included in the scope of consolidation. The composition of assets and liabilities at acquisition, and the relation between acquisition cost and payments for acquisition are as follows:



	<u>Millions of yen</u>	
	<u>2018</u>	
Current assets	¥	1,537
Property, plant and equipment		825
Goodwill		360
Current liabilities		(330)
Long-term liabilities		(139)
Translation adjustments		(7)
Non-controlling interests		(161)
Acquisition costs of shares		<u>2,085</u>
Cash and cash equivalents		<u>(972)</u>
Purchase of investments in subsidiary resulting in change in scope of consolidation	¥	<u>1,113</u>

## 5. Financial Instruments

### Overview

#### (a) Policy for financial instruments

The Companies obtain necessary funding in accordance with their capital expenditure planning. The Companies obtain medium and long-term operating funds and funds for the purchase of equipment from banks and utilize highly liquid financial instruments for fund management purposes.

The Companies also utilize derivative financial instruments to hedge various risks as described in detail below and do not enter into derivatives for trading or speculative purposes.

#### (b) Types of financial instruments and related risk

Operating receivables, such as notes and accounts receivable-trade, are exposed to credit risk of customers. Operating receivables in foreign currencies are exposed to foreign currency exchange risk. Forward foreign exchange contracts are principally used to hedge this risk.

Investment securities, the issuers of which have business relationships with the Companies, are exposed to stock market fluctuation risk.

Maturities of operating debts, such as notes and accounts payable-trade, are mostly within six months. Though operating debts in foreign currencies are exposed to foreign currency exchange risk, they are limited to the balances of operating receivables in the same foreign currency on an ongoing basis.

Loans and lease obligations related to finance leases are used mainly for operating funds and for equipment purposes, respectively. Maturities of loans and lease obligations recorded as of the closing date of the fiscal year are within 7 years. Almost all long-term loans are variable interest rate loans, and are exposed to interest rate risk. Interest rate swaps are used for certain loans in order to hedge this risk.

In order to hedge foreign currency exchange risk associated with operating debts and receivables in foreign currencies and interest rate risk associated with interest expense, derivative transactions such as forward foreign exchange contracts, currency swap transactions and interest rate swap transactions are

used.

Hedging instruments, hedged items, hedging policy and effectiveness of hedge transactions are described in "Note 1. Significant Accounting Policies, (c) Financial instruments, (3) Hedge accounting."

(c) Risk management for financial instruments

(1) Monitoring of credit risk (the risk that customers or counterparties may default)

To screen and reduce unrecoverable risk of operating receivables, the Company regularly monitors major customers' credit status and manages the due dates and balances for each customer in accordance with customer credit management rules at the sales section in each operating division. Consolidated subsidiaries also act based on the Company's customer credit management rules.

The Companies do not anticipate losses resulting from default of counterparties to derivative transactions as these are limited to major financial institutions with sound credit ratings.

(2) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company and certain consolidated subsidiaries principally use forward foreign exchange contracts to hedge the foreign currency exchange risk of operating debts and receivables in foreign currencies, which are evaluated monthly for each currency. The Company uses interest rate swap transactions to hedge interest rate risk associated with interest expense.

The Company regularly monitors the financial condition of stock issuers and stock market fluctuations and continuously reviews shareholdings considering the market status and business relationship with the Company.

Derivative transactions entered into by the Company are implemented and controlled based on internal rules established by the board of directors. The rules which stipulate transaction purpose, nature of transaction, name of counterparty, transaction item, loss limitation and reporting system of risk amount. A derivative transaction which exceeds the limitation amount under the rule requires the approval of the board meeting.

(3) Monitoring of liquidity risk (the risk that the Companies may not be able to meet its obligations on scheduled due dates)

The Company timely formulates and updates the financing plan and controls liquidity risk by managing ready liquidity on the basis of reports from each division to the accounting department of the head office.

(d) Supplementary explanation of the fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or a reasonably assessed value if a quoted market price is not available. Fair value of financial instruments is calculated based on certain valuation assumptions and the fair value might differ if different factors are used. In addition, the contract amount of the derivative transactions described below in "Derivative Transactions" does not represent the market risk of the derivative transactions.

## Fair value of financial instruments

The book value on the consolidated balance sheets, fair value and difference as of March 31, 2019 and 2018 were as follows. In addition, financial instruments, for which it is extremely difficult to measure the fair value, are not included (see "2. Financial instruments for which the fair value is extremely difficult to measure").

	As of March 31, 2019		
	Millions of yen		
	Book value	Fair value	Difference
Cash on hand and in banks	¥ 15,990	¥ 15,990	¥ —
Trade notes and accounts receivable	22,100	22,100	—
Investment securities			
Other securities	1,709	1,709	—
Total assets	<u>¥ 39,799</u>	<u>¥ 39,799</u>	<u>¥ —</u>
Trade notes and accounts payable	¥ 12,095	¥ 12,095	¥ —
Short-term loans	7,591	7,591	—
Current portion of long-term debt	282	281	(1)
Income taxes payable	824	824	—
Long-term debt	9,279	9,431	152
Lease obligations	726	715	(11)
Total liabilities	<u>¥ 30,797</u>	<u>¥ 30,937</u>	<u>¥ 140</u>
Derivatives (*)	¥ (32)	¥ (32)	¥ —
	As of March 31, 2018		
	Millions of yen		
	Book value	Fair value	Difference
Cash on hand and in banks	¥ 14,954	¥ 14,954	¥ —
Trade notes and accounts receivable	22,773	22,773	—
Investment securities			
Other securities	2,362	2,362	—
Total assets	<u>¥ 40,089</u>	<u>¥ 40,089</u>	<u>¥ —</u>
Trade notes and accounts payable	¥ 12,646	¥ 12,646	¥ —
Short-term loans	4,395	4,395	—
Current portion of long-term debt	5,973	5,992	19
Income taxes payable	1,375	1,375	—
Long-term debt	4,754	4,779	25
Lease obligations	549	538	(11)
Total liabilities	<u>¥ 29,692</u>	<u>¥ 29,725</u>	<u>¥ 33</u>
Derivatives (*)	¥ (0)	¥ (0)	¥ —

As of March 31, 2019			
Thousands of U.S. dollars			
	Book value	Fair value	Difference
Cash on hand and in banks	\$ 144,054	\$ 144,054	\$ —
Trade notes and accounts receivable	199,099	199,099	—
Investment securities			
Other securities	15,396	15,396	—
Total assets	<u>\$ 358,549</u>	<u>\$ 358,549</u>	<u>\$ —</u>
Trade notes and accounts payable	\$ 108,964	\$ 108,964	\$ —
Short-term loans	68,387	68,387	—
Current portion of long-term debt	2,541	2,532	(9)
Income taxes payable	7,423	7,423	—
Long-term debt	83,595	84,964	1,369
Lease obligations	6,541	6,441	(100)
Total liabilities	<u>\$ 277,451</u>	<u>\$ 278,711</u>	<u>\$ 1,260</u>
Derivatives (*)	\$ (288)	\$ (288)	\$ —

(\*) The amount is the net balance of total transactions. Amounts reported as liabilities are shown in parentheses.

Notes:

1. Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

Assets

Cash on hand and in banks and Trade notes and accounts receivable

The book value approximates fair value because of the short maturity of these instruments.

Investment securities

The fair value of investment securities equals quoted market price. The fair value of debt securities is measured at the price provided by financial institutions. Investment securities based on holding purpose are described in "Note 6. Securities".

Liabilities

Trade notes and accounts payable, Short-term loans and Income taxes payable

The book value approximates fair value because of the short maturity of these instruments.

Current portion of long-term debt and Long-term debt

The fair value of current portion of long-term debt and long-term debt is based on the present value of future cash flows discounted using the current borrowing rate for similar debt contracts of comparable maturity.

Lease obligations

The fair value of lease obligations is based on the present value of future cash flows discounted using the current interest rate for similar lease contracts of comparable maturity and contract conditions.

Derivative transactions

See "Note 16. Derivative Financial Instruments".

2. Financial instruments for which the fair value is extremely difficult to measure as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Available-for-sale securities without market quotations:			
Unlisted securities	¥ 2,267	¥ 2,331	\$ 20,423
Total	¥ 2,267	¥ 2,331	\$ 20,423

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

3. The aggregate maturities of monetary claims and held-to-maturity securities as of March 31, 2019 and 2018 were as follows:

	As of March 31, 2019	
	Millions of yen	
	Due within 1 year	Due after 1 year through 5 years
Cash on hand and in banks	¥ 15,990	¥ —
Trade notes and accounts receivable	22,100	—
	¥ 38,090	¥ —

	As of March 31, 2018	
	Millions of yen	
	Due within 1 year	Due after 1 year through 5 years
Cash on hand and in banks	¥ 14,954	¥ —
Trade notes and accounts receivable	22,773	—
	¥ 37,727	¥ —

	As of March 31, 2019	
	Thousands of U.S. dollars	
	Due within 1 year	Due after 1 year through 5 years
Cash on hand and in banks	\$ 144,054	\$ —
Trade notes and accounts receivable	199,099	—
	\$ 343,153	\$ —

4. The redemption schedules for long-term debt and lease obligations were disclosed in "Note 8. Short-term Loans and Long-term Debt".

## 6. Securities

(a) As of March 31, 2019 and 2018, securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Available-for-sale securities for which market quotations are available			
Acquisition cost	¥ 1,498	¥ 1,659	\$ 13,495
Book value	1,708	2,362	15,387
Unrealized gain	¥ 210	¥ 703	\$ 1,892

(b) Sales of securities classified as other securities and the aggregate gain and loss for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales proceeds			
Available-for-sale securities	¥ 329	¥ 300	\$ 2,964
Aggregate gain			
Available-for-sale securities	¥ 164	¥ 122	\$ 1,477
Aggregate loss			
Available-for-sale securities	¥ —	¥ (29)	\$ —

## 7. Inventories

As of March 31, 2019 and 2018, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise	¥ 4,690	¥ 3,600	\$ 42,252
Finished goods	1,009	1,194	9,090
Work in process	1,586	1,799	14,288
Raw materials and supplies	6,139	6,087	55,307
Total	¥ 13,424	¥ 12,680	\$ 120,937

## 8. Short-term Loans and Long-term Debt

Short-term loans as of March 31, 2019 and 2018 were principally bank overdrafts and short-term notes bearing interest at annual average interest rates of 1.79% and 1.47%, respectively.

As of March 31, 2019 and 2018, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Long-term loans, principally from banks (*)	¥ 9,561	¥ 10,727	\$ 86,136
Lease obligations	726	549	6,541
	<u>10,287</u>	<u>11,276</u>	<u>92,677</u>
Less: current portion - Long-term loans	(282)	(5,973)	(2,541)
Less: current portion - Lease obligations	(195)	(201)	(1,757)
Total	<u>¥ 9,810</u>	<u>¥ 5,102</u>	<u>\$ 88,379</u>

(\*) As of March 31, 2019 and 2018, long-term loans and lease obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Long-term loans, at an annual average rate of 0.93	¥ 9,279	¥ 4,754	\$ 83,595
Lease obligations, at an annual average rate of 1.72	531	348	4,784
Current portion- Long-term loans, at an annual average rate of 0.64	282	5,973	2,541
Current portion- Lease obligations, at an annual average rate of 1.74	195	201	1,757
	<u>¥ 10,287</u>	<u>¥ 11,276</u>	<u>\$ 92,677</u>

The aggregate annual maturities of long-term debt and lease obligations as of March 31, 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Long-term loans	Lease obligations	Long-term loans	Lease obligations
Year ending March 31,				
2021	¥ 200	¥ 173	\$ 1,802	\$ 1,559
2022	3,760	147	33,874	1,324
2023	272	124	2,450	1,117
2024	144	69	1,297	622
After above year	4,903	18	44,172	162
	<u>¥ 9,279</u>	<u>¥ 531</u>	<u>\$ 83,595</u>	<u>\$ 4,784</u>

## 9. Retirement Benefit Plan

### (a) Outline of employee retirement benefits

The Company and certain consolidated subsidiaries have defined benefit retirement plans covering substantially all employees. Benefits under the plans are covered by two plans. One is governed by the regulations of the Defined Benefit Corporate Pension Law and the other is a severance indemnity by the Companies.

KOHA CO., LTD. (KOHA) also has defined benefit retirement plans covering substantially all employees. Benefits under the plans are covered by three plans. One is an employees' pension fund, the second is governed by the regulations of the Defined Benefit Corporate Pension Law, and the third is a severance indemnity by KOHA.

Certain foreign consolidated subsidiaries have defined benefit pension plans and defined benefit lump-sum payment plans. The Company also has employee retirement benefit trusts.

During the year ended March 31, 2011, the Company and some of its domestic consolidated subsidiaries have changed a part of their retirement benefit plans from defined benefit plans to defined contribution plans.

Certain foreign consolidated subsidiaries have introduced their own defined contribution plans.

### (b) Contributory defined benefit retirement plan

- (1) The changes in the defined benefit obligation and fair value of plan assets except plans for which the simplified method is applied for calculating retirement benefit obligations adopted by certain consolidated subsidiaries, during the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Change in benefit obligations:			
Benefit obligation, the beginning of the year	¥ 12,941	¥ 12,740	\$ 116,586
Service cost	449	456	4,045
Interest cost	55	57	495
Actuarial loss (gain)	(142)	23	(1,279)
Benefit payments	(602)	(490)	(5,423)
Effects of changes in foreign exchange rates	(159)	121	(1,432)
Other	1	34	8
Benefit obligation, the end of the year	<u>¥ 12,543</u>	<u>¥ 12,941</u>	<u>\$ 113,000</u>
Change in fair value of plan assets:			
Plan assets, the beginning of the year	¥ 11,578	¥ 10,570	\$ 104,306
Expected return on plan assets	238	220	2,144
Actuarial gain	(246)	393	(2,216)
Employer contributions	519	735	4,676
Benefit payments	(448)	(442)	(4,036)
Effects of changes in foreign exchange rates	(128)	101	(1,153)
Other	—	1	—
Plan assets, the end of the year	<u>¥ 11,513</u>	<u>¥ 11,578</u>	<u>\$ 103,721</u>



- (2) Changes in the defined benefit obligation and fair value of plan assets estimated by the simplified method for calculating retirement benefit obligations for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Change in net defined benefit liability			
Net defined benefit liability, the beginning of the year	¥ 110	¥ 110	\$ 991
Service cost	7	10	63
Benefit payments	(5)	(10)	(45)
Benefit obligation, the end of the year	<u>¥ 112</u>	<u>¥ 110</u>	<u>\$ 1,009</u>

- (3) Reconciliation of the projected benefit obligation and plan assets with net defined benefit liability and asset reflected on the consolidated balance sheets as of March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded projected benefit obligation	¥ 12,075	¥ 12,492	\$ 108,784
Plan assets	(11,513)	(11,578)	(103,721)
	<u>¥ 562</u>	<u>¥ 914</u>	<u>\$ 5,063</u>
Unfunded projected benefit obligation	580	558	5,225
Net of liability and asset reported on the consolidated balance sheets	<u>¥ 1,142</u>	<u>¥ 1,472</u>	<u>\$ 10,288</u>
Net defined benefit liability	¥ 3,136	¥ 3,226	\$ 28,252
Net defined benefit asset	(1,994)	(1,754)	(17,964)
Net of liability and asset reported on the consolidated balance sheets	<u>¥ 1,142</u>	<u>¥ 1,472</u>	<u>\$ 10,288</u>

- (4) Components of pension expense for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 457	¥ 466	\$ 4,117
Interest cost	55	57	495
Expected return on plan assets	(238)	(220)	(2,144)
Amortization of actuarial differences	370	327	3,333
Amortization of prior service cost	(28)	(28)	(252)
Other	11	5	100
Net pension expense	<u>¥ 627</u>	<u>¥ 607</u>	<u>\$ 5,649</u>

(5) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before tax effect) in accumulated other comprehensive income and other comprehensive income were as follows for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥ 28	¥ 28	\$ 252
Net actuarial difference	(306)	(649)	(2,757)
Total	¥ (278)	¥ (621)	\$ (2,505)

  

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost	¥ (107)	¥ (135)	\$ (964)
Unrecognized actuarial difference	1,043	1,350	9,396
Total	¥ 936	¥ 1,215	\$ 8,432

(6) Matters related to pension assets

i. Major components of pension assets

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows.

	2019	2018
Bonds	31 %	30 %
Equity securities	47	48
Life insurance company general accounts	12	12
Cash and cash equivalents	1	1
Other	9	9
	100 %	100 %

\*Of total plan assets, 22% and 22% were included in a retirement benefit trust (stocks, cash and bank deposits) established for the corporate pension plan as of March 31, 2019 and 2018, respectively.

ii. Method for expected long-term rate of return on pension plan

The Companies determine the expected long-term rate of return on pension plan assets based on the current and expected asset allocation, as well as the current and expected long-term rate of return from various assets which constitute the plan assets.

(7) Assumptions used in actuarial calculations

The assumptions used in accounting for the above plans for the years ended March 31, 2019 and 2018 were as follows.

	<u>2019</u>	<u>2018</u>
Discount rates	0.0 ~ 5.3 %	0.0 ~ 5.3 %
Expected rates of long-term return on plan assets	1.8 ~ 3.3	1.8 ~ 3.2
Expected rates of salary	2.0 ~ 5.0	3.4 ~ 5.0

(c) Defined contribution plans

The required contributions by the Companies were ¥176 million (\$1,586 thousand) and ¥178 million for the years ended March 31, 2019 and 2018, respectively.

## 10. Other Comprehensive Income

Reclassification adjustments and the related tax effects for components of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized holding gain (loss) on securities			
Amount arising during the period	¥ (368)	¥ 315	\$ (3,315)
Reclassification adjustments for gains and losses included in net income	(123)	(95)	(1,108)
Before tax effect	(491)	220	(4,423)
Tax effect	97	(69)	873
Unrealized holding gain (loss) on securities	(394)	151	(3,550)
Deferred gain (loss) from hedging instruments			
Amount arising during the period	—	1	—
Reclassification adjustments for gains and losses included in net income	—	—	—
Before tax effect	—	1	—
Tax effect	—	—	—
Deferred gain (loss) from hedging instruments	—	1	—
Translation adjustments			
Amount arising during the period	(1,318)	511	(11,874)
Reclassification adjustments for gains and losses included in net income	(40)	—	(360)
Before tax effect	(1,358)	511	(12,234)
Tax effect	10	(2)	90
Translation adjustments	(1,348)	509	(12,144)
Retirement benefits liability adjustments			
Amount arising during the period	(62)	370	(559)
Reclassification adjustments for gains and losses included in net income	341	252	3,073
Before tax effect	279	622	2,514
Tax effect	143	—	1,288
Retirement benefits liability adjustments	422	622	3,802
Share of other comprehensive income of affiliates accounted for by the equity method	(124)	56	(1,117)
Amount arising during the period			
Total amount of other comprehensive income	¥ (1,444)	¥ 1,339	\$ (13,009)

## 11. Treasury Stock

The Company had 764 thousand shares and 752 thousand shares of treasury stock as of March 31, 2019 and 2018, respectively, in order to prepare for the exercise of stock options granted to certain directors and executive officers, subject to the approval of the General Meeting of Shareholders.

The amount of treasury stock is stated at cost and is presented as a separate component of shareholders' equity.

## 12. Selling, General and Administrative Expenses

For the years ended March 31, 2019 and 2018, the significant components of selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries	¥ 6,359	¥ 6,133	\$ 57,288
Pension expense	599	593	5,396
Research and development expense	926	1,200	8,342
Freight	2,252	2,027	20,288
Provision for directors' bonuses	70	60	631
Accrued bonuses	677	745	6,099

## 13. Research and Development Expenses

Total research and development expenses included in manufacturing costs and selling, general and administrative expenses amounted to ¥1,067 million (\$9,613 thousand) and ¥1,268 million for the years ended March 31, 2019 and 2018, respectively.

## 14. Income Taxes

As of March 31, 2019, and 2018, the significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Tax loss carryforwards(*2)	¥ 1,487	¥ 1,886	\$ 13,396
Loss on valuation of inventories	83	101	748
Accrued enterprise taxes	60	52	541
Accrued bonuses	328	356	2,955
Net defined benefit liability	1,292	1,252	11,640
Loss on valuation of investment securities	196	308	1,766
Loss on impairment of fixed assets	53	74	477
Unrealized profit on inventories	209	196	1,883
Other	495	565	4,459
Subtotal	4,203	4,790	37,865
Valuation allowance(*1) :			
Tax loss carryforwards(*2)	(959)	—	(8,640)
Deductible temporary differences	(1,218)	—	(10,973)
Subtotal	(2,177)	(3,810)	(19,613)
Total deferred tax assets	¥ 2,026	¥ 980	\$ 18,252
Deferred tax liabilities:			
Net defined benefit asset	¥ 190	¥ —	\$ 1,712
Unrealized holding gain (loss) on securities	91	189	820
Other	651	599	5,864
Total deferred tax liabilities	932	788	8,396
Net deferred tax assets	¥ 1,094	¥ 192	\$ 9,856

(\*1) The decrease in the valuation allowance for tax loss carryforwards was mainly a result of the recording of a significant amount of extraordinary income in the fiscal year ended March 31, 2019, which was not predicted in prior fiscal years.

(\*2) The breakdown of tax loss carryforwards and deferred tax assets by expiration is as follows.

	As of March 31, 2019					
	Millions of yen			Thousands of U.S. dollars		
	Tax loss carryforwards (1)	Valuation allowance	Deferred tax assets	Tax loss carryforwards (1)	Valuation allowance	Deferred tax assets
Within 1 year	¥ 24	¥ (14)	¥ 10	\$ 216	\$ (126)	\$ 90
Over 1 year but within 3 years	525	(240)	285	4,730	(2,162)	2,568
Over 3 years but within 5 years	156	—	156	1,405	—	1,405
Over 5 years but within 10 years	78	(30)	48	703	(270)	433
Over 10 years	704	(675)	29	6,342	(6,082)	260
	<u>¥ 1,487</u>	<u>¥ (959)</u>	<u>¥ 528 (2)</u>	<u>\$ 13,396</u>	<u>\$ (8,640)</u>	<u>\$ 4,756 (2)</u>

(1) The Companies calculate tax loss carryforwards using the statutory tax rate.

(2) The Companies assess the possibility of realizing deferred tax assets based on estimated future taxable income for each taxpaying entity calculated using the medium-term management plan.

The reconciliation between the statutory tax rate and the effective tax rates for the years ended March 31, 2019 and 2018 was as follows:

	2019	2018
Statutory tax rate	30.6 %	30.9 %
Effect of:		
Non-deductible expenses for tax purpose	1.7	2.5
Non-taxable items	(3.3)	(0.4)
Inhabitant tax on per capita basis	0.4	0.5
Amortization of goodwill	0.3	1.5
Equity in earnings of affiliates	(0.8)	(1.2)
Tax rate difference applied for foreign subsidiaries	(2.6)	(6.0)
Change in valuation allowance	(18.3)	(9.2)
Foreign income taxes	2.7	2.5
Prior years' adjustment of income tax	—	10.1
Others	(0.7)	2.1
Effective tax rates	<u>10.0 %</u>	<u>33.3 %</u>

## 15. Leases

### Finance lease transactions (lessee)

(a) Finance lease transactions with ownership transfer

Lease assets:

- Property, plant and equipment: Display units (machinery and equipment)
- Intangible fixed assets: Software

Lease assets are depreciated using the same method as fixed assets.

(b) Finance lease transactions without ownership transfer

Lease assets:

- Property, plant and equipment: Building and structures, machinery and equipment in connection with Electronic Components business, machinery and equipment in connection with IT, and warehouse facilities
- Intangible fixed assets: Software

Lease assets are depreciated by the straight-line method over the respective lease terms, assuming no residual value.

### Operating lease transactions (lessee)

The future payments under non-cancelable operating leases as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Due within one year	¥ 188	¥ 206	\$ 1,693
Due after one year	183	179	1,649
	<u>¥ 371</u>	<u>¥ 385</u>	<u>\$ 3,342</u>

## 16. Derivative Financial Instruments

The Companies do not hold or issue derivatives for trading purposes and it is the Companies' policy to use derivatives only for the purpose of reducing exposure to market risks and financing costs in accordance with internal policies.

The Companies do not anticipate any losses resulting from default of the counterparties as these are limited to major financial institutions with sound credit ratings.

As of March 31, 2019, and 2018, for which hedge accounting has not been applied are summarized as follows:

(a) Foreign currency-related transactions

Derivative transactions	As of March 31, 2019			
	Millions of yen			
	Contract amount	Portion maturing over one year	Fair value	Difference
<i>Transactions outside the market:</i>				
Forward foreign exchange contracts:				
Buy				
USD	¥ 66	¥ —	¥ 0	¥ 0

Derivative transactions	As of March 31, 2018			
	Millions of yen			
	Contract amount	Portion maturing over one year	Fair value	Difference
<i>Transactions outside the market:</i>				
Forward foreign exchange contracts:				
Buy				
USD	¥ 87	¥ —	¥ (0)	¥ (0)

Derivative transactions	As of March 31, 2019			
	Thousands of U.S. dollars			
	Contract amount	Portion maturing over one year	Fair value	Difference
<i>Transactions outside the market:</i>				
Forward foreign exchange contracts:				
Buy				
USD	\$ 595	\$ —	\$ 0	\$ 0

(\*) Price provided by financial institutions.

(b) Rate and Currency-related transactions

The Company did not recognize any transactions during the year ended March 31, 2018.

Derivative transactions	As of March 31, 2019			
	Millions of yen			
	Contract amount	Portion maturing over one year	Fair value	Difference
<i>Transactions outside the market:</i>				
Interest rate and currency swaps:				
Receive variable and pay fixed				
Receive in U.S. dollars and pay in Thai baht	¥ 576	¥ 576	¥ (32)	¥ (32)



Derivative transactions	As of March 31, 2019			
	Thousands of U.S. dollars			
	Contract amount	Portion maturing over one year	Fair value	Difference
<i>Transactions outside the market:</i>				
Interest rate and currency swaps:				
Receive variable and pay fixed				
Receive in U.S. dollars and pay in Thai baht	\$ 5,189	\$ 5,189	\$ (288)	\$ (288)

(\*) Price provided by financial institutions.

The notional amounts and the fair value of the derivative instruments outstanding as of March 31, 2019 and 2018, for which hedge accounting has been applied are summarized as follows:

(a) Foreign currency-related transactions

Derivative transactions	Main hedged items	As of March 31, 2019		
		Millions of yen		
		Contract amount	Portion maturing over one year	Fair value
<i>Foreign exchange allocation method:</i>				
Forward foreign exchange contracts:				
Sell				
USD	Trade accounts receivable	¥ 950	¥ —	¥ (*1)
EUR	Trade accounts receivable	10	—	(*1)
Buy				
USD	Trade accounts payable	443	—	(*1)
Total		¥ 1,403	¥ —	¥ —

Derivative transactions	Main hedged items	As of March 31, 2018		
		Millions of yen		
		Contract amount	Portion maturing over one year	Fair value
<i>Foreign exchange allocation method:</i>				
Forward foreign exchange contracts:				
Sell				
USD	Trade accounts receivable	¥ 66	¥ —	¥ (*1)
EUR		23	—	(*1)
Buy				
USD	Trade accounts payable	1,384	—	(*1)
Total		¥ 1,473	¥ —	¥ —

Derivative transactions	Main hedged items	As of March 31, 2019		
		Thousands of U.S. dollars		
		Contract amount	Portion maturing over one year	Fair value
<i>Foreign exchange allocation method:</i>				
Forward foreign exchange contracts:				
Sell				
USD	Trade accounts receivable	\$ 8,559	\$ —	\$ (*1)
EUR		90	—	(*1)
Buy				
USD	Trade accounts payable	3,991	—	(*1)
Total		\$ 12,640	\$ —	\$ —

(\*1) The fair value is included in the fair value of the accounts receivable-trade and the accounts payable-trade since the forward foreign exchange contracts are accounted for as part of accounts receivable and payable under the allocation method for hedge accounting.

(\*2) Price provided by financial institutions.

(b) Interest rate-related transactions

		As of March 31, 2019			
		Millions of yen			
Derivative transactions	Main hedged items	Contract amount	Portion maturing over one year	Fair value	
Interest-rate swaps:					
Pay fixed and receive variable	Long-term debt	¥ 4,482	¥ 4,420	¥ (*)	

		As of March 31, 2018			
		Millions of yen			
Derivative transactions	Main hedged items	Contract amount	Portion maturing over one year	Fair value	
Interest-rate swaps:					
Pay fixed and receive variable	Long-term debt	¥ 6,581	¥ 2,452	¥ (*)	

		As of March 31, 2019			
		Thousands of U.S. dollars			
Derivative transactions	Main hedged items	Contract amount	Portion maturing over one year	Fair value	
Interest-rate swaps:					
Pay fixed and receive variable	Long-term debt	\$ 40,378	\$ 39,820	\$ (*)	

(\*) The fair value is included in the fair value of long-term debt since the short-cut method is applied.

## 17. Contingent Liabilities

### (a) Financial guarantees

As of March 31, 2019, the Company is contingently liable as a guarantor of borrowings for non-consolidated subsidiaries (NOVEL CRYSTAL TECHNOLOGY, INC.) in the amounts of ¥19 million (\$171 thousand).

As of March 31, 2018, the Company was contingently liable as a guarantor of borrowings for non-consolidated subsidiaries (TE ENERGY CO., LTD. and NOVEL CRYSTAL TECHNOLOGY, INC.) in the amounts of ¥274 million and ¥23 million, respectively.

### (b) Litigation

Bombardier Transportation Sweden AB ("BT") submitted a claim for compensation against TAMURA EUROPE LIMITED ("Tamura-Europe"), a consolidated subsidiary of the Company, to the International Chamber of Commerce for damages concerning malfunctions of certain products ordered by said company and continued the arbitration process. Tamura-Europe received notice of the rejection of the claim for compensation on

May 21, 2019 (Tokyo time).

An outline of the arbitration is as follows;

- (1) Location of request for arbitration and others
  - Location: Zurich (Switzerland)
  - Rules governing arbitration:
    - Rules of Arbitration of the International Chamber of Commerce
  - Governing laws: Laws of Switzerland
  - Date of request for arbitration: December 23, 2016
- (2) Name of entity requesting arbitration  
Bombardier Transportation Sweden AB (Vasteras, Sweden)
- (3) Details of the request for arbitration, amount of damage claims and judgement
  - Details of request:
    - Payment for damages concerning malfunctioning products delivered by Tamura-Europe
  - Amount claimed: 8,113,231 Euro (¥1,030 million as of December 31, 2018)
  - Judgement:
    - The claims was dismissed.
- (4) Outlook  
There was only minor impact on the financial position and operating results of the Companies.

## 18. Business Combination, etc.

(Business Divestiture)

The Company transferred the thermal business (thermal-links and resistors) and equity of its consolidated sub-subsidiary company, ANZEN DENGU (HUI ZHOU) CO., LTD., to Uchihashi Estec Co., Ltd. on September 30, 2018.

- (a) Overview of business divestiture
  - i. Name of acquirer:
    - Business transfer: Uchihashi Estec Co., Ltd.
    - Transfer of equity: Uchihashi Hong Kong Limited
  - ii. Details of divested business:
    - Business transfer: Thermal business in the Electronic components segment of the Company
    - Transfer of equity: All shares of ANZEN DENGU (HUI ZHOU) CO., LTD., a sub-subsidiary of the Company
  - iii. Reason for business divestiture  
The thermal market continues to be impacted by severe business conditions. Considering this fact, the Company decided to carry out the business divestiture based on its judgment that the respective acquirers, through the integration of know-how and management resources, would be better positioned to provide stable and continuous supplies to customers and thus grow the thermal business
  - iv. Date of the business divestiture  
September 30, 2018
  - v. Overview of the business divestiture including legal form:  
The Company will receive a cash consideration in return for the transfer of the business.

(b) Summary of accounting treatment

- i. Gain on business transfer  
¥44 million (\$396 thousand)
- ii. Carrying value and details of assets and liabilities related to transferred business

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 506	\$ 4,559
Property, plant and equipment	112	1,009
Total assets	618	5,568
Current liabilities	130	1,171
Total liabilities	130	1,171

iii. Accounting treatment

The accounting treatment is based on "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan, Statement No. 7, September 13, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 26, 2008).

(c) Name of reportable segments in which divested businesses was included:  
Electronic components

(d) Summarized profit or loss of divested business recognized in the consolidated statements of income for the year ended March 31, 2019.

	Millions of yen	Thousands of U.S. dollars
Net Sales	¥ 948	\$ 8,541
Operating income	93	838

## 19. Loan Commitment

In order to achieve more efficient and flexible financing, the Company has concluded loan commitment contracts with five financial institutions.

The status of these contracts as of March 31, 2019 and 2018 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Maximum overdraft amount and total amount of loan commitment	¥ 2,500	¥ 2,500	\$ 22,523
Executed loan amounts	1,500	—	13,514
Net amount	¥ 1,000	¥ 2,500	\$ 9,009

## 20. Stock Options

(a) Stock options expenses recognized in selling, general and administrative expenses for the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general and administrative expenses	¥ 26	¥ 16	\$ 234

(b) Outline of stock options and changes

a. Outline of stock options

Date of resolution	The 2nd Stock Option Plan June 29, 2005	The 3rd Stock Option Plan June 29, 2006	The 4th Stock Option Plan June 28, 2007
Title and number of grantees	Directors 6 (Exclude outside director) Executive officers 9	Directors 6 (Exclude outside director) Executive officers 6	Directors 6 (Exclude outside director) Executive officers 7
Number of stock options	Common shares 35,000	Common shares 28,000	Common shares 30,000
Grant date	July 1, 2005	July 1, 2006	July 1, 2007
Condition for vesting	Retirement of director and executive officer	Retirement of director and executive officer	Retirement of director and executive officer
Requisite service period	N.A.	N.A.	N.A.
Exercise period	For the period of five years from the next day of retirement of director and executive officer	July 1, 2006 to June 30, 2036	July 1, 2007 to June 30, 2037

Date of resolution	The 5th Stock Option Plan June 27, 2008	The 6th Stock Option Plan June 26, 2009	The 7th Stock Option Plan June 29, 2010
Title and number of grantees	Directors 6 (Exclude outside director) Executive officers 6	Directors 6 (Exclude outside director) Executive officers 4	Directors 6 (Exclude outside director) Executive officers 6
Number of stock options	Common shares 42,000	Common shares 77,000	Common shares 52,000
Grant date	July 1, 2008	July 1, 2009	July 1, 2010
Condition for vesting	Retirement of director and executive officer	Retirement of director and executive officer	Retirement of director and executive officer
Requisite service period	N.A.	N.A.	N.A.
Exercise period	July 1, 2008 to June 30, 2038	July 1, 2009 to June 30, 2039	July 1, 2010 to June 30, 2040

Date of resolution	The 8th Stock Option Plan June 29, 2011	The 9th Stock Option Plan June 28, 2012	The 10th Stock Option Plan June 27, 2013
Title and number of grantees	Directors 6 (Exclude outside director) Executive officers 6	Directors 6 (Exclude outside director) Executive officers 6	Directors 6 (Exclude outside director) Executive officers 6
Number of stock options	Common shares 65,000	Common shares 72,000	Common shares 78,000
Grant date	July 1, 2011	July 1, 2012	July 1, 2013
Condition for vesting	Retirement of director and executive officer	Retirement of director and executive officer	Retirement of director and executive officer
Requisite service period	N.A.	N.A.	N.A.
Exercise period	July 1, 2011 to June 30, 2041	July 1, 2012 to June 30, 2042	July 1, 2013 to June 30, 2043

Date of resolution	The 11th Stock Option Plan June 26, 2014	The 12th Stock Option Plan June 26, 2015	The 13th Stock Option Plan June 28, 2016
Title and number of grantees	Directors 6 (Exclude outside director) Executive officers 6	Directors 7 (Exclude outside director) Executive officers 5	Directors 6 (Exclude outside director) Executive officers 5
Number of stock options	Common shares 52,000	Common shares 36,000	Common shares 50,000
Grant date	July 1, 2014	July 1, 2015	July 1, 2016
Condition for vesting	Retirement of director and executive officer	Retirement of director and executive officer	Retirement of director and executive officer
Requisite service period	N.A.	N.A.	N.A.
Exercise period	July 1, 2014 to June 30, 2044	July 1, 2015 to June 30, 2045	July 1, 2016 to June 30, 2046

Date of resolution	The 14th Stock Option Plan June 28, 2017	The 15th Stock Option Plan June 27, 2018
Title and number of grantees	Directors 6 (Exclude outside director) Executive officers 8	Directors 6 (Exclude outside director) Executive officers 7
Number of stock options	Common shares 37,000	Common shares 43,000
Grant date	July 1, 2017	July 1, 2018
Condition for vesting	Retirement of director and executive officer	Retirement of director and executive officer
Requisite service period	N.A.	N.A.
Exercise period	July 1, 2017 to June 30, 2047	July 1, 2018 to June 30, 2048

The Company's stock option plans were designed as stock compensation to directors and executive officers after the directors' retirement benefit plan was abolished in June 2005.

#### b. Stock options granted and changes

The movement in the number of stock options for the year ended March 31, 2019 is presented after conversion to the number of shares.

Number of stock options	(Shares)		
Date of resolution	The 2nd Stock Option Plan June 29, 2005	The 3rd Stock Option Plan June 29, 2006	The 4th Stock Option Plan June 28, 2007
Before vested			
Previous fiscal year-end	13,000	13,000	16,000
Granted	—	—	—
Forfeited	—	—	—
Vested	1,000	2,000	3,000
Outstanding	12,000	11,000	13,000
After vested			
Previous fiscal year-end	—	—	—
Vested	1,000	2,000	3,000
Exercised	1,000	2,000	3,000
Forfeited	—	—	—
Exercisable	—	—	—

Date of resolution	The 5th Stock Option Plan June 27, 2008	The 6th Stock Option Plan June 26, 2009	The 7th Stock Option Plan June 29, 2010
Before vested			
Previous fiscal year-end	23,000	59,000	42,000
Granted	—	—	—
Forfeited	—	—	—
Vested	3,000	10,000	3,000
Outstanding	20,000	49,000	39,000
After vested			
Previous fiscal year-end	—	—	—
Vested	3,000	10,000	3,000
Exercised	3,000	10,000	—
Forfeited	—	—	—
Exercisable	—	—	3,000

Date of resolution	The 8th Stock Option Plan June 29, 2011	The 9th Stock Option Plan June 28, 2012	The 10th Stock Option Plan June 27, 2013
Before vested			
Previous fiscal year-end	46,000	61,000	74,000
Granted	—	—	—
Forfeited	—	—	—
Vested	3,000	4,000	—
Outstanding	43,000	57,000	74,000
After vested			
Previous fiscal year-end	—	—	—
Vested	3,000	4,000	—
Exercised	—	—	—
Forfeited	—	—	—
Exercisable	3,000	4,000	—

Date of resolution	The 11th Stock Option Plan June 26, 2014	The 12th Stock Option Plan June 26, 2015	The 13th Stock Option Plan June 28, 2016
Before vested			
Previous fiscal year-end	50,000	31,000	47,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	2,000	3,000
Outstanding	50,000	29,000	44,000
After vested			
Previous fiscal year-end	—	2,000	3,000
Vested	—	2,000	3,000
Exercised	—	4,000	6,000
Forfeited	—	—	—
Exercisable	—	—	—

Date of resolution	The 14th Stock Option Plan June 28, 2017	The 15th Stock Option Plan June 27, 2018
Before vested		
Previous fiscal year-end	36,000	—
Granted	—	43,000
Forfeited	—	2,200
Vested	4,000	3,400
Outstanding	32,000	37,400
After vested		
Previous fiscal year-end	—	—
Vested	4,000	3,400
Exercised	4,000	3,400
Forfeited	—	—
Exercisable	—	—

Price information

(Yen)

Date of resolution	The 2nd Stock Option Plan June 29, 2005	The 3rd Stock Option Plan June 29, 2006	The 4th Stock Option Plan June 28, 2007
Exercise price	1	1	1
Average stock price at exercise	698	698	572
Fair value at the grant date	—	464	653

Date of resolution	The 5th Stock Option Plan June 27, 2008	The 6th Stock Option Plan June 26, 2009	The 7th Stock Option Plan June 29, 2010
Exercise price	1	1	1
Average stock price at exercise	572	568	—
Fair value at the grant date	426	348	203

Date of resolution	The 8th Stock Option Plan June 29, 2011	The 9th Stock Option Plan June 28, 2012	The 10th Stock Option Plan June 27, 2013
Exercise price	1	1	1
Average stock price at exercise	—	—	—
Fair value at the grant date	203	151	163



Date of resolution	The 11th Stock Option Plan June 26, 2014	The 12th Stock Option Plan June 26, 2015	The 13th Stock Option Plan June 28, 2016
Exercise price	1	1	1
Average stock price at exercise	—	718	718
Fair value at the grant date	321	423	229

Date of resolution	The 14th Stock Option Plan June 28, 2017	The 15th Stock Option Plan June 27, 2018
Exercise price	1	1
Average stock price at exercise	644	566
Fair value at the grant date	439	439

(c) Valuation technique used to determine the fair value of stock options

The 15th stock options granted in the fiscal year ended March 31, 2019 were valued using the following valuation technique.

Valuation technique: Black-Scholes option-pricing model

Principal assumptions used in the option-pricing model:

Date of resolution	The 15th Stock Option Plan June 27, 2018
Expected volatility(*1)	43.67%
Average expected life(*2)	10 years
Expected dividends(*3)	9 yen per share
Risk-free interest rate(*4)	0.04%

(\*1) Calculated based on the actual stock prices from April 2008 to June 2018.

(\*2) The average expected life could not be estimated rationally as data was insufficient. Therefore, it was estimated assuming that the options were exercised at the 1/3 point of the exercise period.

(\*3) Calculated based on actual dividends on common stock for the year ended March 31, 2018, the dividend policy of the Company and prior years' actual dividends.

(\*4) Japanese government bond yield corresponding to the average expected life.

(d) Method of estimating the number of stock options to be vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the number of stock options that will be forfeited in the future.

## 21. Segment Information

(a) Overview of reportable segments

The reportable segments of the Companies are components for which separate financial information is available and which are reviewed regularly by the board of directors in deciding resource allocation and in assessing performance. Each business division develops comprehensive business strategies for products in Japan and overseas and conducts business activities.

Accordingly, the Company consists of three reportable segments, identified by the products and based on the business divisions, which are classified as the “Electronic Components” business, the “Electronic Chemicals / FA Systems” business and the “Information Equipment” business.

The “Electronic Components” business manufactures transformers, reactors, AC adaptors, battery chargers, piezoelectric ceramic products and LED-related products. The “Electronic Chemicals / FA Systems” business manufactures solder paste, solder resist, flux and soldering system. The “Information Equipment” business manufactures audio mixing console for broadcast used, wireless microphone system, communication network equipment and OEM products.

(b) Calculation method for net sales, segment income or loss, and other items of the reportable segments

The accounting policies of the segments are substantially the same as those described in Note 1. Significant Accounting Policies.

Segment income is based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

(c) Information on net sales, income or loss, assets and liabilities, and other items by the reportable segment

		Year ended March 31, 2019														
		Millions of yen														
		Reportable segments						Consolidated								
		Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Subtotal	Other (*1)	Total	Adjustments (*2)	dated (*3)							
Net Sales																
Sales-																
Customers	¥	54,795	¥	28,084	¥	4,123	¥	87,002	¥	6	¥	87,008	¥	—	¥	87,008
Inter-segment		—		80		78		158		665		823		(823)		—
		54,795		28,164		4,201		87,160		671		87,831		(823)		87,008
Segment																
income (loss)	¥	962	¥	3,572	¥	481	¥	5,015	¥	18	¥	5,033	¥	(433)	¥	4,600
Other items																
Depreciation and amortization	¥	1,175	¥	912	¥	109	¥	2,196	¥	8	¥	2,204	¥	15	¥	2,219
Amortization of goodwill	¥	65	¥	42	¥	—	¥	107	¥	—	¥	107	¥	—	¥	107
Increase in tangible and intangible fixed assets	¥	3,873	¥	2,153	¥	77	¥	6,103	¥	2	¥	6,105	¥	14	¥	6,119

Year ended March 31, 2018									
Millions of yen									
	Reportable segments					Total	Adjustments (*2)	Consoli- dated (*3)	
	Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Subtotal	Other (*1)				
Net Sales									
Sales-									
Customers	¥ 55,875	¥ 25,379	¥ 4,224	¥ 85,478	¥ 80	¥ 85,558	¥ —	¥ 85,558	
Inter-segment	—	64	8	72	661	733	(733)	—	
	55,875	25,443	4,232	85,550	741	86,291	(733)	85,558	
Segment income (loss)	¥ 2,197	¥ 3,244	¥ 490	¥ 5,931	¥ 80	¥ 6,011	¥ (604)	¥ 5,407	
Other items									
Depreciation and amortization	¥ 1,083	¥ 790	¥ 105	¥ 1,978	¥ 11	¥ 1,989	¥ 12	¥ 2,001	
Amortization of goodwill	¥ 63	—	—	¥ 63	—	¥ 63	—	¥ 63	
Increase in tangible and intangible fixed assets	¥ 4,030	¥ 861	¥ 67	¥ 4,958	¥ 3	¥ 4,961	¥ 32	¥ 4,993	

Year ended March 31, 2019									
Thousands of U.S. dollars									
	Reportable segments					Total	Adjustments (*2)	Consoli- dated (*3)	
	Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Subtotal	Other (*1)				
Net Sales									
Sales-									
Customers	\$ 493,649	\$ 253,009	\$ 37,144	\$ 783,802	\$ 54	\$ 783,856	\$ —	\$ 783,856	
Inter-segment	—	720	703	1,423	5,991	7,414	(7,414)	—	
	493,649	253,729	37,847	785,225	6,045	791,270	(7,414)	783,856	
Segment income (loss)	\$ 8,667	\$ 32,180	\$ 4,333	\$ 45,180	\$ 162	\$ 45,342	\$ (3,901)	\$ 41,441	
Other items									
Depreciation and amortization	\$ 10,586	\$ 8,216	\$ 982	\$ 19,784	\$ 72	\$ 19,856	\$ 135	\$ 19,991	
Amortization of goodwill	\$ 586	\$ 378	—	\$ 964	—	\$ 964	—	\$ 964	
Increase in tangible and intangible fixed assets	\$ 34,892	\$ 19,396	\$ 694	\$ 54,982	\$ 18	\$ 55,000	\$ 126	\$ 55,126	

(\*1) "Other" includes businesses not included in the reportable segments, which includes the transportation, warehouse businesses in the years ended March 31, 2019 and 2018.

(\*2) Adjustments for segment income (loss) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	Inter-segment eliminations	¥ 68	¥ 67
Corporate costs (*)	(501)	(671)	(4,514)
Total	¥ (433)	¥ (604)	\$ (3,901)

(\*) Corporate costs are mainly future R&D expenses at the head office, which are not allocated to the reportable segments.

(\*3) Segment income is adjusted with operating income in the consolidated statement of income.

(\*4) Adjustments for “Depreciation and amortization” and “Increase in tangible and intangible fixed assets” are mainly capital investment and depreciation relating to future R&D assets at the head office, which are not allocated to the reportable segments.

(\*5) Assets of the Company are not allocated to the business segments.

(d) Related information

(1) Information by product and service

		Year ended March 31, 2019				
		Millions of yen				
		Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Sales-Customers	¥	54,795	¥ 28,084	¥ 4,123	¥ 6	¥ 87,008

		Year ended March 31, 2018				
		Millions of yen				
		Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Sales-Customers	¥	55,875	¥ 25,379	¥ 4,224	¥ 80	¥ 85,558

		Year ended March 31, 2019				
		Thousands of U.S. dollars				
		Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Sales-Customers	\$	493,649	\$ 253,009	\$ 37,144	\$ 54	\$ 783,856

(2) Information by geographical area

i. Sales

		Year ended March 31, 2019						
		Millions of yen						
		Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Net Sales	¥	37,110	¥ 24,187	¥ 14,155	¥ 7,502	¥ 3,764	¥ 290	¥ 87,008

Year ended March 31, 2018							
Millions of yen							
	Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Net Sales	¥ 38,474	¥ 25,206	¥ 12,937	¥ 5,721	¥ 2,905	¥ 315	¥ 85,558

Year ended March 31, 2019							
Thousands of U.S. dollars							
	Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Net Sales	\$ 334,324	\$ 217,901	\$ 127,523	\$ 67,586	\$ 33,910	\$ 2,612	\$ 783,856

## ii. Property, plant and equipment

Year ended March 31, 2019							
Millions of yen							
	Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Property, plant and equipment	¥ 14,972	¥ 3,532	¥ 3,289	¥ 458	¥ 244		¥ 22,495

Year ended March 31, 2018							
Millions of yen							
	Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Property, plant and equipment	¥ 12,982	¥ 3,477	¥ 2,980	¥ 513	¥ 229		¥ 20,181

Year ended March 31, 2019							
Thousands of U.S. dollars							
	Japan	China	Other Asia	Europe	North and South America	Other	Consolidated
Property, plant and equipment	\$ 134,883	\$ 31,820	\$ 29,631	\$ 4,126	\$ 2,198		\$ 202,658

## (3) Information by major customer

This information has been omitted because there is no specific customer representing 10% or more of net sales recorded in the consolidated statements of income for the years ended March 31, 2019 and 2018.

(e) Information about impairment loss on fixed assets for each reportable segment

Fiscal year ended March 31, 2019: Not applicable

Fiscal year ended March 31, 2018: Not applicable

(f) Information about amortization and balance of goodwill for each reportable segment:

	Year ended March 31, 2019				
	Millions of yen				
	Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Amortization	¥ 65	¥ 42	¥ —	¥ —	¥ 107
Balance as of March 31	77	370	—	—	447

	Year ended March 31, 2018				
	Millions of yen				
	Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Amortization	¥ 63	¥ —	¥ —	¥ —	¥ 63
Balance as of March 31	150	363	—	—	513

	Year ended March 31, 2019				
	Thousands of U.S. dollars				
	Electronic Components	Electronic Chemicals / FA Systems	Information Equipment	Other	Consolidated
Amortization	\$ 586	\$ 378	\$ —	\$ —	\$ 964
Balance as of March 31	694	3,333	—	—	4,027

(g) Information about gains on negative goodwill for each reportable segment

Fiscal year ended March 31, 2019: Not applicable

As of March 31, 2018, the “Electronic Chemicals / FA Systems” business recorded ¥2 million gain on negative goodwill. It was due to the consolidation of ESE INDUSTRIES (THAI) CO., LTD as a subsidiary.

## 22. Related Party Transactions

Fiscal year ended March 31, 2019: Not applicable

Year ended March 31, 2018									
Related Party	Name	Location	Capital	Business or Occupation	Ownership Ratio of Voting Rights	Relation-ship	Detail of Transaction	Transaction Amount	Ending Balance
Close family member	Itsuya Tamura	—	—	Executive adviser	(Owned) Direct: 0.0%	Payment of advisory fee	Payment of advisory fee	¥12 million	—

(\*1) Itsuya Tamura, the executive advisor of the Company, is the father of Naoki Tamura, the representative director and the chairman of the Company. The Company believes that management systems can be further strengthened by receiving Itsuya Tamura's advice on overall management based on his long business experience, profound insight and strong connections gained through his involvement in management as the representative director and the chairman of the Company in the past.

Itsuya Tamura resigned the executive advisor of the Company on March 31, 2018.

Remuneration is determined in accordance with the Company's internal rules.

(\*2) "Amount of transaction" excludes consumption taxes, while "Ending balance" is reported inclusive of consumption taxes.

## 23. Subsequent Events

There were no significant subsequent events for the years ended March 31, 2019 and 2018.