2021
ANNUAL REPORT

Year ended March 31, 2021

Denyo Co.,Ltd.

Profile

Since its establishment in **1948**,

Denyo has been a pioneer in outdoor power source, developing and manufacturing many original products, including engine-driven generators, engine-driven welders and engine-driven air compressors. Without contenting ourselves with our current market position or technical expertise, we have boldly taken on new R&D challenges and, as a result, we now command a 70% share of the domestic market for engine-driven generators, our main product. The Denyo Group comprises the Company and eleven subsidiaries and affiliate, along with its production facilities in Southeast Asia and the U.S., and R&D center in Japan.

Contents

New Coating facilities at Fukui Plant Fully Operational

New coating facilities at Fukui Plant, the main plant, commenced full operation in April 2021.

Because the systems use the powder coating method, the quality of products has improved due to the increased anti-corrosion and weathering performance as a result of increased and uniform coating thickness.

Moreover, the introduction of the latest equipment, as well as the significant expansion of the scale of equipment, has increased coating capacity, production efficiency, and environmental performance while improving the working environment.

Denyo will continue to actively invest in eco-friendly equipment to improve the work of employees and achieve superior manufacturing.

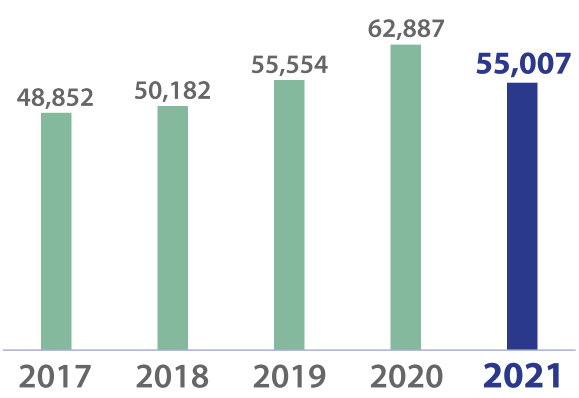
Consolidated Financial Highlights

	Millions of Yen			Thousands of U.S. Dollars
	2021	2020	2019	2021
Net Sales	¥55,007	¥62,887	¥55,554	$496,812
Total Assets	79,057	75,626	74,086	714,030
Total Net Assets	61,564	58,354	56,291	556,036
Operating Income	5,333	6,058	4,201	48,165
Net Income*	3,860	4,071	3,167	34,863
Per Share Data		Yen		U.S. Dollars
Total Net Assets	¥2,846.49	¥2,689.54	¥2,583.90	$25.71
Net Income*	185.13	194.32	149.83	1.67
Cash Dividends	47.00	46.00	42.00	0.42

Note:Transaction into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥110.72 to U.S.$1, prevailing on the Tokyo Foreign Exchange Market on March 31, 2021.

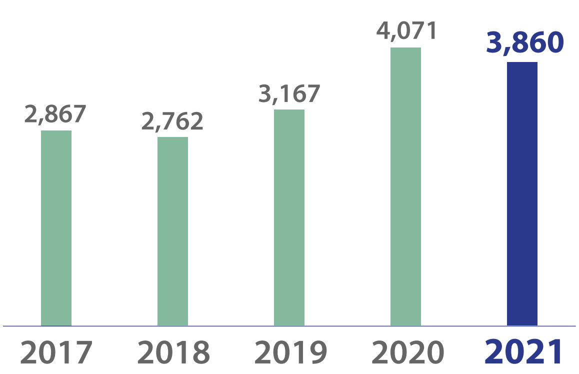
Net Sales

¥ million



Net Income*

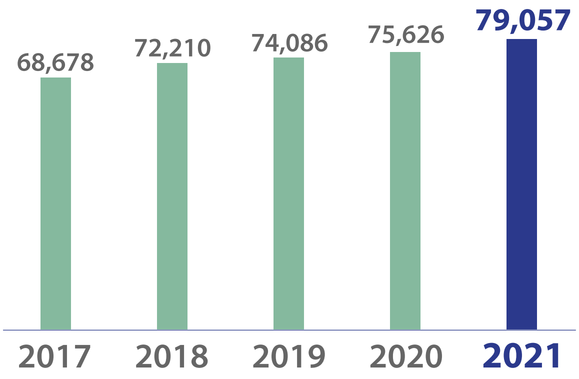
¥ million



* Net Income attributable to owners of the parent.

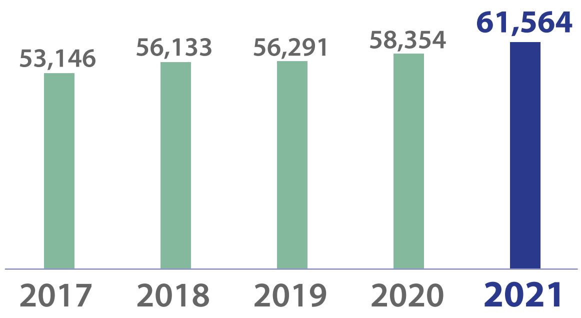
Total Assets

¥ million



Total Net Assets

¥ million



TO OUR SHAREHOLDERS

Denyo Co.,Ltd.

Shoichi Shiratori
President

Yoji Eto
Representative Director, Chairman

In fiscal 2021 (ended March 31, 2021), the Japanese economy continued to confront a challenging situation, with a fall in corporate earnings and a deteriorating employment environment due to the impact of COVID-19. The global economy also faced a difficult situation given the impact of the constraints on economic activities in many countries, such as prohibitions on going out, restrictions on movement, and the suspension of business operations.

In the business environment surrounding the Denyo Group, although sales activities were restricted in Japan due to the cancellation of product exhibitions in various regions, construction demand, including public works, remained firm, and demand related to disaster prevention and mitigation also remained solid. Overseas, demand in the North American and Asian markets remained sluggish due to the suspension or postponement of construction and resource development projects.

Under these circumstances, the Denyo Group focused on launching a range of new products and receiving orders for emergency generators, continuing production activities while instituting infection control measures. Nonetheless, both sales and income decreased, with consolidated net sales falling to ¥55,007 million (US$496,812 thousand), down 12.5% year on year, consolidated operating income decreasing to ¥5,333 million (US$48,165 thousand), a fall of 12.0% year on year, consolidated ordinary income declining to ¥5,646 million (US$50,989 thousand), down 9.0% year on year, and net income attributable to owners of the parent decreasing 5.2% year on year, to ¥3,860 million (US$34,863 thousand).

Regarding dividends for the fiscal year under review, we issued an interim dividend of ¥22 (US$0.20) per share and decided to pay an ordinary year-end dividend of ¥25 (US$0.23) per share. As a result, dividends for the full year came to ¥47 (US$0.42) per share (an increase of ¥1 (US$0.01) from the previous fiscal year).

In terms of the future outlook, while overseas demand is currently showing signs of recovery as the global economy starts to pick up, COVID-19 appears to be resurgent in Japan, creating concerns about its impact. Under these conditions, the Denyo Group will aim for sustainable growth by steadily implementing a range of measures under its second medium-term management plan Denyo 2023, for the three-year period starting from fiscal 2021, while continuing to take action against COVID-19.

We would like to respectfully ask our shareholders for their continued patronage and support.

June 2021

S. Shiratori

Shoichi Shiratori, President

Y. Eto

Yoji Eto, Representative Director, Chairman

Review of Operations

1. Commencement of demonstrative test operation of fuel-cell portable generators

Following fuel cell power supply vehicles, Denyo has also achieved the conversion of its mainstay mobile-type generators to fuel-cell generators, which use hydrogen to generate electricity, and commenced demonstrative test operation in May 2021. This initiative is proceeding based on its selection under the Low Carbon Technology Research, Development and Demonstration Program of the Ministry of the Environment of Japan.

Because the newly developed fuel-cell portable generators can be moved easily, just like engine generators, they can supply power to any site, including construction sites, event sites and evacuation centers at the time of disaster. The fuel cell system* the portable power generator uses to generate power is also used in the fuel cell forklift sold by Toyota Industries Corporation. Denyo has developed a new power conditioner especially for fuel cells, and has installed it in the generators to convert the DC power output from the fuel cells to AC power.

Specifications of the fuel-cell portable generator

Power output	Power	7.0 kVA
	Voltage	100/200 V
	Current	35.0 A x 2 / 35.0 A
	Frequency	50, 60 Hz switchable
	Power factor	1.0
	Number of phases	Single-phase, three-wire
Hydrogen gas	Supply method	Supplyied after depressurized from a 14.7 MPa or 19.6 MPa vessel, which is provided separately from the main body of the generator
	Supply pressure	90 kPa
	Purity	99.97%
Dimensions and weight	Outer dimensions	L:1,800 mm, W:900 mm, H:1,500 mm
	Service weight	950 kg

The fuel-cell portable generator

In the demonstrative test operation, Denyo will verify effects unique to fuel-cell portable generators, such as the impact on loading apparatuses and the reduction of CO_2 emissions, compared to the current mainstream engine generators.

Denyo will continue active efforts to achieve a hydrogen society and contribute to the growth in demand for hydrogen and the proliferation of renewable energy.

* The system employs the cell technology used in the first-generation MIRAI fuel cell vehicle (FCV) from Toyota Motor Corporation.

2. Commencement of demonstrative test driving and operation of fuel cell power supply vehicles

Denyo has developed a fuel cell power supply vehicle (FCPV) that generates electricity using hydrogen jointly with Toyota Motor Corporation, commencing demonstrative test driving and operation in September 2020. This initiative is proceeding based on its selection under the the Low Carbon Technology Research, Development and Demonstration Program of the Ministry of the Environment of Japan.

Power supply vehicles are used in diverse situations that require electricity, such as evacuation centers at the time of disaster, outdoor event venues and TV broadcasting. Because the jointly developed FCPV uses hydrogen as fuel, it does not emit environmentally hazardous substances such as CO_2 during driving and power generation and can supply three-phase power (maximum output: 8.5 kW, 72 hours of continuous operation), in addition to single-phase power, using dedicated FC power supply equipment developed by Denyo. In addition, pure water generated during the power generation by FCPV can also be used for showers and hand washing.

In the demonstrative test driving and operation, Denyo will verify the effects unique to the FCPV, such as the impact on loading apparatuses and the reduction of CO_2 emissions.

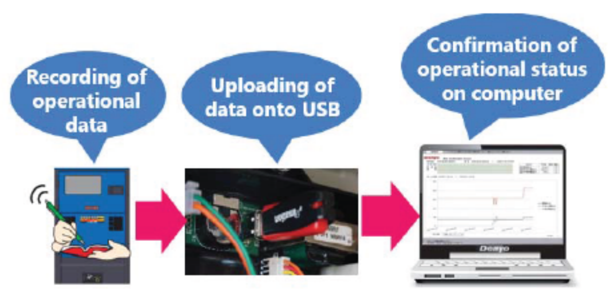
Denyo will actively promote business activities in harmony with the environment as its corporate social responsibility and will strive to develop fuel cell products as the leading manufacturer of mobile-type generators.

3. Introduction of generators with operation data recording function

In August 2020, in an industry first (according to Denyo's own research in September 2020), Denyo launched two diesel engine generators (both three-phase 45kVA), DCA-45LSYE (Eco-Base generators) and DCA-45LSYB (Eco-Base generators with large-capacity fuel tank), which record approximately 20 items of operation data, including effective power, apparent power, output voltage and current, power factor, frequency and fuel level.

The generators calculate and display "operable time" based on the power generation output and the remaining amount of the fuel tank, so that the timing of refueling is clear at a glance. In addition, to solve the problem of unburned carbon accumulating in the muffler and other parts caused by running the diesel engine generators with a light load for extended periods, they will alert users when it is time to remove the carbon with a "carbon removal recommendation alarm" by accumulating the light load operation time, so that users can use them more safely. In addition, the recorded operation data can be downloaded with a USB memory, and the operation status can be viewed and fed back with dedicated software. Therefore, the data can be effectively used to understand the usage status and operation rate in case of failure, select the appropriate generator output, and propose the appropriate number of generators.

DCA-45LSYE

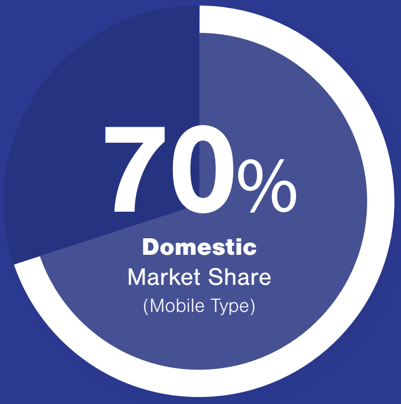


Going forward, Denyo will aim to support the IoT, which shares information with construction machines such as power shovels, wheel loaders and large cranes, by further expanding the communication function and contributing to the productivity improvement brought about by the digitization of construction sites.

Overview of Product Segment

Business performance by product category and domestic market share

Engine Generators

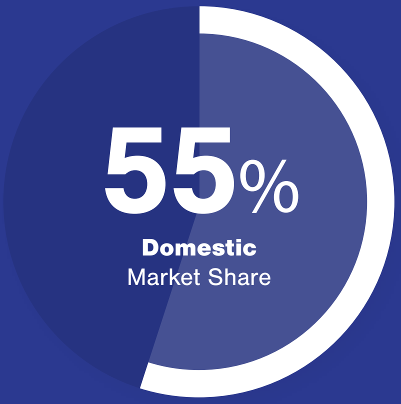


In the engine generators segment, shipments of mobile-type generators used mainly on construction sites and outdoor events declined in Japan, but shipments of emergency generators that are used as a back-up power source in a power outage increased significantly.

Overseas, shipments to North America and Asia remained sluggish.

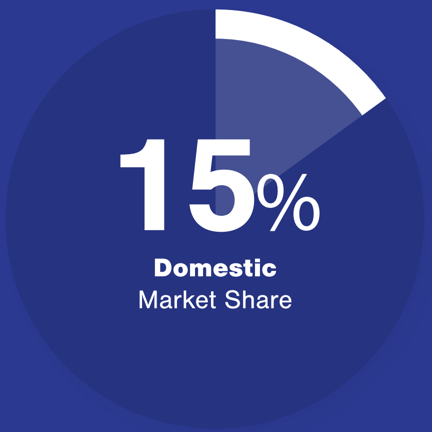
As a result, segment sales fell to ¥44,020 million (US$397,581 thousand), down 12.7% year on year.

Engine Welders



In the engine welders segment, shipments declined in Japan mainly due to a fall in sales opportunities caused by the cancellation of product exhibitions, and shipments overseas also remained sluggish. As a result, segment sales declined to ¥4,387 million (US$39,618 thousand), a fall of 13.5% year on year.

Compressors



In the compressors segment, shipments of engine compressors remained weak. As a result, segment sales declined to ¥755 million (US$6,820 thousand), down 25.4% year on year.

Other Products

In the other products segment, sales were ¥5,845 million (US$52,793 thousand), down 8.2% from the previous fiscal year, mainly due to a decrease in sales of parts attached to products and self-propelled lifters.

Note: Above domestic share is five year mean by our investigation

Denyo Co., Ltd.
and Subsidiaries

Consolidated Financial Statements
for the Year Ended March 31, 2021,
and Independent Auditor's Report

Financial Review

Business Environment and Results

In fiscal 2021 (ended March 31, 2021), the Japanese economy continued to confront a challenging situation, with a fall in corporate earnings and a deteriorating employment environment due to the impact of COVID-19. The global economy also faced a difficult situation given the impact of the constraints on economic activities in many countries, such as prohibitions on going out, restrictions on movement, and the suspension of business operations.

In the business environment surrounding the Denyo Group, although sales activities were restricted in Japan due to the cancellation of product exhibitions in various regions, construction demand, including public works, remained firm, and demand related to disaster prevention and mitigation also remained solid. Overseas, demand in the North American and Asian markets remained sluggish due to the suspension or postponement of construction and resource development projects.

Under these circumstances, the Denyo Group focused on launching a range of new products and receiving orders for emergency generators, continuing production activities while instituting infection control measures. Nonetheless, both sales and income decreased, with consolidated net sales falling to ¥55,007 million (US$496,812 thousand), down 12.5% year on year, consolidated operating income decreasing to ¥5,333 million (US$48,165 thousand), a fall of 12.0% year on year, consolidated ordinary income declining to ¥5,646 million (US$50,989 thousand), down 9.0% year on year, and net income attributable to owners of the parent decreasing 5.2% year on year, to ¥3,860 million (US$34,863 thousand).

Segment Information

In the engine generators segment, shipments of mobile-type generators used mainly on construction sites and outdoor events declined in Japan, but shipments of emergency generators that are used as a back-up power source in a power outage increased significantly. Overseas, shipments to North America and Asia remained sluggish. As a result, segment sales fell to ¥44,020 million (US$397,581 thousand), down 12.7% year on year.

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Information by geographical area is as follows.

(Japan)

In Japan, while shipments of emergency generators increased significantly against a backdrop of rising awareness of the importance of disaster preparedness, shipments of products to the rental market declined affected by the suspension or postponement of certain construction works and the self-restraint on holding outdoor events. Overseas, exports of generators to the North American and the Asian markets remained weak. As a result, sales decreased to ¥42,919 million (US$387,635 thousand), down 1.6% year on year. However, segment profit increased to ¥4,218 million (US$38,098 thousand), up 24.2% year on year, mainly due to an improved cost-to-sales ratio and reduced expenses.

(U.S.)

In the U.S., shipments of generators declined mainly because of the impact of a cautious attitude toward purchasing, especially among rental companies, reflecting concerns about the future, in addition to the reaction to the large increase in sales in the previous fiscal year. As a result, sales decreased to ¥8,750 million (US$79,031 thousand), down 42.3% year on year, and segment profit fell to ¥250 million (US$2,253 thousand), down 78.7% year on year.

(Asia)

In Asia, demand was sluggish, particularly in Southeast Asia, and shipping operations at a sales subsidiary in Singapore were affected by temporary restrictions due to the lockdown. As a result, sales decreased to ¥2,797 million (US$25,264 thousand), down 22.0% year on year, and segment profit also fell to ¥384 million (US$3,471 thousand), down 51.5% year on year.

(Europe)

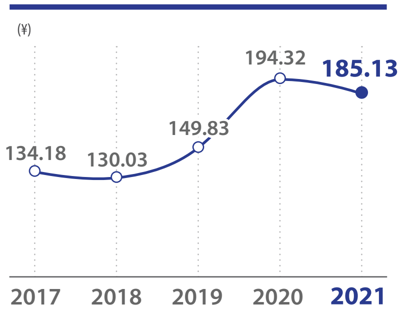
In Europe, shipments of generators increased, resulting in a rise in sales to ¥541 million (US$4,882 thousand), up 6,2% year on year, but a fall in segment profit to ¥23 million (US$206 thousand), down 38.8% year on year.

Financial Position

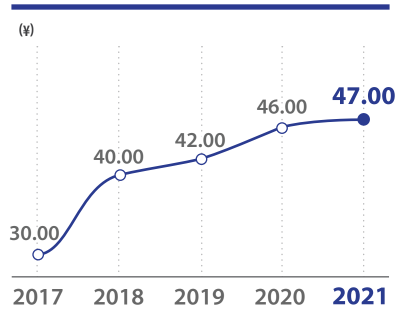
(Assets)

Total assets at the end of the fiscal year under review were ¥79,057 million (US$714,030 thousand), an increase of ¥3,431 million (US$30,988 thousand) from the end of the previous fiscal year. Current assets at the end of the fiscal year under review were ¥54,444 million (US$491,725 thousand), an increase of ¥1,512 million (US$13,653

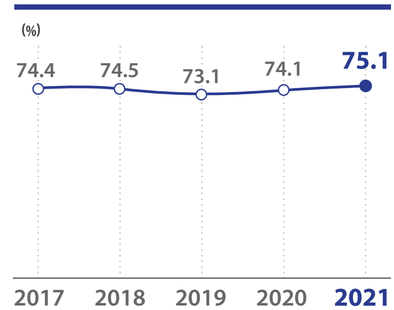
Net Income per Share



Cash Dividends per Share



Equity Ratio



thousand) from the end of the previous fiscal year. This was mainly due to an increase in cash and deposits of ¥1,860 million (US$16,795 thousand), a rise in merchandise and finished products of ¥716 million (US$6,466 thousand) and a fall in raw materials and supplies of ¥1,071 million (US$9,670 thousand). Non-current assets at the end of the fiscal year under review were ¥24,613 million (US$222,305 thousand), an increase of ¥1,919 million (US$17,335 thousand) from the end of the previous fiscal year. This mainly reflected an increase in machinery, equipment and vehicles of ¥643 million (US$5,808 thousand) and an increase in investment securities of ¥1,422 million (US$12,843 thousand) due to the revaluation of stockholdings.

(Liabilities)

Total liabilities at the end of the fiscal year under review were ¥17,493 million (US$157,994 thousand), increasing ¥221 million (US$1,995 thousand) from the end of the previous fiscal year. Current liabilities at the end of the fiscal year under review were ¥15,435 million (US$139,402 thousand), an increase of ¥1,182 million (US$10,673 thousand) from the end of the previous fiscal year. This was mainly due to an increase in short-term loans of ¥1,107 million (US$10,000 thousand) as a result of the transfer from long-term loans. Non-current liabilities at the end of the fiscal year under review were ¥2,058 million (US$18,592 thousand), down ¥961 million (US$8,678 thousand) from the end of the previous fiscal year. This was mainly due to a decrease in long-term loans of ¥1,088 million (US$9,829 thousand) as a result of the transfer from short-term loans.

(Net assets)

Net assets at the end of the fiscal year under review were ¥61,564 million (US$556,036 thousand), an increase of ¥3,210 million (US$28,994 thousand) from the end of the previous fiscal year. This was mainly due to net income attributable to owners of the parent of ¥3,860 million (US$34,863 thousand), a ¥425 million (US$3,832 thousand) rise in accumulated other comprehensive income, and cash dividends paid of ¥997 million (US$9,002 thousand).

Cash Flows

Consolidated cash and cash equivalents (hereinafter, cash) were ¥22,914 million (US$206,953 thousand) at the end of the fiscal year under review, increasing ¥1,860 million (US$16,795 thousand) from the end of the previous fiscal year, largely due to income before income taxes of ¥5,678 million (US$51,283 thousand).

(Cash flows from operating activities)

Net cash provided by operating activities was ¥4,941 million (US$44,631 thousand) (cash provided of ¥7,272 million (US$65,685 thousand) in the previous fiscal year). This was largely due to income before income taxes of ¥5,678 million (US$51,283 thousand), depreciation of ¥1,167 million (US$10,539 thousand), and income taxes paid of ¥1,805 million (US$16,300 thousand).

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,748 million (US$15,792 thousand) (cash used of ¥874 million (US$7,895 thousand) in the previous fiscal year).

This largely reflected the purchase of property, plant and equipment of ¥1,844 million (US$16,657 thousand) and proceeds from sales of investment securities of ¥135 million (US$1,216 thousand).

(Cash flows from financing activities)

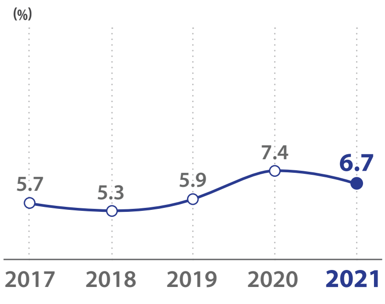
Net cash used in financing activities was ¥1,086 million (US$9,813 thousand) (cash used of ¥1,528 million (US$13,802 thousand) in the previous fiscal year). This was mainly due to dividends paid of ¥997 million (US$9,002 thousand).

Dividends

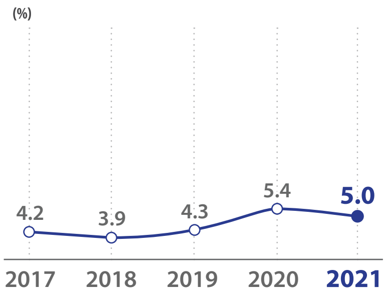
Denyo recognizes the importance of making further efforts to return profits to shareholders while also investing in equipment and research & development to enhance and maintain product competitiveness and striving to improve profitability and strengthen its financial structure. Our policy is to distribute profits based on the comprehensive consideration of a wide range of factors including business performance and the payout ratio.

Regarding dividends for the fiscal year under review, we issued an interim dividend of ¥22 (US$0.20) per share and decided to pay an ordinary year-end dividend of ¥25 (US$0.23) per share based on the policy above. As a result, dividends for the full year came to ¥47 (US$0.42) per share (an increase of ¥1 (US$0.01) from the previous fiscal year). As a consequence, the dividend payout ratio (consolidated) for the fiscal year under review came to 25.4%.

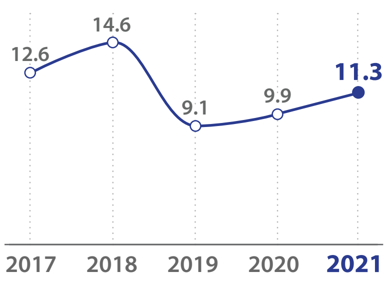
Return on Average Shareholders' Equity



Return on Average Assets (ROA)



Price Earnings Ratio



Consolidated Balance Sheet

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥22,914	¥ 21,054	$ 206,953
Receivables (Note 14):			
Trade notes	4,127	3,997	37,273
Electronically recorded monetary claims—operating	3,426	2,922	30,946
Trade accounts	11,779	12,401	106,383
Associated companies (Note 20)	1,532	1,795	13,833
Other	145	62	1,308
Allowance for doubtful receivables	(5)	(4)	(45)
Inventories (Note 5)	10,276	10,474	92,812
Prepaid expenses and other current assets	250	231	2,262
Total current assets	54,444	52,932	491,725
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,047	4,836	45,585
Buildings and structures	13,533	13,041	122,230
Machinery and equipment (Note 13)	8,389	7,477	75,763
Furniture and fixtures	2,002	1,969	18,081
Construction in progress	20	602	184
Total	28,991	27,925	261,843
Accumulated depreciation	(14,027)	(13,480)	(126,685)
Net property, plant and equipment	14,964	14,445	135,158
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	7,899	6,518	71,344
Investments in associated companies (Note 6)	852	811	7,692
Deferred tax assets (Note 11)	188	172	1,697
Other assets (Note 13)	710	748	6,414
Total investments and other assets	9,649	8,249	87,147
TOTAL	¥79,057	$75,626	$ 714,030

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 14)	¥210	¥210	$1,898
Current portion of long-term debt (Notes 7, 13 and 14)	1,122	15	10,135
Payables (Note 14):			
Trade notes	993	1,063	8,966
Electronically recorded obligations—operating	1,992	1,986	17,991
Trade accounts	7,751	7,813	70,009
Associated companies	29	12	262
Other	321	201	2,897
Accrued income taxes (Note 11)	979	1,062	8,838
Accrued expenses	1,236	1,261	11,161
Provision for product warranties	127	103	1,146
Other current liabilities	675	527	6,099
Total current liabilities	15,435	14,253	139,402
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 13 and 14)	267	1,371	2,412
Liability for retirement benefits (Note 9)	401	434	3,622
Deferred tax liabilities (Note 11)	1,359	961	12,271
Other long-term liabilities	31	253	287
Total long-term liabilities	2,058	3,019	18,592
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 10):			
Common stock—authorized, 97,811,000 shares; issued, 22,859,660 shares in 2021 and 22,859,660 shares in 2020	1,955	1,955	17,656
Capital surplus	1,779	1,779	16,072
Retained earnings	54,766	51,903	494,637
Treasury stock—at cost, 2,003,959 shares in 2021 and 2,014,745 shares in 2020 (Note 3)	(2,351)	(2,365)	(21,232)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,643	2,575	32,907
Foreign currency translation adjustments	(416)	249	(3,767)
Defined retirement benefit plans	(11)	(33)	(96)
Total	59,365	56,063	536,177
Noncontrolling interests	2,199	2,291	19,859
Total equity	61,564	58,354	556,036
TOTAL	¥79,057	¥ 75,626	$714,030

Consolidated Statement of Income and Comprehensive Income

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES (Notes 19 and 20)	¥55,007	¥62,887	$496,812
COST OF SALES	41,683	48,288	376,476
Gross profit	13,324	14,599	120,336
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	7,991	8,541	72,171
Operating income	5,333	6,058	48,165
OTHER INCOME (EXPENSES):			
Interest and dividend income	212	248	1,918
Interest expense	(56)	(57)	(502)
Gain on sale of property, plant and equipment	0	0	0
Loss on sale or disposal of property, plant and equipment	(8)	(40)	(71)
Loss on revaluation of investment securities		(180)	
Foreign exchange gain (loss)	16	(56)	142
Equity in earnings (losses) of associated companies	46	(108)	413
Rent income	78	80	700
Commitment fee	(7)	(32)	(63)
Gain on sale of investment securities	40	196	364
Other—net (Note 2.w)	24	69	217
Other income—net	345	120	3,118
INCOME BEFORE INCOME TAXES	5,678	6,178	51,283
INCOME TAXES (Note 11):			
Current	1,736	1,895	15,677
Deferred	(14)	(2)	(128)
Total income taxes	1,722	1,893	15,549
NET INCOME	3,956	4,285	35,734
NET INCOME ATTRIBUTABLE TO:			
Owners of the parent	3,860	4,071	34,863
Noncontrolling interests	96	214	871
NET INCOME–(Forward)	¥3,956	¥4,285	$35,734
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	1,064	(884)	9,605
Foreign currency translation adjustments	(780)	(54)	(7,045)
Defined retirement benefit plans	22	(0)	201
Share of other comprehensive income (loss) in associates	4	(5)	41
Total other comprehensive income (loss)	310	(943)	2,802
COMPREHENSIVE INCOME	¥4,266	¥3,342	$38,536
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥4,284	¥3,130	$38,696
Noncontrolling interests	(18)	212	(160)

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 18):			
Basic net income	¥185.13	¥194.32	$1.67
Cash dividends applicable to the year	47.00	46.00	0.42

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2021

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2019	20,958	¥1,955	¥1,779	¥48,791	¥(2,107)	¥3,464	¥301	¥(33)	¥54,150	¥2,138	¥56,288
Net income attributable to owners of the parent				4,071					4,071		4,071
Cash dividends, ¥46 per share				(959)					(959)		(959)
Purchase of treasury stock	(130)				(276)				(276)		(276)
Selling of treasury stock	17				18				18		18
Net change in the year						(889)	(52)		(941)	153	(788)
BALANCE, MARCH 31, 2020	20,845	1,955	1,779	51,903	(2,365)	2,575	249	(33)	56,063	2,291	58,354
Net income attributable to owners of the parent				3,860					3,860		3,860
Cash dividends, ¥47 per share				(997)					(997)		(997)
Purchase of treasury stock	(0)				(1)				(1)		(1)
Selling of treasury stock	11				15				15		15
Net change in the year						1,608	(665)	22	425	(92)	333
BALANCE, MARCH 31, 2021	20,856	¥1,955	¥1,779	¥54,766	¥(2,351)	¥3,643	¥(416)	¥(11)	¥59,365	¥2,199	¥61,564

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	$17,656	$16,072	$468,776	$(21,363)	$23,261	$2,248	$(297)	$506,353	$20,690	$527,043
Net income attributable to owners of the parent			34,863					34,863		34,863
Cash dividends, $0.42 per share			(9,002)					(9,002)		(9,002)
Purchase of treasury stock				(8)				(8)		(8)
Selling of treasury stock				139				139		139
Net change in the year					9,646	(6,015)	201	3,832	(831)	3,001
BALANCE, MARCH 31, 2021	$17,656	$16,072	$494,637	$(21,232)	$32,907	$(3,767)	$(96)	$536,177	$19,859	$556,036

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥5,678	¥6,178	$51,283
Adjustments for:			
Income taxes paid	(1,805)	(1,387)	(16,300)
Depreciation and amortization	1,167	1,162	10,539
Loss on sale or disposal of property, plant and equipment—net	8	40	71
Gain on sale of investment securities	(40)	(196)	(364)
Equity in earnings of associated companies	(46)	108	(413)
Loss on revaluation of investment securities		180	
Changes in assets and liabilities, net of effects:			
Decrease in trade notes and accounts receivable	63	1,608	569
(Increase) decrease in inventories	(32)	138	(290)
Decrease in interest and dividends receivable	13	13	122
Increase (decrease) in trade notes and accounts payable	25	(546)	223
Increase (decrease) in provision for allowance for doubtful accounts	0	(3)	3
Increase (decrease) in liability for retirement benefits	7	(2)	64
Other—net	(97)	(21)	(876)
Total adjustments	(737)	1,094	(6,652)
Net cash provided by operating activities	4,941	7,272	44,631
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,844)	(1,250)	(16,657)
Purchases of securities	(3)	(3)	(23)
Proceeds from sales of securities	135	390	1,216
Investment in loans receivable	(1)	(1)	(6)
Collections of loans receivable	3	5	30
Decrease in time deposit—net		18	
Other—net	(38)	(33)	(352)
Net cash used in investing activities	(1,748)	(874)	(15,792)
FINANCING ACTIVITIES:			
Decrease in short-term loans—net		(218)	
Purchases of treasury stock	(1)	(276)	(7)
Dividends paid	(997)	(959)	(9,002)
Other—net	(88)	(75)	(804)
Net cash used in financing activities	(1,086)	(1,528)	(9,813)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(247)	13	(2,230)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥1,860	¥4,883	$16,796
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,054	16,171	190,157
CASH AND CASH EQUIVALENTS, END OF YEAR	¥22,914	¥21,054	$206,953

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Denyo Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.72 to $1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Consolidation*—The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 11 subsidiaries, including mainly "Denyo Kosan Co., Ltd.," "Nishihatsu Co., Ltd.," "Denyo America Corporation," "Denyo Manufacturing Corporation," "Denyo Asia Pte. Ltd.," "Denyo United Machinery Pte. Ltd.," "Denyo Europe B.V.," "Denyo Vietnam Co., Ltd." and "P.T. Dein Prima Generator" (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The investment in "New Japan Machinery Corporation," an associated company, is accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

"Denyo America Corporation," "Denyo Manufacturing Corporation," "Denyo Asia Pte. Ltd.," "Denyo United Machinery Pte. Ltd.," "Denyo Europe B.V.," "Denyo Vietnam Co., Ltd." and "P.T. Dein Prima Generator" and two other subsidiaries were consolidated using the financial statements as of December 31 because the difference between the fiscal year-end date of the subsidiaries and that of the Company does not exceed three months. Significant transactions between December 31 and March 31 are reflected in the accompanying consolidated financial statements.

b. *Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. *Cash and Cash Equivalents*—Cash and cash equivalents include cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and are exposed to insignificant risk of fluctuations in value.

d. *Marketable and Investment Securities*—Marketable and investment securities are classified and accounted for depending on management's intent. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. *Allowance for Doubtful Accounts*—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. *Inventories*—Inventories are stated at the lower of cost, determined by the first-in, first-out method for finished products and work in process, and by the average method for raw materials, or net selling value.

g. *Property, Plant and Equipment*—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 7 to 47 years for buildings and structures, and from 2 to 12 years for machinery and equipment.

h. *Long-Lived Assets*—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. *Provision for Product Warranties*—The provision for product warranties is recorded to provide for future potential costs, such as costs related to after-sales services within the warranty period based on past experience.

j. *Accrued Bonuses*—Accrued bonuses to employees are provided for at the estimated amounts that the Company and its domestic subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

k. *Retirement and Pension Plans*—The Company, its domestic subsidiaries and a certain foreign subsidiary maintain defined benefit pension plans. Some foreign subsidiaries maintain defined contribution pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis.

The unrecognized actuarial gains and losses are amortized on a straight-line basis over a period of 5 years, no longer than the expected average remaining service period of the employees, from the year incurred. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects.

l. *Employee Stockownership Plan*—In accordance with PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company records (1) the Company stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employees, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

m. *Research and Development Costs*—Research and development costs are charged to income as incurred.

n. *Leases*—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008.

All other leases are accounted for as operating leases.

o. *Bonuses to Directors and Audit & Supervisory Board Members*—Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

p. *Income Taxes*—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income and comprehensive income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

q. *Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the accompanying consolidated statement of income and comprehensive income.

r. *Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

s. *Derivatives and Hedging Activities*—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange, interest rates and raw material costs. Foreign exchange forward contracts, currency swaps, interest rate swaps and commodity swaps are utilized by the Group to reduce the risk of fluctuation of foreign currency exchange, interest rate and raw material costs. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives, except for those that qualify for hedge accounting, are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense.

The commodity swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as deferred gain (loss) on derivatives under hedge accounting as a separate component of equity.

t. Per Share Information—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Cash dividends per share presented in the accompanying consolidated statement of income and comprehensive income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

u. Consumption Taxes—Consumption taxes are not included in sales, cost of sales and selling, general and administrative expenses, etc.

v. New Accounting Pronouncements

Accounting Standard for Revenue Recognition

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) *Overview*

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition.” The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

(2) *Scheduled date of adoption*

This standard will be adopted from the beginning of the fiscal year ending March 31, 2022.

(3) *Impact of adopting this accounting standard*

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods, but it has no significant effect.

Accounting Standard for Fair Value Measurement, Etc.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Guidance No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Guidance No. 10, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) *Overview*

To improve comparability with international accounting standards, the "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter, "Fair Value Measurement Accounting Standards") were developed, establishing guidance and other information on how to calculate market prices. Fair Value Measurement Accounting Standards are applied to the market prices of the following items.

- Financial instruments within the "Accounting Standard for Financial Instruments"
- Inventory assets held for the purpose of trading within the "Accounting Standard for Measurement of Inventories"

Additionally, "Guidance on Disclosures about Fair Value of Financial Instruments" was revised and notes, including a breakdown by the market value level of financial instruments, were established.

(2) *Scheduled date of adoption*

This standard will be adopted from the beginning of the fiscal year ending March 31, 2022.

(3) *Impact of adopting this accounting standard*

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

w. Change in Disclosures—”Insurance claim income” which was disclosed under “Other income (expenses)” in the consolidated statement of income and comprehensive income for the year ended March 31, 2020, has been included in “Other—net” for the year ended March 31, 2021, due to the decrease in amount.

As a result, the amount of ¥65 million disclosed as “Insurance claim income” under “Other income (expenses)” in the consolidated statement of income and comprehensive income for the year ended March 31, 2020, has been reclassified as ¥69 million under “Other—net.”

3. STOCK GRANTING TRUST ("J-ESOP" and "BBT")

The Company has introduced a Stock Granting Trust ("J-ESOP") for the purpose of enhancing the benefits package to employees and providing incentives for raising corporate value.

The Company grants employees points according to their continued services and results, and when the employees retire, the Company delivers to them its own stock (or pays an equivalent amount in cash) corresponding to the number of their accumulated points through the Trust.

The Company has introduced a stock compensation plan for directors called the "Board Benefit Trust (BBT)." The Company grants its directors points according to the Company's business results, etc., and the Company delivers to the directors who have beneficiary rights its own stock corresponding to the number of their accumulated points determined on a given date every year through the Trust.

These Trusts held treasury stock as follows which was included in the balance sheet of the Company:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Treasury stock	¥477	¥492	$4,308
(Number of shares (thousands of shares))	(763)	(775)	

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Non-current:			
Marketable equity securities	¥7,006	¥5,625	$63,280
Nonmarketable equity securities	893	893	8,064
Total	¥7,899	¥6,518	$71,344

The cost and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020, were as follows:

	Millions of Yen			
March 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—				
Equity securities	¥1,858	¥5,156	¥8	¥7,006
March 31, 2020				
Securities classified as available-for-sale—				
Equity securities	¥1,950	¥3,687	¥12	¥5,625

	Thousands of U.S. Dollars			
March 31, 2020	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—				
Equity securities	$16,780	$46,568	$68	$63,280

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		
March 31, 2021	Proceeds	Realized Gains	Realized Loss
Available-for-sale—Equity securities	¥135	¥40	
March 31, 2020			
Available-for-sale—Equity securities	¥390	¥218	¥22

March 31, 2020	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Loss
Available-for-sale—Equity securities	$1,216	$364	

The impairment losses on available-for-sale equity securities for the year ended March 31, 2020, were ¥180 million.

5. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products and merchandise	¥4,636	¥3,920	$41,873
Work in process	1,566	1,410	14,148
Raw materials and supplies	4,074	5,144	36,791
Total	¥10,276	¥10,474	$92,812

6. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments—New Japan Machinery Corporation	¥852	¥811	¥7,692
Total	¥852	¥811	¥7,692

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2021 and 2020, consisted of bank overdrafts. The weighted-average interest rate applicable to the short-term bank loans was 0.5% at March 31, 2021 and 2020.

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unsecured loans from banks, with interest rate at 3.4% (2021 and 2020)	¥ 1,107	¥1,088	$10,000
Lease obligations	282	298	2,547
Total	1,389	1,386	12,547
Less current portion	(1,122)	(15)	(10,135)
Long-term debt, less current portion	¥267	¥1,371	$2,412

Annual maturities of long-term debt at March 31, 2021, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥1,122	$10,135
2023	15	140
2024	15	132
2025	15	134
2026	12	111
2027 and thereafter	210	1,895
Total	¥1,389	$12,547

8. COMMITMENT LINE CONTRACTS

In order to raise funds efficiently, the Company has entered into a commitment line contract with four financial institutions, of which Mizuho Bank, Ltd. is the arranger. The contract provided the Company with a commitment line of ¥3,000 million ($27,095 thousand) as of March 31, 2021. The Company had no borrowings outstanding under the agreement as of March 31, 2021.

9. RETIREMENT AND PENSION PLANS

The Company has a defined benefit pension plan and domestic subsidiaries also participate in the same plan. A certain foreign subsidiary has its own defined benefit pension plan and other foreign subsidiaries have defined contribution plans. In addition, the Company and domestic subsidiaries have a stock granting retirement plan.

The projected benefit obligation of a certain domestic subsidiary is calculated using a simplified method, which is permitted for small companies in accordance with the accounting standard for retirement benefits.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥2,779	¥2,865	$25,098
Current service cost	165	168	1,496
Interest cost	24	24	216
Actuarial losses (gains)	(7)	19	(66)
Benefits paid	(261)	(302)	(2,361)
Others	(8)	5	(72)
Balance at end of year	¥2,692	¥2,779	$24,311

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥2,494	¥2,575	$22,529
Expected return on plan assets	31	30	283
Actuarial losses	(6)	(6)	(50)
Contributions from the employer	193	187	1,739
Benefits paid	(261)	(295)	(2,362)
Others		3	
Balance at end of year	¥2,451	¥2,494	$22,139

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥2,610	¥2,698	$23,571
Plan assets	2,451	2,494	22,138
Total	159	204	1,433
Unfunded defined benefit obligation	82	81	740
Liability for stock granting retirement	160	149	1,449
Net liability arising from defined benefit obligation	¥401	¥434	$3,622

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥401	¥434	$3,622
Net liability arising from defined benefit obligation	¥401	¥434	$3,622

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥166	¥168	$1,496
Interest cost	24	24	215
Expected return on plan assets	(31)	(30)	(283)
Recognized actuarial losses	30	17	274
Stock granting cost	43	37	389
Net periodic benefit costs	¥232	¥216	$2,091

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial losses	¥32		$290

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains	¥(15)	¥(47)	$(138)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
General account managed by a life insurance company	99.8%	100.0%
Other	0.2	
Total	100.0%	100.0%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	Mainly 0.60%	Mainly 0.60%
Expected rate of return on plan assets	Mainly 1.25%	Mainly 1.25%
Expected rate of future salary increase	Mainly 1.90%	Mainly 1.90%

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 29, 2021. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Accrued bonuses	¥194	¥190	$1,754
Provision for product warranties	44	36	396
Accrued enterprises taxes	74	65	673
Unrealized gain on sale of inventory	51	79	457
Unrealized gain on sale of property	21	22	192
Liability for retirement benefits	108	113	973
Loss on revaluation of investment securities	77	77	697
Tax loss carryforwards	7	12	61
Other	235	227	2,122
Less valuation allowance	(90)	(120)	(809)
Total	721	701	6,516
Deferred tax liabilities:			
Reserve for deferred gains on sales of property	346	346	3,129
Unrealized gain on available-for-sale securities	1,517	1,107	13,702
Other	29	37	259
Total	1,892	1,490	17,090
Net deferred tax liabilities	¥(1,171)	¥(789)	$(10,574)

As the difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income and comprehensive income for the years ended March 31, 2021 and 2020, is less than 5% of the normal effective statutory tax rate, a reconciliation is omitted.

At March 31, 2021, some subsidiaries have tax loss carryforwards aggregating approximately ¥42 million ($379 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022		
2023	¥38	$344
2024		
2025		
2026 and thereafter	4	35
Total	¥42	$379

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥604 million ($5,459 thousand) and ¥585 million for the years ended March 31, 2021 and 2020, respectively.

13. LEASES

The Group leases certain vehicles under finance leases. And the some foreign subsidiaries leases lands under operating leases which are included in non-current other assets in the consolidated balance sheet as right of use assets applying International Financial Reporting Standards (IFRS) 16.

Lease payments for the years ended March 31, 2021 and 2020, were ¥15 million ($135 thousand) and ¥15 million, respectively.

Lease obligations were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥15	¥15	$135
Due after one year	267	283	2,412
Total	¥282	¥298	$2,547

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets. Bank loans are used to fund its ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in Note 15.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

Investment securities, mainly equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are almost less than six months. Payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

Maturities of bank loans are less than three months after the balance sheet date. Although a part of such bank loans is exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives mainly include interest rate swaps, commodity swaps, forward foreign currency contracts and currency swap contracts, which are used to manage exposure to market risks from changes in interest rates of bank loans, from changes in raw material (copper) prices, and from changes in foreign currency exchange rates of receivables and advances. Please see Note 15 for more detail about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages its credit risk from receivables based on internal guidelines, which include monitoring of payment term and balances of major customers by the Sales Planning department to identify the default risk of customers at an early stage. Each consolidated subsidiary also manages its credit risk from receivables by an equivalent method.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. The Group reduces such foreign exchange risk by balancing foreign currency trade receivables and payables. Forward foreign currency contracts and currency swap contracts are used for some foreign currency trade receivables and advances.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables, and commodity swaps are used to manage exposure to market risks from changes in raw material (copper) prices.

The Company continuously reviews portfolios of securities by periodically monitoring fair values of each security and the financial condition of the issuer as well as market conditions and the relationship with the issuer.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies which prescribe the authority and the limit for each transaction. The transaction data is reported to the management meeting on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Additionally, notional amounts of derivative transactions, which are presented in Note 15, "Derivatives," do not indicate market risk of derivative transactions. Also, please see Note 15 for the details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥22,914	¥22,914	
Receivables	21,004	21,004	
Investment securities	7,006	7,006	
Total	¥50,924	¥50,924	
Short-term bank loans	¥210	¥210	
Payables	11,086	11,086	
Long-term debt	1,107	1,107	
Total	¥12,403	¥12,403	
Derivatives	¥(107)	¥(107)	

	Millions of Yen		
March 31, 2020	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥21,054	¥21,054	
Receivables	21,173	21,173	
Investment securities	5,625	5,625	
Total	¥47,852	¥47,852	
Short-term bank loans	¥210	¥210	
Payables	11,076	11,076	
Long-term debt	1,088	1,110	¥(22)
Total	¥12,374	¥12,396	¥(22)
Derivatives	¥(141)	¥(141)	

	Thousands of U.S. Dollars		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	$206,953	$206,953	
Receivables	189,698	189,698	
Investment securities	63,280	63,280	
Total	$459,931	$459,931	
Short-term bank loans	$1,898	$1,898	
Payables	100,125	100,125	
Long-term debt	10,000	10,000	
Total	$112,023	$112,023	
Derivatives	$(963)	$(963)	

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the relevant stock exchange for the equity instruments.

Receivables and Payables

The carrying values of receivables and payables approximate fair value because of their short maturities.

Short-Term Bank Loans and Long-Term Debt

The carrying values of short-term bank loans that include the current portion of long-term debt approximate fair value because of their short maturities.

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

The lease obligations which are included in the long-term debt are omitted from the fair value information.

Derivatives

Fair value information for derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥893	¥893	$8,064

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥22,914		$206,953	
Receivables	21,004		189,698	
Total	¥43,918		$396,651	

Please see Note 7 for annual maturities of long-term debt and Note 13 for lease obligations.

15. DERIVATIVES

The Group enters into derivatives, in the normal course of business, to reduce the exposure to fluctuations in foreign exchange rates, raw material prices and interest rates. The primary derivative instruments used by the Company are foreign currency forward contracts, currency swap contracts, commodity swaps and interest rate swaps.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2021	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts— Selling U.S.$	¥1,016		¥(90)	¥(90)	$9,176		$(815)	$(815)
Currency swap contracts— Selling U.S.$	49		(16)	(16)	444		(148)	(148)
March 31, 2020								
Foreign currency forward contracts— Selling U.S.$	¥1,016	¥1,016	¥(53)	¥(53)				
Currency swap contracts— Selling U.S.$	285	285	(87)	(87)				

Derivative Transactions to Which Hedge Accounting Is Applied

		Thousands of U.S. Dollars		
March 31, 2021	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	$10,000		
March 31, 2020				
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	$10,000	$10,000	

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 14 is included in that of hedged items (i.e., long-term debt).

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

16. CONTINGENT LIABILITIES

At March 31, 2021, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Export trade bill discounted	¥348	$3,141

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥1,514	¥(1,237)	$13,670
Reclassification adjustments to profit or loss	(40)	(37)	(364)
Amount before income tax effect	1,474	(1,274)	13,306
Income tax effect	(410)	390	(3,701)
Total	¥1,064	¥(884)	$9,605
Foreign currency translation adjustments—			
Adjustments arising during the year	¥(780)	¥(54)	$(7,045)
Total	¥(780)	¥(54)	$(7,045)
Defined retirement benefit plans:			
Adjustments arising during the year	¥13	¥(0)	$113
Reclassification adjustments to profit or loss	19		176
Amount before income tax effect	32	(0)	289
Income tax effect	(10)	0	(88)
Total	¥22	¥(0)	$201
Share of other comprehensive income (loss) in associates—Gains (losses) arising during the year	¥4	¥(5)	$41
Total	¥4	¥(5)	$41
Total other comprehensive income (loss)	¥310	¥(943)	$2,802

18. NET INCOME PER SHARE

Basis for the computation of net income per share ("EPS") for the years ended March 31, 2021 and 2020, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2021	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥3,860	20,851	¥185.13	$1.67
Year Ended March 31, 2020				
Basic EPS—Net income available to common shareholders	¥4,071	20,953	¥194.32	

As noted in Note 2.l, the Company applied PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts." In calculating the number of weighted-average shares above, the number of shares that are held by the Trust (768 thousand shares in 2021 and 781 thousand shares in 2020) is reflected.

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, geographic segments of the Group consist of Japan, United States of America, Asia and Europe. Japan includes the Company, "Denyo Kosan Co., Ltd." and "Nishihatsu Co., Ltd." United States of America mainly includes "Denyo Manufacturing Corporation." Asia mainly includes "Denyo United Machinery Pte. Ltd." Europe consists of "Denyo Europe B.V."

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Millions of Yen						
	2021						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥42,919	¥8,750	¥2,797	¥541	¥55,007		¥55,007
Intersegment sales or transfers	3,023	167	3,213	4	6,407	¥(6,407)	
Total	¥45,942	¥8,917	¥6,010	¥545	¥61,414	¥(6,407)	¥55,007
Segment profit	¥4,218	¥250	¥384	¥23	¥4,875	¥458	¥5,333
Segment assets	66,580	6,539	10,222	860	84,201	(5,144)	79,057
Other:							
Depreciation and amortization	627	239	301	0	1,167		1,167
Investments in associated companies	852				852		852
Increase in property, plant and equipment and intangible assets	1,858	30	29	1	1,918		1,918

	Millions of Yen						
	2020						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥43,626	¥15,167	¥3,585	¥509	¥62,887		¥62,887
Intersegment sales or transfers	4,847	275	4,212	4	9,338	¥(9,338)	
Total	¥48,473	¥15,442	¥7,797	¥513	¥72,225	¥(9,338)	¥62,887
Segment profit	¥3,396	¥1,169	¥793	¥37	¥5,395	¥663	¥6,058
Segment assets	62,490	7,816	10,991	705	82,002	(6,376)	75,626
Other:							
Depreciation and amortization	577	241	344	0	1,162		1,162
Investments in associated companies	811				811		811
Increase in property, plant and equipment and intangible assets	887	294	20		1,201		1,201

	Thousands of U.S. Dollars						
	2021						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	$387,635	$79,031	$25,264	$4,882	$496,812		$496,812
Intersegment sales or transfers	27,306	1,503	29,023	37	57,869	$(57,869)	
Total	$414,941	$80,534	$54,287	$4,919	$554,681	$(57,869)	$496,812
Segment profit	$38,098	$2,253	$3,471	$206	$44,028	$4,137	$48,165
Segment assets	601,335	59,059	92,323	7,770	760,487	(46,457)	714,030
Other:							
Depreciation and amortization	5,662	2,156	2,720	1	10,539		10,539
Investments in associated companies	7,692				7,692		7,692
Increase in property, plant and equipment and intangible assets	16,783	272	264	3	17,322		17,322

Related Information

(1) Information about Products and Services

Information about products and services for the years ended March 31, 2021 and 2020, is omitted since sales to external customers in a single product line (generators, welders, compressors, and other related products) accounted for more than 90% of the total consolidated sales.

(2) Information about Geographical Areas

Sales to external customers and property, plant and equipment by geographical areas for the years ended March 31, 2021 and 2020, are summarized as follows:

	Millions of Yen				
	2021				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	¥37,737	¥10,898	¥3,948	¥2,424	¥55,007
Property, plant and equipment	10,950	1,438	2,576	0	14,964

	Millions of Yen				
	2020				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	¥37,043	¥18,430	¥5,198	¥2,216	¥62,887
Property, plant and equipment	9,736	1,736	2,973		14,445

	Thousands of U.S. Dollars				
	2021				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	$340,835	$98,428	$35,661	$21,888	$496,812
Property, plant and equipment	98,902	12,987	23,266	3	135,158

Note: Sales are classified in countries or regions based on location of customers.

(3) Information about Major Customers

Sales to major customers for the years ended March 31, 2021 and 2020, are summarized as follows:

Name of Customers	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021	Related Segment
Multiquip Inc.	¥8,750	¥15,167	$79,031	United States of America

20. RELATED PARTY TRANSACTIONS

The Company sold its products to New Japan Machinery Corporation, an associated company. The transactions were made with usual terms and conditions.

The transactions with the associates for the years ended March 31, 2021 and 2020, and related balances at March 31, 2021 and 2020, were mainly as follows:

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Transactions—Sales	¥2,287	¥2,881	$20,657
Balances:			
Trade notes receivable	¥1,103	¥1,421	$9,965
Trade accounts receivable	347	359	3,133

23. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at the Company's Board of Directors' meeting held on May 17, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥542	$4,892

* * * * * *

Independent Auditor's Report

To **the Board of Directors of Denyo Co., Ltd.**

Opinion

We have audited the consolidated financial statements of Denyo Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter

The timing of revenue recognition at Denyo Co., Ltd. (the "Company")	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As stated in the consolidated statement of income, the Group recorded sales of 55,007 million yen for the fiscal year ended March 31, 2021, of which the Company accounted for 67% (before eliminating internal transactions). The Company sells products such as portable generators and welding machines mainly to construction-related markets through trading companies, dealers and construction equipment rental companies, and it also has direct transactions with users, and offers services other than product sales such as installation works. In addition, the Company is focusing on expanding its business in fixed-type emergency generators, and the contents of the related contracts are diversified. Revenue is generally recognized upon shipment, but in cases where services other than product shipment, such as site inspection or installation work, are stipulated in the contract, the Company recognizes revenue when it satisfies each contractual obligation. Upon receiving orders, the sales department, in conjunction with the technical department, registers order information in its core business system, separated by the contract content, and upon recognition of revenue, the logistics department and the sales department work together to determine the fulfillment timing of contract obligations such as delivery completion. The daily volume of transactions is so high that revenue may be recorded for transactions that do not meet the revenue recognition requirements because of misjudgments regarding the identification and fulfillment of contractual obligations. For the above reasons, we have determined that the timing of revenue recognition at the Company is a key audit matter.	To test whether the revenue was recognized in proper timing, we performed the following audit procedures, among others: (1) We evaluated the design and operating effectiveness of the internal controls that check the contract details upon receiving orders, and register the order information according to the contract details in the core business system. (2) We evaluated the design and operating effectiveness of the internal controls that inspect documents such as delivery notes and acceptance reports that are the basis for recording sales, depending on the contract details to determine the fulfillment of the contractual obligation. (3) Based on sales data extracted from core business-related systems, for each sales department, we conducted a comparison of sales figures and gross profit in the current periods with those in the same periods of the previous year, and analyzed data using plot charts, and extracted transactions that require careful judgments in identifying and fulfilling obligations included in the contract based on certain criteria such as transactions with new customers and high-margin transactions. (4) We selected a sample of contracts and we inquired of the sales department about the history of the order and the contents of the contract, and inspected the contract and order forms to determine the details of the obligations included in the contract and when they were fulfilled. In addition, the documents that serve as the basis for revenue recognition, such as delivery notes and acceptance reports, were inspected to determine that the requirements for revenue recognition were met.

Responsibilities of Management and the Audit and Supervisory Committee 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 and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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 an 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. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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 the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, 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.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners 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.

June 29, 2021

Deloitte Touche Tohmatsu LLC

Company Data

Company outline (As of March 31, 2021)

Company Name	Denyo Co., Ltd.
Established	July 2, 1948
Head Office	2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan Tel:81-3-6861-1111 / Fax:81-3-6861-1181
Paid-in Capital	¥1,954,833,520 (U.S.$ 17,655,650)
Authorized shares	97,811,000
Issued Shares	22,859,660
Shareholders	4,480
Financial Year	April 1 to March 31
Employees	583 (1,334 consolidated)
Branch and Sales offices	21

Directors, Audit Supervisory Board Members (As of June 29,2021)

Representative Director, Chairman	**Yoji Eto**	
President	**Shoichi Shiratori**	
Director, Managing Executive Officer	**Kensaku Moriyama**	Chief Executive, Sales Division Head of Domestic Sales Unit Responsible for Overseas Sales Subsidiary
Director, Senior Executive Officer	**Takanori Yoshinaga**	Chief Executive, Development Division Responsible for Production Division, Overseas Manufacturing Subsidiary
Director, Senior Executive Officer	**Masao Yamada**	Chief Executive, Quality Management Division
Director, Senior Executive Officer	**Makoto Tanabe**	Chief Executive, Administration Division
Outside Director	**Yoshio Takeyama**	
Director, Audit & Supervisory Committee Member	**Toru Hiroi**	
Director, Audit & Supervisory Committee Member	**Chiyoki Kimura**	
Ouside Director, Audit & Supervisory Committee Member	**Akira Yamada**	
Ouside Director, Audit & Supervisory Committee Member	**Keiko Yamagami**	
Ouside Director, Audit & Supervisory Committee Member	**Masako Natori**	

"Asterisk* indicates an external director or external audit & supervisory board member.

Executive Officers

Senior Executive Officer	**Yukio Nunogami**	General Manager, West Japan Sales Department Sales Division
Senior Executive Officer	**Katsumi Ishikura**	General Manager, Sales Promotion Department Sales Division
Executive Officer	**Masakazu Minato**	General Manager, East Japan Sales Department Sales Division
Executive Officer	**Noboru Chosei**	General Manager, Development Department, Patent Administration Department Development Division
Executive Officer	**Shoichi Fujimoto**	General Manager, Engineering Department Development Division
Executive Officer	**Toshiki Miyamoto**	Chief Executive, Production Division
Executive Officer	**Kazuyoshi Kubo**	General Manager, Personnel Department, Responsible for General Affairs Department, Administration Division
Executive Officer	**Kenichi Otomo**	Head of International Sales Unit General Manager, International Sales Department 1 Sales Division
Executive Officer	**Shoichiro Fujimoto**	General Manager, Planning & Coordination Office
Executive Officer	**Hirokazu Tsukasaki**	General Manager, Manufacuturing Department Production Division

Business Lines

Manufacture and sales of:

Generators	Engine-driven Generators Stand-by Generating Sets General-use Generating Sets AC Generators
Welders	Engine-driven Welders Welding Generators Welding Jigs Automatic Welding Equipment
Compressors	Engine-driven Air Compressors Motor-driven Air Compressors
Other Products	Self-propelled Lifters Construction-related Machinery Repair Parts

Plants and R&D Center

Fukui Plant	Wakasa-cho, Fukui Prefecture
Shiga Plant	Konan, Shiga Prefecture
Laboratory & Training Center	Sakado, Saitama Prefecture

Laboratory & Training Center


Fukui Plant

Denyo Group Companies

Denyo Kosan Co., Ltd.
2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan
Paid-in Capital: ¥50 million
Business: Services and sales of industrial electrical machinery and parts

Nishihatsu Co., Ltd.
140, Chichika, Karatsu, Saga 847-0831, Japan
Paid-in Capital: ¥50 million
Business: Manufacture and sales of industrial electrical machinery

Denyo America Corporation
1450 Minor Road, Danville, Kentucky 40422 U.S.A
Paid-in Capital: US$ 5 million
Business: Sales of parts for industrial electrical machinery

Denyo Manufacturing Corporation
1450 Minor Road, Danville, Kentucky 40422 U.S.A
Paid-in Capital: US$ 6 million
Business: Manufacture and sales of industrial electrical machinery to the U.S. market

Denyo Asia Pte. Ltd.
No.9 Neythal Road, Singapore 628614
Paid-in Capital: ¥600 million
Business: Sales of industrial electrical machinery

Denyo United Machinery Pte. Ltd.
No.9 Neythal Road, Singapore 628614
Paid-in Capital: S$ 3 million
Business: Sales, leasing and rental of industrial electrical machinery

Denyo Europe B.V.
Naamrijk 1, 3454 PX De Meern, The Netherlands
Paid-in Capital: €4 million
Business: Sales of industrial electrical machinery

Denyo Vietnam Co.,Ltd.
Plot A3, Thang Long Industrial Park II, Lieu Xa Commune,Yen My, Hung Yen, Vietnam
Paid-in Capital: US$ 10 million
Business: Manufacture and sales of industrial electrical machinery

Denyo Trading Vietnam Co., Ltd.
Room 606.03, 6th Floor, Indochina Plaza Hanoi Tower, No. 241 Xuan Thuy Street,
Dich Vong Hau Ward, Cau Giay District, Hanoi City, Vietnam
Paid-in Capital: US$ 900 thousand
Business: Services and sales of industrial electrical machinery and repair parts

P.T. Dein Prima Generator
JL. Raya Bekasi Km. 28, Medan Satria, Bekasi 17132 Jawa Barat, Indonesia
Paid-in Capital: Rp 13,563 million
Business: Manufacture and sales of industrial electrical machinery to the Indonesia market

New Japan Machinery Corporation
3-6-5, Shinyokohama, Kohoku-ku, Yokohama, Kanagawa 222-0033, Japan
Paid-in Capital: ¥495 million
Business: Sales and rental service of industrial electrical machinery

Investor Information

(As of March 31, 2021)

Head Office	2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan Tel: 81-3-6861-1111 Fax: 81-3-6861-1181
Financial Year	April 1 to March 31
Common Stock	Authorized shares: 97,811,000 Issued shares: 22,859,660 (Included 1,191,972 shares of Company's own stock)
Stock Listing	Tokyo Stock Exchange, First Section (Code: 6517)
Shareholders	4,480
Transfer Agency	Tokyo Securities Transfer Agent Co., Ltd. 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan

Major Shareholders

(As of March 31, 2021)

Shareholders	Shares Held (Thousands)	Voting Right Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,462	6.74
Kyuei Corporation	1,417	6.54
Mizuho Trust & Banking Co., Ltd.	1,082	4.99
The Dai-ichi Life Insurance Co., Ltd	872	4.02
Custody Bank of Japan, Ltd. (Trust E Account)	763	3.52
Denyo Shin-eikai Group	646	2.98
Custody Bank of Japan, Ltd. (Trust Account)	589	2.72
The SFP Value Realization Master Fund Ltd.	572	2.64
Tsurumi Manufacturing Co., Ltd	543	2.50
MUFG Bank, Ltd.	540	2.49

Denyo Co.,Ltd.

https://www.denyo.co.jp

Head Office

2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan

Tel

81-3-6861-1111

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81-3-6861-1181