2022
ANNUAL REPORT

Year ended March 31, 2022

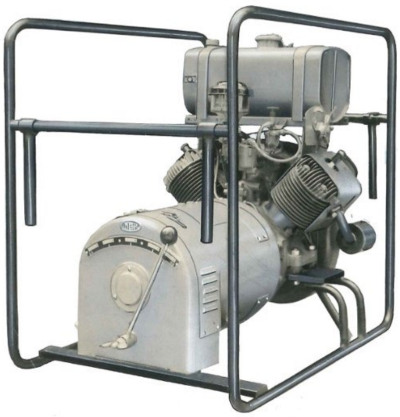
Denyo Co.,Ltd.

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

Sales of engine-driven welders have exceeded 800 thousand units



ACD-180,
Japan's first high-speed
engine-driven welder

In January 2022, Denyo Co., Ltd. exceeded a cumulative production volume of 800 thousand units of its engine-driven welders.

This was achieved over the 63 years since Denyo began production of Japan's first high-speed engine-driven welder, the ACD-180, in March 1959.

This is a result of the patronage of customers around the world supporting Denyo's engine-driven welders. We would like to express our thanks to all stakeholders, including the customers who have chosen our products.

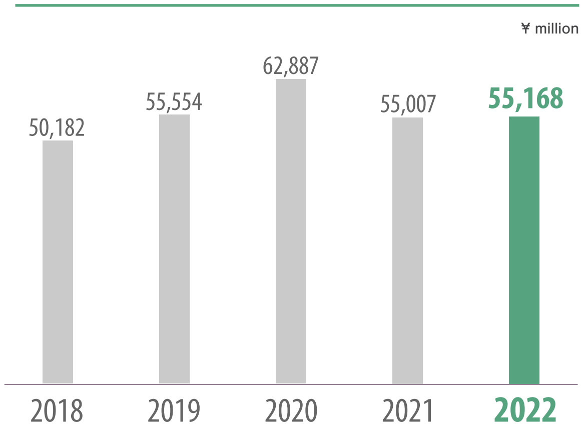
As the top manufacturer of engine-driven welders, we will continue to work to develop and produce products that ensure customer satisfaction.

Consolidated Financial Highlights

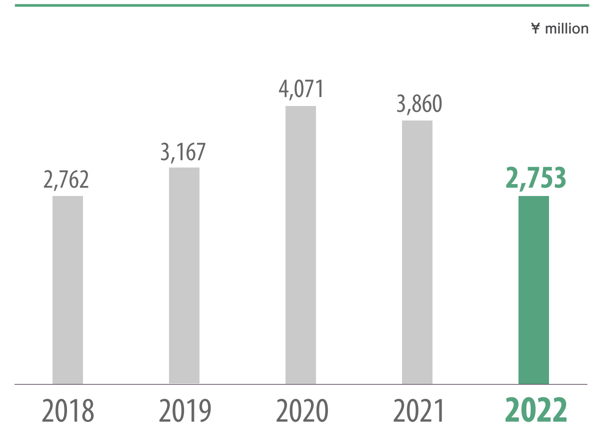
	Millions of Yen			Thousands of U.S. Dollars
	2022	2021	2020	2022
Net Sales	¥55,168	¥55,007	¥62,887	$450,684
Total Assets	80,775	79,057	75,626	659,869
Total Net Assets	63,761	61,564	58,354	520,878
Operating Income	3,654	5,333	6,058	29,848
Net Income*	2,753	3,860	4,071	22,491
Per Share Data		Yen		U.S. Dollars
Total Net Assets	¥2,963.99	¥2,846.49	¥2,689.54	$24.21
Net Income*	132.02	185.13	194.32	1.08
Cash Dividends	47.00	47.00	46.00	0.38

Note:Transaction into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥122.41 to U.S.$1, prevailing on the Tokyo Foreign Exchange Market on March 31, 2022.

Net Sales

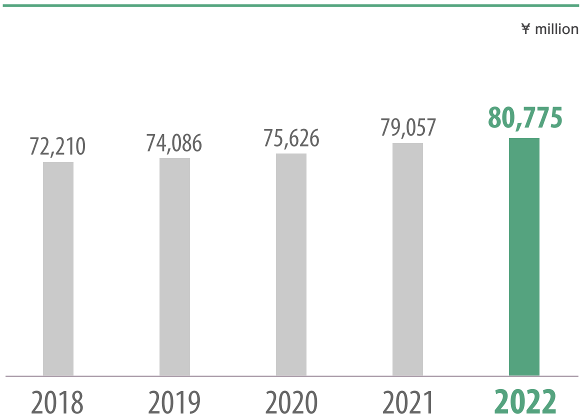


Net Income*

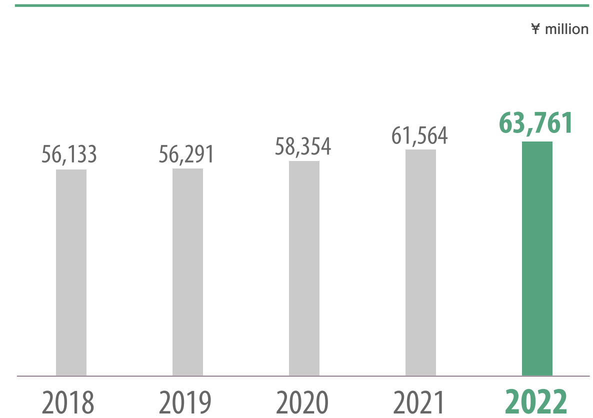


* Net Income attributable to owners of the parent.

Total Assets



Total Net Assets



TO OUR SHAREHOLDERS

Denyo Co.,Ltd.

Shoichi Shiratori
President

Yoji Eto
Representative Director, Chairman

In the year ended March 31, 2022, the 74th term, the consolidated net sales of the Denyo Group increased slightly (0.3%) year on year, to ¥55,168 million (US$450,684 thousand). However, ordinary income decreased to ¥4,029 million (US$32,915 thousand), down 28.6% year on year, and net income attributable to owners of the parent declined to ¥2,753 million (US$22,491 thousand), down 28.7% year on year.

In the domestic business environment, economic activity resumed gradually despite the ongoing COVID-19 pandemic. However, demand related to events remained weak, partly reflecting the repeated restriction of travel. Meanwhile, the overseas business environment recovered more quickly than the domestic one. However, delays in the delivery of some production materials, shortages of production materials, and other factors put the brakes on production activities. Further, manufacturing costs increased due in part to rising raw materials prices, putting pressure on profits.

In the year ending March 31, 2023, the 75th term, COVID-19 will continue to impact the Denyo Group, but public investment is expected to be steady, including government measures to increase the resilience of national land. Events such as sales trade shows have begun to be resumed in various areas, so sales activities have been steadily progressing. While rising raw materials prices, delivery delays, labor shortages, and other issues have surfaced, all the Group companies around the world will accommodate each other regarding production materials and take other measures to overcome these issues.

The current fiscal year is the second year of Denyo 2023, the medium-term management plan. To achieve the plan in the final year, we will proactively develop new products and strive to ensure stable production activities.

Regarding dividends for the year ended March 31, 2022, we paid an interim dividend of ¥22 (US$0.18) per share and decided to pay an ordinary year-end dividend of ¥25 (US$0.20) per share. As a result, dividends for the full year came to ¥47 (US$0.38) per share.

We wish to thank all shareholders for their continued support for the Denyo Group going forward.

June 2022

S. Shiratori

Shoichi Shiratori,
President

Y. Eto

Yoji Eto,
Representative Director,
Chairman

Review of Operations

1. *LiBP-2000, a lithium ion battery power-supply device*

Denyo has developed the LiBP-2000 power-supply device using lithium ion batteries.

It consists of three components. They are four battery units, an inverter unit that converts the DC power supplied by the battery units into AC power (100 V), and a battery charger unit that charges the battery using commercial power. Its maximum power output is 2000 W at 100 V. While the LiBP-2000 works using only one battery unit, using four connected units ensures a longer continuous power supply.

Unlike engine-driven generators, the device does not emit any gases, which means that power is generated with zero CO_2 emissions. Further, it can be used indoors and in other places where engine-driven generators are prohibited. It is optimal for use in tunnel construction sites, for server room maintenance, as a backup power supply in a power outage and for other purposes.

Denyo will continue to proactively implement initiatives for the establishment of a decarbonized society.

Battery unit × 4
Inverter unit
Battery charger unit

Connection examples (Output: 2000 W)

Example 1: Output of 2000 W with battery unit × 1

Operable time: Approx. 15 minutes

Example 2: Output of 2000 W with battery unit × 4

Operable time: Approx. 75 minutes

2. *Introduction of DCW-400LSE, a CO_2 arc engine-driven welding machine*

Denyo developed DCW-400LSE, a 400A CO_2 arc engine-driven welding machine, and began selling it in February 2021.

Denyo developed the industry's first 350 A CO_2 arc engine-driven welding machine, which has developed a good reputation for its high welding performance.

DCW-400LSE is the successor to DCW-350LS which had a maximum welding current of 350 A. It features a higher maximum CO_2 arc welding current of 400 A, permitting the use of wires with diameters up to 1.4 mm. The 400 A output is also possible in the manual welding and gouging modes, contributing to a significant improvement of the efficiency of operations. As with the DCW-500LSE, which has been received well since its release in 2019, the DCW-400LSE leverages inverter welding control. This ensures a stable arc, from low current to high current, controlling voltage fluctuations. Thus, DCW-400LSE enables a beautiful finish with straight bead edges.

As a pioneer of engine-driven welding machines, Denyo will continue to propose new directions for these welding machines.

Output of max. 400 A in three modes


CO₂ arc welding


Manual welding


Gouging

More than enough AC Power supply output

Three phase	Single phase
200 V/220 V 13/15 kVA (50/60 Hz)	100 V/110 V 9.0/9.9 kVA (50/60 Hz)

The new welding monitor permits detailed settings of welding conditions.

3. *Ground-breaking ceremony held at a planned construction site of a large-scale maintenance facility in east district*

In March 2022, a ground-breaking ceremony was held at the construction site of a large-scale maintenance facility in the east district of Sakura City, Chiba.

At this approx. 3,000 m² site, we plan to construct a maintenance factory. This facility will enable the indoor maintenance of small units up to the 1,100 kVA-class large generators, which are the largest of our products. The factory is scheduled to begin operating in January 2023.

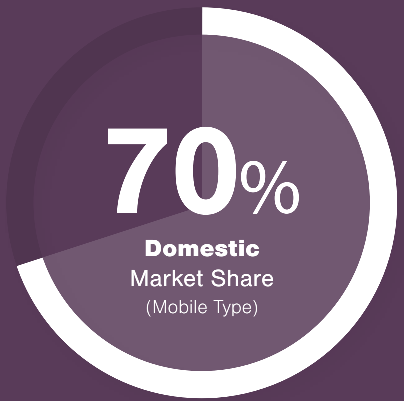
Denyo will continue to produce high-quality, high-performance products and enhance its services to increase customer satisfaction.

Overview of Product Segment

Business performance by product category and domestic market share

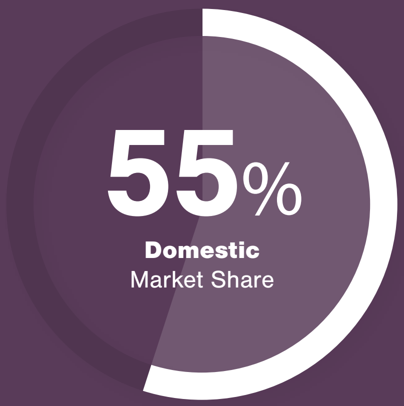
Engine Generators

In the generator segment, sales declined to ¥43,754 million (US$357,440 thousand), down 0.6% year on year. Shipments of products to overseas markets increased, with an increase in shipments of large generators to the U.S. and a recovery trend seen shipments to Asia. This was offset by the decline of shipments in Japan, including shipments of compact generators for use in a power outage that had been subsidized by the government until the previous fiscal year.



Engine Welders

In the engine welders segment, sales rose to ¥4,830 million (US$39,457 thousand), up 10.1% year on year. This reflected an increase in shipments of welders for overseas markets, such as the U.S. and Asia, which more than offset a decline in shipments of compact welders for the domestic market as mainstay products.



Compressors

In the compressors segment, sales declined to ¥727 million (US$5,940 thousand), down 3.7% year on year. This is attributed to a decline in shipments of engine compressors produced locally in the U.S., offsetting an increase in shipments of engine compressors in Japan.

Other Products

In the other products segment, sales were ¥5,857 million (US$47,847 thousand), up 0.2% year on year. This mainly reflected an increase in sales of parts incidental to products, which more than offset a decline in sales of 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, 2022,
and Independent Auditor's Report

Financial Review

Business Environment and Results

During the fiscal year under review, there were signs that corporate earnings, consumer spending, and other aspects of the Japanese economy were recovering as the challenging conditions created by COVID-19 eased. There were also signs that the global economy was recovering, but COVID-related supply restrictions remained.

In terms of the business environment surrounding the Denyo Group, demand for construction, including public works, remained strong in Japan. However, many product exhibitions that are sales opportunities were cancelled due to COVID-19, and demand for event-related generators remained sluggish. On the other hand, demand in overseas markets overall continued to trend toward recovery.

Supply was affected by production delays and the rising manufacturing cost of some products, which was a result of a tight supply-demand balance in electronic components and rising raw materials prices.

Under these conditions, the Denyo Group focused its efforts on implementing a range of measures under its second medium-term management plan, including the strengthening of overseas sales and the development and sale of new products, and it strived to normalize production. However, while net sales increased to ¥55,168 million (US$450,684 thousand), up 0.3% year on year, operating income decreased to ¥3,654 million (US$29,848 thousand), down 31.5% year on year, ordinary income declined to ¥4,029 million (US$32,915 thousand), down 28.6% year on year, and net income attributable to owners of the parent fell to ¥2,753 million (US$22,491 thousand), down 28.7% year on year.

Segment Information

In the generator segment, sales declined to ¥43,754 million (US$357,440 thousand), down 0.6% year on year. Shipments of products to overseas markets increased, with an increase in shipments of large generators to the U.S. and a recovery trend seen shipments to Asia. This was offset by the decline of shipments in Japan, including shipments of compact generators for use in a power outage that had been subsidized by the government until the previous fiscal year.

In the welders segment, sales rose to ¥4,830 million (US $39,457 thousand), up 10.1% year on year. This reflected an increase in shipments of welders for overseas markets, such as the U.S. and Asia, which more than offset a decline in shipments of compact welders for the domestic market as mainstay products.

In the compressors segment, sales declined to ¥727 million (US$5,940 thousand), down 3.7% year on year. This is attributed to a decline in shipments of engine compressors produced locally in the U.S., offsetting an increase in shipments of engine compressors in Japan.

In the other products segment, sales were ¥5,857 million (US$47,847 thousand), up 0.2% year on year. This mainly reflected an increase in sales of parts incidental to products, which more than offset a decline in sales of self-propelled lifters.

Information by geographical area is as follows.

Consolidated results in each segment are based on the results of the Company and its consolidated subsidiaries located in the specific region.

Accordingly, consolidated results in the Japan segment are for the period from April 2021 to March 2022. Those in segments other than Japan are for January to December 2021 because the fiscal year end of overseas consolidated subsidiaries is December 31.

(Japan)

In Japan, shipments of generators declined partly because demand for products related to events for the domestic market remained sluggish and partly because of a reactionary reduction in shipments of emergency generators, which had increased significantly in the previous fiscal year. Regarding products for overseas markets, there was an increase in exports mainly of large generators for the U.S. market and plant construction in the Middle East. As a result, segment sales increased to ¥43,228 million (US$353,143 thousand), up 0.7% year on year. However, segment profit decreased to ¥3,290 million (US$26,874 thousand), down 22.0% year on year, due to rising raw materials prices and logistics costs.

(United States)

In the U.S., sales decreased to ¥8,685 million (US$70,945 thousand), down 0.8% year on year, and a segment loss of ¥112 million (US$916 thousand) was posted compared to a segment profit of ¥250 million (US$2,038 thousand) posted in the previous fiscal year. This mainly reflected rising raw material prices in addition to delays in local production that resulted from the difficulty of procuring main parts and manpower shortage although demand remained strong mainly reflecting the economic policy.

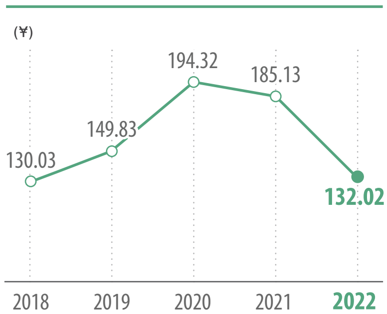
(Asia)

In Asia, the size of the economic recovery varied from country to country, but there was an increase in shipments of products for mines in Australia and rental services in Singapore. As a result, sales increased to ¥3,120 million (US$25,489 thousand), up 11.5% year on year, and segment profit rose to ¥489 million (US$3,997 thousand), up 27.3% year on year.

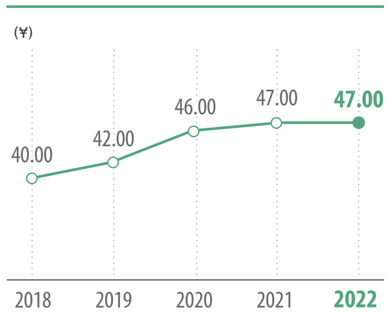
(Europe)

In Europe, sales declined to ¥135 million (US$1,107 thousand), down 74.9% year on year, and a segment loss of ¥14 million (US$113 thousand) was posted, compared with a segment profit of ¥23 million (US$186 thousand) posted in the previous fiscal year. This partly reflected supply restrictions, including delays in production and logistics slowdowns.

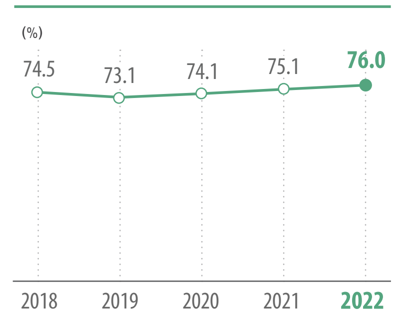
Net Income per Share



Cash Dividends per Share



Equity Ratio



Financial Position

(Assets)

Total assets at the end of the fiscal year under review were ¥80,775 million (US$659,869 thousand), an increase of ¥1,717 million (US$14,028 thousand) from the end of the previous fiscal year.

Current assets at the end of the fiscal year under review were ¥56,872 million (US$464,604 thousand), an increase of ¥2,428 million (US$19,838 thousand) from the end of the previous fiscal year. This was mainly due to an increase in electronically recorded monetary claims - operating of ¥880 million (US$7,187 thousand) and a rise in raw materials and supplies of ¥1,976 million (US$16,146 thousand). Non-current assets at the end of the fiscal year under review were ¥23,902 million (US$195,265 thousand), down ¥711 million (US$5,810 thousand) from the end of the previous fiscal year. This mainly reflected a decrease in machinery, equipment and vehicles of ¥515 million (US$4,207 thousand), an increase in construction in progress of ¥299 million (US$2,446 thousand), and a decrease in investment securities of ¥658 million (US$5,379 thousand) due to the revaluation of stockholdings.

(Liabilities)

Total liabilities at the end of the fiscal year under review were ¥17,014 million (US$138,991 thousand), decreasing ¥479 million (US$3,915 thousand) from the end of the previous fiscal year.

Current liabilities at the end of the fiscal year under review were ¥14,270 million (US$116,573 thousand), down ¥1,165 million (US$9,517 thousand) from the end of the previous fiscal year. This change was primarily attributable to a decrease of ¥1,107 million (US$9,046 thousand) in short-term loans payable. Non-current liabilities at the end of the fiscal year under review were ¥2,744 million (US$22,418 thousand), up ¥686 million (US$5,601 thousand) from the end of the previous fiscal year. This was due largely to an increase in long-term debt of ¥857 million (US$7,000 thousand) and a fall in deferred tax liabilities of ¥245 million (US$2,004 thousand).

(Net assets)

Net assets at the end of the fiscal year under review were ¥63,761 million (US$520,878 thousand), an increase of ¥2,196 million (US$17,943 thousand) from the end of the previous fiscal year.This was mainly due to net income attributable to owners of the parent of ¥2,753 million (US$22,491 thousand), a ¥551 million (US$4,501 thousand) rise in accumulated other comprehensive income, and cash dividends paid of ¥1,018 million (US$8,319 thousand).

Cash Flows

Consolidated cash and cash equivalents (hereinafter, cash) were ¥23,359 million (US$190,825 thousand) at the end of the fiscal year under review, increasing ¥445 million (US$3,636 thousand) from the end of the previous fiscal year, largely due to income before income taxes of ¥3,916 million (US$31,994 thousand).

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,696 million (US$22,023 thousand) (cash provided of ¥4,941 million (US$40,368 thousand) in the previous fiscal year). This was largely due to income before income taxes of ¥3,916 million (US$31,994 thousand), depreciation of ¥1,361 million (US$11,119 thousand), an increase in inventories of ¥2,119 million (US$17,307 thousand), and income taxes paid of ¥1,800 million (US$14,705 thousand).

(Cash flows from investing activities)

Net cash used in investing activities was ¥819 million (US$6,693 thousand) (cash used of ¥1,749 million (US$14,284 thousand) in the previous fiscal year). This largely reflected the purchase of property, plant and equipment of ¥800 million (US$6,539 thousand) and proceeds from sales of investment securities of ¥82 million (US$667 thousand).

(Cash flows from financing activities)

Net cash used in financing activities was ¥1,644 million (US$13,428 thousand) (cash used of ¥1,086 million (US$8,875 thousand) in the previous fiscal year). This was mainly due to dividends paid of ¥1,018 million (US$8,319 thousand).

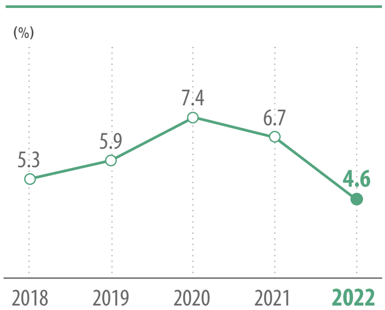
Dividends

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.

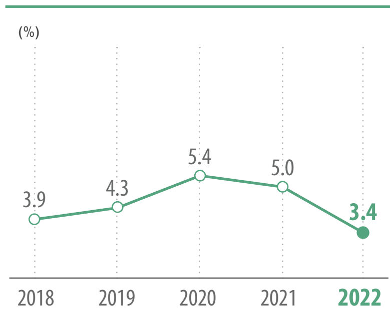
Regarding dividends for the fiscal year under review, we issued an interim dividend of ¥22 (US$0.18) per share and decided to pay an ordinary year-end dividend of ¥25 (US$0.20) per share based on the policy above. As a result, dividends for the full year came to ¥47 (US$0.38).

As a consequence, the dividend payout ratio (consolidated) for the fiscal year under review came to 35.6%.

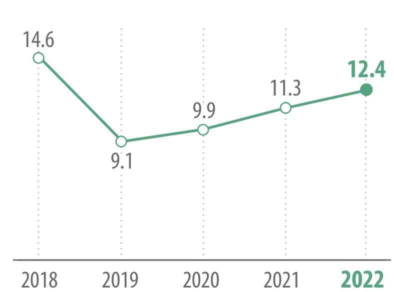
Return on Average Shareholders' Equity



Return on Average Assets (ROA)



Price Earnings Ratio



Consolidated Balance Sheet

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2022

ASSETS	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥23,359	¥22,914	$190,825
Receivables (Note 16):			
Trade notes	4,102	4,127	33,511
Electronically recorded monetary claims—operating	3,335	3,426	27,242
Trade accounts	11,425	11,779	93,333
Associated companies (Note 22)	1,403	1,532	11,461
Other	116	145	949
Allowance for doubtful receivables	(5)	(5)	(37)
Inventories (Note 6)	12,861	10,276	105,061
Prepaid expenses and other current assets	276	250	2,259
Total current assets	56,872	54,444	464,604
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,067	5,047	41,391
Buildings and structures	14,120	13,533	115,352
Machinery and equipment (Note 15)	8,593	8,389	70,202
Furniture and fixtures	2,129	2,002	17,389
Construction in progress	320	20	2,613
Total	30,229	28,991	246,947
Accumulated depreciation	(15,464)	(14,027)	(126,331)
Net property, plant and equipment	14,765	14,964	120,616
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 16)	7,203	7,899	58,847
Investments in associated companies (Note 7)	889	852	7,262
Deferred tax assets (Note 12)	226	188	1,847
Other assets (Note 15)	820	710	6,693
Total investments and other assets	9,138	9,649	74,649
TOTAL	¥80,775	¥79,057	$659,869

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	¥210	¥210	$1,716
Current portion of long-term debt (Notes 8, 15 and 16)	20	1,122	163
Payables (Note 16):			
Trade notes	803	993	6,560
Electronically recorded obligations—operating	2,554	1,992	20,865
Trade accounts	8,220	7,751	67,155
Associated companies	3	29	28
Other	207	321	1,690
Accrued income taxes (Note 12)	405	979	3,307
Accrued expenses	1,263	1,236	10,316
Provision for product warranties	98	127	802
Other current liabilities	487	675	3,971
Total current liabilities	14,270	15,435	116,573
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8, 15 and 16)	1,141	267	9,318
Liability for retirement benefits (Note 10)	458	401	3,745
Deferred tax liabilities (Note 12)	1,113	1,359	9,095
Other long-term liabilities	32	31	260
Total long-term liabilities	2,744	2,058	22,418
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15, 17 and 18)			
EQUITY (Note 11):			
Common stock—authorized, 97,811,000 shares; issued, 22,859,660 shares in 2022 and 22,859,660 shares in 2021	1,955	1,955	15,970
Capital surplus	1,789	1,779	14,612
Retained earnings	56,501	54,766	461,571
Treasury stock—at cost, 2,140,078 shares in 2022 and 2,003,959 shares in 2021 (Note 4)	(2,598)	(2,351)	(21,227)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,209	3,643	26,219
Foreign currency translation adjustments	591	(416)	4,827
Defined retirement benefit plans	(34)	(11)	(276)
Total	61,413	59,365	501,696
Noncontrolling interests	2,348	2,199	19,182
Total equity	63,761	61,564	520,878
TOTAL	¥80,775	¥79,057	$659,869

Consolidated Statement of Income and Comprehensive Incor

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET SALES (Notes 13, 21 and 22)	¥55,168	¥55,007	$450,684
COST OF SALES	43,449	41,683	354,945
Gross profit	11,719	13,324	95,739
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	8,065	7,991	65,891
Operating income	3,654	5,333	29,848
OTHER INCOME (EXPENSES):			
Interest and dividend income	226	212	1,850
Interest expense	(38)	(56)	(314)
Gain on sale of property, plant and equipment	4	0	34
Loss on sale or disposal of property, plant and equipment	(43)	(8)	(354)
Loss from remittance fraud in foreign subsidiary	(102)		(836)
Foreign exchange gain	33	16	268
Equity in earnings of associated companies	42	46	343
Rent income	82	78	668
Commitment fee	(7)	(7)	(57)
Gain on sale of investment securities	29	40	235
Other—net	36	24	309
Other income—net	262	345	2,146
INCOME BEFORE INCOME TAXES	3,916	5,678	31,994
INCOME TAXES (Note 12):			
Current	1,230	1,736	10,049
Deferred	(36)	(14)	(295)
Total income taxes	1,194	1,722	9,754
NET INCOME	2,722	3,956	22,240
NET INCOME ATTRIBUTABLE TO:			
Owners of the parent	2,753	3,860	22,491
Noncontrolling interests	(31)	96	(251)
NET INCOME—(Forward)	¥2,722	¥3,956	$22,240
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(434)	1,064	(3,541)
Foreign currency translation adjustments	1,219	(780)	9,958
Defined retirement benefit plans	(23)	22	(190)
Share of other comprehensive (loss) income in associates	(0)	4	(4)
Total other comprehensive income	762	310	6,223
COMPREHENSIVE INCOME	¥3,484	¥4,266	$28,463
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥3,304	¥4,284	$26,991
Noncontrolling interests	180	(18)	1,472
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.u and 20):			
Basic net income	¥132.02	¥185.13	$1.08
Cash dividends applicable to the year	47.00	47.00	0.38

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2022

	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, 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, ¥46 per share				(997)					(997)		(997)
Purchase of treasury stock	(0)				(1)				(1)		(1)
Selling of treasury stock	11				15				15		15
Disposal of treasury shares to stock benefit trust											
Net change in the year						1,068	(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
Net income attributable to owners of the parent				2,753					2,753		2,753
Cash dividends, ¥47 per share				(1,018)					(1,018)		(1,018)
Purchase of treasury stock	(150)				(254)				(254)		(254)
Selling of treasury stock	14				17				17		17
Disposal of treasury shares to stock benefit trust			10		(10)						
Net change in the year						(434)	1,007	(23)	550	149	699
BALANCE, MARCH 31, 2022	20,720	¥1,955	¥1,789	¥56,501	¥(2,598)	¥3,209	¥591	¥(34)	¥61,413	¥2,348	¥63,761

	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, 2021	$15,970	$14,537	$447,399	$(19,204)	$29,765	$(3,407)	$(87)	$484,973	$17,962	$502,935
Net income attributable to owners of the parent			22,491					22,491		22,491
Cash dividends, $0.38 per share			(8,319)					(8,319)		(8,319)
Purchase of treasury stock				(2,087)				(2,087)		(2,087)
Selling of treasury stock				139				139		139
Disposal of treasury shares to stock benefit trust		75		(75)						
Net change in the year					(3,546)	8,234	(189)	4,499	1,220	5,719
BALANCE, MARCH 31, 2022	$15,970	$14,612	$461,571	$(21,227)	$26,219	$4,827	$(276)	$501,696	$19,182	$520,878

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes	¥3,916	¥5,678	$31,994
Adjustments for:			
Income taxes paid	(1,800)	(1,805)	(14,705)
Depreciation and amortization	1,361	1,167	11,119
Loss on sale or disposal of property, plant and equipment—net	39	8	320
Gain on sale of investment securities	(29)	(40)	(235)
Equity in earnings of associated companies	(42)	(46)	(343)
Changes in assets and liabilities, net of effects:			
Decrease in trade notes and accounts receivable	933	63	7,619
Increase in inventories	(2,119)	(32)	(17,307)
Decrease in interest and dividends receivable	12	13	101
Increase in trade notes and accounts payable	534	25	4,364
(Decrease) increase in provision for allowance for doubtful accounts	(1)	0	(4)
Increase in liability for retirement benefits	8	7	69
Other—net	(116)	(97)	(969)
Total adjustments	(1,220)	(737)	(9,971)
Net cash provided by operating activities	2,696	4,941	22,023
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(800)	(1,844)	(6,539)
Purchases of investment securities	(3)	(3)	(21)
Proceeds from sales of investment securities	82	135	667
Investment in loans receivable	(1)	(1)	(7)
Collections of loans receivable	4	3	29
Other—net	(101)	(38)	(822)
Net cash used in investing activities	(819)	(1,748)	(6,693)
FINANCING ACTIVITIES:			
Decrease in short-term loans—net	(0)		(1)
Proceeds from long-term debt	783		6,393
Repayments of long-term debt	(1,107)		(9,045)
Purchases of treasury stock	(255)	(1)	(2,087)
Dividends paid	(1,018)	(997)	(8,319)
Other—net	(47)	(88)	(369)
Net cash used in financing activities	(1,644)	(1,086)	(13,428)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	212	(247)	1,734
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥445	¥1,860	$3,636
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,914	21,054	187,189
CASH AND CASH EQUIVALENTS, END OF YEAR	¥23,359	¥22,914	$190,825

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Denyo Co., Ltd. and Subsidiaries · Year Ended March 31, 2022

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 ¥122.41 to $1, the approximate rate of exchange at March 31, 2022. 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, 2022, 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.

Effective April 1, 2021, the Company applied ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and revised related ASBJ Statements and ASBJ Guidance (the “New Accounting Standards”). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the previous accounting standards, nonmarketable available-for-sale securities are stated at cost. The Company applied the New Accounting Standards prospectively. As a result, there is no impact on the financial statements *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 exapected 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. ***Revenue Recognition—***The Group manufactures and sells industrial electrical machineries, such as engine-driven generators, engine-driven welders and engine-driven compressors, sells parts related to these products, and provides installation services. The Group identifies its performance obligations as the provision of products or services that meet the specifications and quality promised to customers. The sales contracts with customers include the Group's obligation to guarantee that the products continually conform to the agreed specifications within the certain warranty period after the sales, but do not include the guarantee as additional services to customers. So the provision for product warranties is recorded to provide for future costs related to these warranties.

Revenue from the sales of products and parts is recognized at the time the products and parts are delivered to customers because the Group determines that customers obtain control of the products and parts, and the performance obligations are satisfied at the time of delivery of the products and parts based on the contract terms. However, for sales in Japan, a period between shipping and the transfer of control is typical in most cases, revenue is mainly recognized at the time of shipping.

Revenue from the services such as installation works is mainly recognized at the time of inspection by customers because the Group determines that the performance obligations are satisfied at the time of completion of services.

To determine a transaction price, variable consideration such as discount, rebate and incentive payment is deducted from consideration promised in the contract with customers. The Group usually receives consideration within one year after the performance obligations are satisfied according to payment terms separately set forth, which does not include a significant financing component.

For subcontract processing transactions with supply of materials for value that are repurchase agreements, the outstanding supplies at recipient of supplies is recognized as inventories. At the same time, the amount equivalent to the outstanding supplies at recipient of supplies is recognized as "Liabilities for subcontract processing transactions with supply of materials for value."

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

o. ***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.

p. *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.

q. *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.

r. *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.

s. *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.

t. *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.

u. *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.

3. ACCOUNTING CHANGE

Effective April 1, 2021, the Group adopted ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition,” issued on March 31, 2020 (“ASBJ Statement No. 29”) and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers.

As a result, incentive compensation and sales discounts, which had been recorded in selling, general and administrative expenses or other expenses, are now deducted from net sales. Furthermore, for subcontract processing transactions with supply of materials for value that are repurchase agreements, the outstanding supplies at recipient of supplies, which had been recognized extinguishment, is now recognized as inventories and the amount equivalent to the outstanding supplies at recipient of supplies is recognized as “Liabilities for subcontract processing transactions with supply of materials for value.”

In accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the current fiscal year is added to or deducted from retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied from such beginning balance. The new accounting policy is applied from the balance at the beginning of the current fiscal year. However, the new accounting policy was not applied retrospectively to contracts for which almost all revenue amounts were recognized prior to the beginning of the current fiscal year in accordance with the previous treatment, applying the method prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result of this change, net sales, cost of sales and selling, general and administrative expenses decreased by ¥129 million, ¥27 million, and ¥77 million, respectively, while operating income decreased by ¥25 million, and other expenses decreased by ¥22 million, while income before income taxes decreased by ¥3 million. Trade receivables decreased by ¥23 million, and finished products, raw materials and supplies and other current liabilities increased by ¥18 million, ¥45 million and ¥45 million, respectively. There was no effect on the beginning balance of retained earnings and the effect on per share information was immaterial.

4. 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
	2022	2021	2022
Treasury stock	¥500	¥477	$4,085
(Number of shares (thousands of shares))	(769)	(763)	

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Non-current:			
Marketable equity securities	¥6,310	¥7,006	$51,553
Nonmarketable equity securities	893	893	7,294
Total	¥7,203	¥7,899	$58,847

The cost and aggregate fair values of marketable and investment securities at March 31, 2022 and 2021, were as follows:

	Millions of Yen			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—				
Equity securities	¥1,807	¥4,509	¥6	¥6,310
March 31, 2021				
Securities classified as available-for-sale—				
Equity securities	¥1,858	¥5,156	¥8	¥7,006

	Thousands of U.S. Dollars			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—				
Equity securities	$14,767	$36,834	$48	$51,553

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
March 31, 2022	Proceeds	Realized Gains	Realized Loss	Proceeds	Realized Gains	Realized Loss
Available-for-sale—Equity securities	¥82	¥29		$667	$235	
March 31, 2021						
Available-for-sale—Equity securities	¥135	¥40				

6. INVENTORIES

Inventories at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products and merchandise	¥5,087	¥4,636	$41,552
Work in process	1,724	1,566	14,086
Raw materials and supplies	6,050	4,074	49,423
Total	¥12,861	¥10,276	$105,061

7. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Investments–New Japan Machinery Corporation	¥889	¥852	¥7,262
Total	¥889	¥852	¥7,262

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

Short-term bank loans at March 31, 2022 and 2021, consisted of bank overdrafts. The weighted-average interest rates applicable to the short-term bank loans were 0.4% and 0.5% at March 31, 2022 and 2021 , respectively.

Long-term debt at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unsecured loans from banks, with interest rate at 1.0% and 3.4% (2022 and 2021)	¥857	¥ 1,107	$7,000
Lease obligations	304	282	2,481
Total	1,161	1,389	9,481
Less current portion	(20)	(1,122)	(163)
Long-term debt, less current portion	¥1,141	¥267	$9,318

Annual maturities of long-term debt at March 31, 2022, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥20	$163
2024	18	147
2025	19	155
2026	873	7,133
2027	15	122
2028 and thereafter	216	1,761
Total	¥1,161	$9,481

9. 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 ($24,508 thousand) as of March 31, 2022. The Company had no borrowings outstanding under the agreement as of March 31, 2022.

10.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, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥2,692	¥2,779	$21,990
Current service cost	182	165	1,486
Interest cost	25	24	203
Actuarial losses (gains)	37	(7)	300
Benefits paid	(240)	(261)	(1,958)
Others	16	(8)	131
Balance at end of year	¥2,712	¥2,692	$22,152

(2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥2,451	¥2,494	$20,024
Expected return on plan assets	28	31	228
Actuarial losses	(33)	(6)	(270)
Contributions from the employer	208	193	1,702
Benefits paid	(231)	(261)	(1,886)
Others	1		5
Balance at end of year	¥2,424	¥2,451	$19,803

(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
	2022	2021	2022
Funded defined benefit obligation	¥2,634	¥2,610	$21,521
Plan assets	2,424	2,451	19,803
Total	210	159	1,718
Unfunded defined benefit obligation	77	82	631
Liability for stock granting retirement	171	160	1,396
Net liability arising from defined benefit obligation	¥458	¥401	$3,745

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Liability for retirement benefits	¥458	¥401	$3,745
Net liability arising from defined benefit obligation	¥458	¥401	$3,745

(4) The components of net periodic benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥182	¥166	$1,486
Interest cost	25	24	203
Expected return on plan assets	(28)	(31)	(228)
Recognized actuarial losses	36	30	296
Stock granting cost	50	43	410
Net periodic benefit costs	¥265	¥232	$2,167

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Actuarial (gains) losses	¥(33)	¥32	$(274)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized actuarial gains	¥(49)	¥(15)	$(398)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2022 and 2021, consisted of the following:

	2022	2021
General account managed by a life insurance company	97.2%	99.8%
Other	2.8	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, 2022 and 2021, are set forth as follows:

	2022	2021
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%

11. 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.

12. 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, 2022 and 2021.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2022 and 2021, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Accrued bonuses	¥197	¥194	$1,611
Provision for product warranties	35	44	282
Accrued enterprises taxes	43	74	353
Unrealized gain on sale of inventory	121	51	987
Unrealized gain on sale of property	19	21	154
Liability for retirement benefits	113	108	922
Loss on revaluation of investment securities	77	77	631
Tax loss carryforwards	32	7	262
Other	251	235	2,052
Less valuation allowance	(92)	(90)	(752)
Total	796	721	6,502
Deferred tax liabilities:			
Reserve for deferred gains on sales of property	346	346	2,831
Unrealized gain on available-for-sale securities	1,305	1,517	10,662
Other	32	29	257
Total	1,683	1,892	13,750
Net deferred tax liabilities	¥(887)	¥(1,171)	$(7,248)

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, 2022 and 2021, is less than 5% of the normal effective statutory tax rate, a reconciliation is omitted.

At March 31, 2022, some subsidiaries have tax loss carryforwards aggregating approximately ¥66 million ($537 thousand) which are available to be offset against taxable income of such subsidiaries in future years.

13. REVENUE

(1) Disaggregation of Revenues

Revenues from contracts with customers on a disaggregated basis for the years ended March 31, 2022 and 2021, were as follows:

(a) Sales results by product

	Millions of Yen					Thousands of U.S. Dollars				
2022	Generators	Welders	Compressors	Others	Total	Generators	Welders	Compressors	Others	Total
Products and services	¥43,754	¥4,830	¥727	¥5,857	¥55,168	$357,440	$39,457	$5,940	$47,847	$450,684
Revenues from contracts with customers	43,754	4,830	727	5,857	55,168	357,440	39,457	5,940	47,847	450,684
Other revenue										
Total	¥43,754	¥4,830	¥727	¥5,857	¥55,168	$357,440	$39,457	$5,940	$47,847	$450,684
2021										
Products and services	¥44,020	¥4,387	¥755	¥5,845	¥55,007					
Revenues from contracts with customers	44,020	4,387	755	5,845	55,007					
Other revenue										
Total	¥44,020	¥4,387	¥755	¥5,845	¥55,007					

(b) Sales results by region

	Millions of Yen					Thousands of U.S. Dollars				
2022	Japan	North and Central America	Asia	Other Areas	Total	Japan	North and Central America	Asia	Other Areas	Total
Products and services	¥34,632	¥13,053	¥4,596	¥2,887	¥55,168	$282,920	$106,633	$37,547	$23,584	$450,684
Revenues from contracts with customers	34,632	13,053	4,596	2,887	55,168	282,920	106,633	37,547	23,584	450,684
Other revenue										
Total	¥34,632	¥13,053	¥4,596	¥2,887	¥55,168	$282,920	$106,633	$37,547	$23,584	$450,684
2021										
Products and services	¥37,737	¥10,898	¥3,948	¥2,424	¥55,007					
Revenues from contracts with customers	37,737	10,898	3,948	2,424	55,007					
Other revenue										
Total	¥37,737	¥10,898	¥3,948	¥2,424	¥55,007					

(2) Basic Information to Understand Revenues from Contracts with Customers

Basic information to understand revenues from contracts with customers is as stated in Note 2.m.

(3) Contract Balances

Contract liabilities consist mainly of advances received from customers before the performance obligations are satisfied and are reversed according to the recognition of revenue.

Contract liabilities at the beginning and end of the year are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Contract liabilities:		
Balance at beginning of year	¥100	$814
Balance at end of year	91	743

Of revenue recognized during the current fiscal year, the amount included in the balance at beginning of year was ¥91 million ($742 thousand).

(4) Transaction Prices Allocated to Remaining Performance Obligations

There were no significant contracts having an original expected duration of over one year at end of current fiscal year. For contracts with an initially anticipated contract period within one year, description of transaction price allocated to remaining performance obligations of the Group has been omitted applying a practical expedient. Moreover, there were not any material consideration from contracts with customers which was not included in the transaction price.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥608 million ($4,969 thousand) and ¥604 million for the years ended March 31, 2022 and 2021, respectively.

15. LEASES

The Group leases certain vehicles and other assets under finance leases. Also, 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 obligations were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Due within one year	¥20	¥15	$163
Due after one year	284	267	2,318
Total	¥304	¥282	$2,481

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets such as commercial paper. 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 17.

(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 and half years after the balance sheet date. A part of such bank loans is exposed to market risks from changes in variable interest rates.

Derivatives mainly include interest rate swaps, commodity swaps, forward foreign currency 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 17 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 are used for some foreign currency trade receivables and advances.

The Company keeps its borrowings within acceptable limits and uses derivatives of interest rate swaps as necessary to manage exposure to market risks from changes in interest rates of loan payables. And the Company uses commodity swaps 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 as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, receivables (trade notes, electronically recorded monetary claims-operating and trade accounts), payables (trade notes, electronically recorded obligations-operating and trade accounts) and short-term bank loans are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 17 for details of the fair values of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	¥6,310	¥6,310	
Total	6,310	6,310	
Long-term debt	¥857	¥857	
Total	¥857	¥857	
March 31, 2021			
Investment securities	¥7,006	¥7,006	
Total	7,006	7,006	
Long-term debt	¥1,107	¥1,107	
Total	¥1,107	¥1,107	
Derivatives	¥(107)	¥(107)	

	Thousands of U.S. Dollars		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Investment securities	$51,553	$51,553	
Total	$51,553	$51,553	
Long-term debt	$7,000	$7,000	
Total	$7,000	$7,000	

(b) Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unlisted equity instruments	¥893	¥893	$7,294

(c) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2022	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	¥22,359		$182,656	
Receivables	20,265		165,547	
Total	¥42,624		$348,203	
March 31, 2021				
Cash and cash equivalents	¥22,914			
Receivables	21,004			
Total	¥43,918			

Please see Note 8 for annual maturities of long-term debt and Note 15 for lease obligations.

(5) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2022	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable and investment securities—								
Investment securities	¥6,310			¥6,310	$51,553			$51,553
Total assets	¥6,310			¥6,310	$51,553			$51,553

(b) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2022	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable and investment securities—								
Commercial paper		¥1,000		¥1,000		$8,169		$8,169
Total assets		¥1,000		¥1,000		$8,169		$8,169
Long-term debt		¥857		¥857		$7,000		$7,000
Total liabilities		¥857		¥857		$7,000		$7,000

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and Investment Securities

The fair values of commercial paper approximate carrying amounts because of its short maturities. Therefore, the carrying amounts are regarded as the fair values. The fair values of investment securities are measured at the quoted market prices. Since listed investment securities are traded in active markets, the fair values are categorized as Level 1. The fair values of other securities are classified as Level 2.

Long-Term Debt

The fair values of long-term debt are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount, and are classified as Level 2. However, the fair values of long-term debt on floating rate approximate carrying amounts because it reflects market interest rates in short times. Therefore, the carrying amounts are regarded as the fair values.

17. 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, 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, 2022	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.$								
Currency swap contracts—								
Selling U.S.$								
March 31, 2021								
Foreign currency forward contracts—								
Selling U.S.$	¥1,016		¥(90)	¥(90)				
Currency swap contracts—								
Selling U.S.$	49		(16)	(16)				

Derivative Transactions to Which Hedge Accounting Is Applied

		Thousands of U.S. Dollars		
March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed rate payment,floating rate receipt)				
March 31, 2021				
Interest rate swaps (fixed rate payment,floating rate receipt)	Long-term debt	$ 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 16 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.

18. CONTINGENT LIABILITIES

At March 31, 2022, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Export trade bill discounted	¥176	$1,441

19. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income, including reclassification adjustments and tax effects for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥(617)	¥1,514	$(5,037)
Reclassification adjustments to profit or loss	(29)	(40)	(235)
Amount before income tax effect	(646)	1,474	(5,272)
Income tax effect	212	(410)	1,731
Total	¥(434)	¥1,064	$(3,541)
Foreign currency translation adjustments—			
Adjustments arising during the year	¥1,219	¥(780)	$9,958
Total	¥1,219	¥(780)	$9,958
Defined retirement benefit plans:			
Adjustments arising during the year	¥(49)	¥13	$(403)
Reclassification adjustments to profit or loss	16	19	129
Amount before income tax effect	(33)	32	(274)
Income tax effect	10	(10)	84
Total	¥(23)	¥22	$(190)
Share of other comprehensive income (loss) in associates—(Losses) gains arising during the year	¥(0)	¥4	$(4)
Total	¥(0)	¥4	$(4)
Total other comprehensive income	¥762	¥310	$6,223

20. NET INCOME PER SHARE

Basis for the computation of net income per share ("EPS") for the years ended March 31, 2022 and 2021, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2022	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥2,753	20,853	¥132.02	$1.08
Year Ended March 31, 2020				
Basic EPS—Net income available to common shareholders	¥3,860	20,851	¥185.13	

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 (761 thousand shares in 2022 and 768 thousand shares in 2021) is reflected.

21. 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						
	2022						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥43,228	¥8,685	¥3,120	¥135	¥55,168		¥55,168
Intersegment sales or transfers	4,312	312	4,497	5	9,126	¥(9,126)	
Total	¥47,540	¥8,997	¥7,617	¥140	¥64,294	¥(9,126)	¥55,168
Segment profit (loss)	¥3,290	¥(112)	¥489	¥(14)	¥3,653	¥1	¥3,654
Segment assets	67,414	7,805	10,926	476	86,621	(5,846)	80,775
Other:							
Depreciation and amortization	840	237	284	0	1,361		1,361
Investments in associated companies	889				889		889
Increase in property, plant and equipment and intangible assets	796	15	28		839		839

	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

	Thousands of U.S. Dollars						
	2022						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	$353,143	$70,945	$25,489	$1,107	$450,684		$450,684
Intersegment sales or transfers	35,222	2,552	36,736	37	74,547	$(74,547)	
Total	$388,365	$73,497	$62,225	$1,144	$525,231	$(74,547)	$450,684
Segment profit (loss)	$26,874	$(916)	$3,997	$(113)	$29,842	$6	$29,848
Segment assets	550,722	63,758	89,258	3,890	707,628	(47,759)	659,869
Other:							
Depreciation and amortization	6,860	1,936	2,322	1	11,119		11,119
Investments in associated companies	7,262				7,262		7,262
Increase in property, plant and equipment and intangible assets	6,503	127	227		6,857		6,857

Related Information

(1) Information about Products and Services

Information about products and services for the years ended March 31, 2022 and 2021, 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 Major Customers

Sales to major customers for the years ended March 31, 2022 and 2021, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Name of Customers	2022	2021	2022	Related Segment
Multiquip Inc.	¥8,685	¥8,750	$70,945	United States of America

22. 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, 2022 and 2021, and related balances at March 31, 2022 and 2021, were mainly as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Transactions—Sales	¥2,085	¥2,287	$17,032
Balances:			
Trade notes receivable		¥1,103	
Trade accounts receivable	¥429	347	$3,508
Electronically recorded monetary claims—operating	958		7,827

23. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2022, was approved at the Company's Board of Directors' meeting held on May 17, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.20) per share	¥538	$4,399

* * * * * *

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, 2022, 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, 2022, 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 and comprehensive income, the Group recorded sales of ¥55,168 million for the fiscal year ended March 31, 2022, of which the Company accounted for 69% before eliminating internal transactions. The Company manufactures and sells industrial electrical machineries, such as engine-driven generators, engine-driven welders and enginedriven compressors, sells parts related to these products, and provides installation services. Revenue from the sales of products and parts is mainly recognized at the time of shipping. However, if services such as installation works are stipulated in the contract, revenue is mainly recognized at the time of inspection by customers because the Company determines that the performance obligations are satisfied at the time of completion of services. 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 whether the performance obligation was satisfied at the timing 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 satisfaction 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 controls that inspect documents such as delivery notes and inspection reports that are the basis for recording sales, depending on the contract details to determine the satisfaction of the contractual obligation. (3) Based on sales data extracted from core business-related systems, for each sales department, we performed a comparison analysis of sales and gross profit between the current period and the previous period and analyzed data using plot charts, and selected transactions that require careful judgments in identifying and satisfying performance 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 management in 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 satisfied. In addition, the documents that serve as the basis for revenue recognition, such as delivery notes and inspection reports, were inspected to determine that the requirements for revenue recognition were met.

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 27, 2022

Deloitte Touche Tohmatsu LLC

Company Data

Company outline (As of March 31, 2022)

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.$ 15,969,557)
Authorized Shares	97,811,000
Issued Shares	22,859,660
Shareholders	5,694
Financial Year	April 1 to March 31
Employees	582 (1,359 consolidated)
Branch and Sales Offices	21

Directors, Audit Supervisory Board Members (As of June 29, 2022)

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**	

Executive Officers

Senior Executive Officer	**Yukio Nunogami**	General Manager, West Japan Sales 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, 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
Executive Officer	**Kenjiro Shirai**	General Manager, Finance Department Administration Division
Executive Officer	**Koji Ikeda**	Deputy General Manager, East Japan Sales Department Sales Division
Executive Officer	**Yoshihisa Furuta**	Director of Denyo Kosan Co., Ltd.

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

Investor Information

(As of March 31, 2022)

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: 1,191,972 (Included 1,322,238 shares of Company's own stock)
Stock Listing	Tokyo Stock Exchange, First Section (Code: 6517)
Shareholders	5,694
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, 2022)

Shareholders	Shares Held (Thousands)	Voting Right Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,141	9.94
The SFP Value Realization Master Fund Ltd.	1,484	6.89
Kyuei Corporation	1,417	6.58
Mizuho Trust & Banking Co., Ltd.	1,082	5.02
The Dai-ichi Life Insurance Co., Ltd.	872	4.04
Custody Bank of Japan, Ltd. (Trust E Account)	769	3.57
Denyo Shin-eikai Group	668	3.10
Custody Bank of Japan, Ltd. (Trust Account)	558	2.59
Tsurumi Manufacturing Co., Ltd.	543	2.52
MUFG Bank, Ltd.	540	2.50

Denyo Co.,Ltd.

https://www.denyo.co.jp

Head Office

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

Tel

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