Torishima Pump Mfg. Co., Ltd.

Consolidated Financial Statements for the Year Ended March 31, 2019, and Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Elgala
1-4-2 Tenjin, Chuo-ku
Fukuoka-shi, Fukuoka 810-0001
Japan

Tel: +81 (92) 751 0931
Fax: +81 (92) 751 1035
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Torishima Pump Mfg. Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Torishima Pump Mfg. Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Torishima Pump Mfg. Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their 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.

Deloitte Touche Tohmatsu LLC

June 27, 2019

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2019

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 11)	¥ 15,924	¥ 11,379	$ 143,459
Short-term investments	7	94	63
Receivables:			
Trade (Note 11)	25,777	26,644	232,225
Unconsolidated subsidiaries and associated companies	1	173	9
Other	595	188	5,360
Allowance for doubtful accounts	(966)	(841)	(8,702)
Inventories (Note 4)	8,328	9,530	75,027
Advance payments	624	661	5,621
Other current assets	705	723	6,351
Total current assets	50,998	48,556	459,441
PROPERTY, PLANT AND EQUIPMENT (Note 17):			
Land (Note 5)	2,484	2,490	22,378
Buildings and structures (Note 5)	10,658	10,084	96,018
Machinery and equipment (Note 5)	14,269	13,491	128,549
Construction in progress	225	102	2,027
Lease assets	815	715	7,342
Total	28,453	26,883	256,333
Accumulated depreciation	(18,297)	(17,252)	(164,837)
Net property, plant and equipment	10,156	9,631	91,495
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 11)	8,120	9,137	73,153
Investments in and advances to unconsolidated subsidiaries and associated companies	1,595	1,544	14,369
Software	822	1,293	7,405
Asset for retirement benefits (Note 6)	455	597	4,099
Deferred tax assets (Note 9)	105	86	945
Other assets	420	324	3,783
Total investments and other assets	11,519	12,983	103,774
TOTAL	¥ 72,674	¥ 71,171	$ 654,720

LIABILITIES AND EQUITY	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Short-term borrowings (Notes 5 and 11)	¥ 1,639	¥ 1,627	$ 14,765
Current portion of long-term debt (Notes 5 and 11)	970	2,703	8,738
Payables:			
Trade (Note 11)	11,118	10,975	100,162
Unconsolidated subsidiaries and associated companies	28	23	252
Other	1,328	1,460	11,963
Advances received from customers	2,292	3,091	20,648
Income taxes payable	140	379	1,261
Allowance for product warranties	797	722	7,180
Allowance for losses on construction contracts	584	1,635	5,261
Accrued expenses	1,407	1,401	12,675
Other current liabilities	205	110	1,846
Total current liabilities	20,513	24,130	184,801
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 and 11)	15,816	11,393	142,486
Liability for retirement benefits (Note 6)	303	319	2,729
Deferred tax liabilities (Note 9)	659	928	5,936
Other long-term liabilities	432	382	3,891
Total long-term liabilities	17,212	13,023	155,063
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)			
EQUITY (Notes 7, 8, and 15):			
Common stock, authorized, 60,000 thousand shares; issued 29,889 thousand shares in 2019 and 2018	1,592	1,592	14,342
Capital surplus	7,621	7,604	68,657
Stock acquisition rights	121	142	1,090
Retained earnings	24,793	23,138	223,360
Treasury stock—at cost 2,528 thousand shares in 2019 and 2,726 thousand shares in 2018	(1,736)	(1,841)	(15,639)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,638	2,039	14,756
Deferred gain on derivatives under hedge accounting	(59)	72	(531)
Foreign currency translation adjustments	420	621	3,783
Defined retirement benefit plans	381	461	3,432
Total	34,773	33,832	313,270
Non-controlling interests	174	184	1,567
Total equity	34,947	34,017	314,837
TOTAL	¥ 72,674	¥ 71,171	$ 654,720

See notes to consolidated financial statements.

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES (Note 17)	¥ 48,154	¥ 45,381	$ 433,819
COST OF SALES	36,391	34,426	327,846
Gross profit	11,763	10,954	105,972
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	10,032	9,697	90,378
Operating income	1,731	1,257	15,594
OTHER INCOME:			
Interest and dividend income	291	267	2,621
Interest expense	(128)	(120)	(1,153)
Loss on valuation of investment securities (Note 3)	(14)		(126)
Loss on valuation of shares of subsidiaries and associates	(28)	(104)	(252)
Loss on foreign exchange—net	(75)	(94)	(675)
Rent income	131	143	1,180
Equity in earnings of associated companies	99	96	891
Gain on sales of consolidated subsidiaries	9		81
Other—net	240	(1)	2,162
Other income—net	523	187	4,711
INCOME BEFORE INCOME TAXES	2,254	1,444	20,306
INCOME TAXES (Note 9):			
Current	107	385	963
Deferred	(7)	183	(63)
Total income taxes	100	569	900
NET INCOME	2,154	875	19,405
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	28	(20)	252
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,183	¥ 854	$ 19,666

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.w and 15):			
Basic net income	¥ 80.18	¥ 31.51	$ 0.72
Diluted net income	¥ 79.84	¥ 31.35	$ 0.72
Cash dividends applicable to the year	¥ 25.00	¥ 18.00	$ 0.23

See notes to consolidated financial statements.

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥ 2,154	¥ 875	$ 19,405
OTHER COMPREHENSIVE (LOSS) INCOME (Note 13):			
Unrealized (loss) gain on available-for-sale securities	(401)	206	(3,612)
Deferred (loss) gain on derivatives under hedge accounting	(132)	65	(1,189)
Foreign currency translation adjustments	(212)	(140)	(1,909)
Defined retirement benefit plans	(80)	153	(720)
Share of other comprehensive (loss) gain in associates	(1)	3	(9)
Total other comprehensive (loss) income	(828)	290	(7,459)
COMPREHENSIVE INCOME	¥ 1,326	¥ 1,165	$ 11,945
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 1,367	¥ 1,160	$ 12,315
Non-controlling interests	(41)	5	(369)

See notes to consolidated financial statements.

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2019

	Thousands		Millions of Yen											
								Accumulated Other Comprehensive Income						
	Issued Number of Shares of Common Stock	Number of Shares of Treasury Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, APRIL 1, 2017	29,889	(2,781)	¥ 1,592	¥ 7,769	¥ 118	¥ 22,774	¥ (1,904)	¥ 1,832	¥ 6	¥ 743	¥ 307	¥ 33,243	¥ 470	¥ 33,713
Net income attributable to owners of the parent						854						854		854
Cash dividends, ¥18.00 per share						(491)						(491)		(491)
Purchase of treasury stock		(0)					(0)					(0)		(0)
Disposal of treasury stock		54					62					63		63
Change in the parent's ownership interest due to transactions with non-controlling interests				(165)								(165)		(165)
Net change in the year					23			207	65	(121)	153	329	(285)	43
BALANCE, MARCH 31, 2018	29,889	(2,726)	¥ 1,592	¥ 7,604	¥ 142	¥ 23,138	¥ (1,841)	¥ 2,039	¥ 72	¥ 621	¥ 461	¥ 33,832	¥ 184	¥ 34,017
Net income attributable to owners of the parent						2,183						2,151		2,151
Cash dividends, ¥18.00 per share						(492)						(496)		(496)
Purchase of treasury stock		(0)					(0)					(0)		(0)
Disposal of treasury stock		198					105					105		105
Change in the parent's ownership interest due to transactions with non-controlling interests				17								17		17
Net change in the year					(21)	(35)		(401)	(132)	(201)	(80)	(837)	(9)	(846)
BALANCE, MARCH 31, 2019	29,889	(2,528)	¥ 1,592	¥ 7,621	¥ 121	¥ 24,793	¥ (1,736)	¥ 1,638	¥ (59)	¥ 420	¥ 381	¥ 34,773	¥ 174	¥ 34,947

	Thousands of U.S. Dollars (Note 1)											
						Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, MARCH 31, 2018	$ 14,342	$ 68,504	$ 1,279	$ 208,450	$ (16,585)	$ 18,369	$ 648	$ 5,594	$ 4,153	$ 304,792	$ 1,657	$ 306,459
										19,378		19,378
Net income attributable to owners of the parent				19,666						(4,468)		(4,468)
Cash dividends, $0.16 per share				(4,432)								
Purchase of treasury stock												
Disposal of treasury stock					945					945		945
Change in the parent's ownership interest due to transactions with non-controlling interests		153								153		153
Net change in the year			(189)	(324)		(3,612)	(1,189)	(1,810)	(720)	(7,540)	(81)	(7,621)
BALANCE, MARCH 31, 2019	$ 14,342	$ 68,657	$ 1,090	$ 223,360	$ (15,639)	$ 14,756	$ (531)	$ 3,783	$ 3,432	$ 313,270	$ 1,567	$ 314,837

See notes to consolidated financial statements.

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,254	¥ 1,444	$ 20,306
Adjustments for:			
Income taxes—paid	(404)	(335)	(3,639)
Income taxes—refunded		53	
Depreciation and amortization	1,825	1,636	16,441
Loss on valuation of investment securities	14		126
Gain on sales of shares of subsidiaries and associates	(9)		(81)
Loss on valuation of shares of subsidiaries and associates	28	104	252
Equity in losses of associated companies	(99)	(96)	(891)
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivables	1,065	(3,180)	9,594
Decrease (Increase) in inventories	1,142	(569)	10,288
Decrease (Increase) in advance payments	100	(252)	900
(Decrease) Increase in accounts payable	(271)	1,871	(2,441)
Decrease in advances received from customers	(773)	(1,282)	(6,963)
Increase in allowance for doubtful accounts	96	430	864
Increase (Decrease) in allowance for product warranties	74	(122)	666
(Decrease) Increase in allowance for losses on construction contracts	(1,047)	678	(9,432)
Increase (Decrease) in liability for retirement benefits	42	(26)	378
Other—net	(270)	234	(2,432)
Total adjustments	1,514	(857)	13,639
Net cash provided by operating activities	3,769	587	33,954
INVESTING ACTIVITIES:			
Increase in saving of time deposits	(78)	(136)	(702)
Proceeds from withdrawal of time deposits	108	97	972
Purchases of property, plant and equipment	(1,558)	(715)	(14,036)
Proceeds from sales of property, plant and equipment	11	63	99
Purchases of intangibles	(69)	(167)	(621)
Purchases of investment securities		(305)	
Proceeds from sales of investment securities	390	29	3,513
Proceeds from sales of investment in consolidated subsidiaries	(22)		(198)
Payments of loans receivable	(46)		(414)
Collection of loans receivable	20	16	180
Other	(194)	13	(1,747)
Net cash used in investing activities	(1,438)	(1,105)	(12,954)
FORWARD	¥ 2,330	¥ (517)	$ 20,990

(Continued)

Torishima Pump Mfg. Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
FORWARD	¥ 2,330	¥ (517)	$ 20,990
FINANCING ACTIVITIES:			
Change in short-term borrowings—net	49	59	441
Proceeds from long-term debt	5,307	8,000	47,810
Repayments of long-term debt	(2,814)	(6,004)	(25,351)
Dividends paid	(490)	(491)	(4,414)
Purchase of shares of subsidiaries without change in scope of consolidation		(470)	
Other	99	60	891
Net cash provided by financing activities	2,150	1,153	19,369
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3	(127)	27
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,485	508	40,405
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,379	10,871	102,513
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, INCREASE	59		531
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 15,924	¥ 11,379	$ 143,459

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Torishima Pump Mfg. Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Companies") 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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥111 to $1, the approximate rate of exchange at March 31, 2019. 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.

Japanese yen amounts less than one million yen are rounded down to the nearest million yen, except for per share information. U.S. dollar amounts less than one thousand U.S. dollars are also rounded down to the nearest thousand dollars, except for per share information. Consequently, the totals shown in the consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation - The consolidated financial statements as of March 31, 2019 include the accounts of the Company and its 21 (18 in 2018) significant subsidiaries.

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 Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in zero unconsolidated subsidiaries and four associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of less than 20 years.

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

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—"FASB ASC") 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.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** - ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform associates accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associates financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted 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.

d. ***Business Combinations*** - Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of non-controlling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents*** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits that mature within three months of the date of acquisition.

f. ***Inventories*** - Inventories are stated at the lower of cost, determined by the specific identification method for work in process, and by the moving-average method for other inventories, or net selling value.

g. ***Marketable and Investment Securities*** - Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are not classified as trading 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.

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

i. ***Property, Plant and Equipment*** - Property, plant and equipment are stated at cost.

Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and lease assets based on the estimated useful lives of the assets.

The estimated useful lives of the assets are primarily as follows:

Buildings and structures	10 to 50 years
Machinery and equipment	2 to 20 years
Software	5 to 7 years
Lease assets	Terms of the respective lease

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

k. ***Retirement and Pension Plans*** - The Company has contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans only.

Under the accounting standard for employees' retirement benefits, the liability for employees' retirement benefits is determined based on projected benefit obligations and plan assets at the balance sheet date.

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. 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 and are recognized in profit or loss over 10 years , no longer than the expected average remaining service period of the employees.

l. ***Allowance for Product Warranties*** - The Companies provide an allowance for foreseeable losses arising from product warranties.

m. ***Allowance for Losses on Construction Contracts*** - The Companies provide an allowance for foreseeable losses arising from certain construction contracts.

n. ***Asset Retirement Obligations*** - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period in which the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. ***Stock Options*** - Compensation expense for employee stock options which were granted on or after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

p. ***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 shall record's (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 employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

q. ***Research and Development Costs*** - Research and development costs are charged to income as incurred.

r. ***Construction Contracts*** - Construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied.

s. ***Income Taxes*** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of 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.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of 511 million and deferred tax liabilities of 480 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet.

t. ***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 consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

u. ***Foreign Currency Financial Statements*** - The balance sheet accounts and revenue and expense 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.

v. ***Derivatives and Hedging Activities***

Derivatives under contract
The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:
a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and
b) for derivatives used for hedging purposes, if such 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.

Foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and unrealized gains / losses are recognized in income.

Foreign exchange forward contracts applied for forecasted or committed transactions are also measured at fair value but unrealized gains / losses are deferred until the underlying transactions are completed.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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 are recognized and included in interest expense or income.

Hedging instruments and hedged items
a. Hedging instruments - Foreign exchange forward contracts
Hedged items - Receivables, payables, and their forecasted transactions denominated in foreign currencies

b. Hedging instruments - Interest rate swaps
Hedged items - Long-term debt

Derivative use policy
The Companies manage their derivative financial instruments based on internal rules that define authority and the trading limits.

The Companies use derivatives only for the purpose of hedging market risks associated with assets and liabilities. The Companies do not hold or issue derivatives for trading purposes.

Assessing the effectiveness of hedging
The effectiveness of hedging is assessed by comparing the accumulated cash flows

between the hedging instruments and hedged items. However, with regard to interest rate swaps that meet specific matching criteria, the assessments are omitted.

Risk associated with derivatives
All derivative transactions are entered into to hedge interest rate risk and foreign currency risk exposures incorporated within the business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

w. ***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.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

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

x. ***New Accounting Pronouncements***

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

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

y. Additional Information

Accounting method for ESOP trust - The Company has started to transfer treasury shares to the employee stock ownership plan (ESOP) by using a trust in the current fiscal year. The purpose is to improve benefits for employees.

(a) Summary - To further improve benefits for employees, who play a critical role in our growth, the Board of Directors approved a resolution on November 11, 2016 to establish ESOP trust to serve as an employee incentive plan. The goals of this plan are to make employees more aware of results of operations and shareholder value as well as to achieve medium- to long-term growth in corporate value. A trust has been established that will provide benefits to employees belonging to the employee stock ownership plan who fulfill certain requirements.

(b) Stock remaining in the trust - For the accounting treatment of the ESOP trust, the Company quickly began applying the "Practical Solution for Transactions for Transfers of Company Stock to Employees, Etc. Using a Trust (Practical Issues Task Force No. 30, March 26, 2015)." As a result, the Company and the ESOP trust are treated for accounting purposes as a single unit by using the gross price method. Based on this method, the book value (excluding incidental expenses) of the Company stock held by the ESOP trust is included as "treasury shares" in net assets in the consolidated balance sheets. As of March 31, 2019 and 2018, the ESOP trust held 85,400 shares and 147,200 shares of the Company stock with a book value of ¥98 million ($882 thousand) and ¥170 million, respectively.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Marketable equity securities	¥	¥	$
Total	¥	¥	$
Non-current:			
Marketable equity securities	¥ 6,884	¥ 7,843	$ 62,018
Non-marketable equity securities	1,222	1,276	11,009
Trust funds	14	17	126
Total	¥ 8,120	¥ 9,137	$ 73,153

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, were as follows:

	Millions of Yen			
March 31, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,550	¥ 2,649	¥ 315	¥ 6,884
March 31, 2018				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,931	¥ 3,069	¥ 157	¥ 7,843

	Thousands of U.S. Dollars			
March 31, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 40,990	$ 23,864	$ 2,837	$ 62,018

Information on available-for-sale securities sold during the year ended March 31, 2019 and 2018, is as follows:

	Millions of Yen		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 438	¥ 97	83

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 0	¥ 0	

	Thousands of U.S. Dollars		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 3,945	$ 873	747

No impairment losses on available-for-sale equity securities were recognized for the year ended March 31, 2018. Impairment losses on available-for-sale equity securities for the year ended March 31, 2019 were ¥14 million.

4. INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Merchandise and finished goods	¥ 217	¥ 228	$ 1,954
Work in process	6,462	7,639	58,216
Raw materials and supplies	1,647	1,663	14,837
Total	¥ 8,328	¥ 9,530	$ 75,027

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings generally included overdrafts, which bore interest at the weighted-average interest rates of 2.47 % and 2.08% at March 31, 2019 and 2018, respectively.

Long-term debt at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unsecured loans from banks and other financial institutions,			
Use Yen Cash due through 2029, interest 0.26% - 0.83% (2019) and 0.33% - 0.72% (2018)	¥16,274	¥11,564	$146,612
Secured loans from banks,			
Use Yen Cash, interest 0.48% - 3.25% (2018)		2,100	
Obligations under finance leases	512	431	4,612
Total	16,787	14,096	151,234
Less current portion	(970)	(2,703)	(8,738)
Long-term debt, less current portion	¥15,816	¥11,393	$142,486

At March 31, 2019, property, plant and equipment with a total carrying value of ¥222 million ($2,000thousand) were pledged as collateral for short-term debt of ¥453 million ($4,081thousand).

Annual maturities of long-term debt, excluding finance leases, at March 31, 2019, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 804	$ 7,243
2021	1,948	17,549
2022	2,187	19,702
2023	3,104	27,963
2024	1,104	9,945
2025 and thereafter	7,124	64,180

Annual maturities of lease obligations at March 31, 2019 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 166	$ 1,495
2021	125	1,126
2022	104	936
2023	86	774
2024	29	261

Long-term loans from banks include syndicated loan agreements amounting to ¥2,000 million ($18,018 thousand) at March 31, 2019. In the event that any of the following covenants are violated, the Company may lose the benefit of the term for all the liabilities under these agreements.
These agreements include the following financial restriction provisions:
(1) The amount of equity in the consolidated balance sheet at the end of the fiscal year should be more than 75% of the amount as of the previous year or as of just before the end of the year that the syndicated loan agreements were entered into.
(2) Ordinary income in the consolidated statement of income should not be negative for two consecutive years. Ordinary income means income before income taxes less extraordinary items. The amount of ordinary income in the consolidated statement of income for the year ended March 31, 2019 is ¥2,275 million ($20,495 thousand).

Long-term loans at March 31, 2019 include loan agreements amounting to ¥483 million ($4,351 thousand) that the Company had with lenders on a negotiation basis. In the event that any of the following covenants are violated, the Company may lose the benefit of the term for all the liabilities under these agreements.
These agreements include the following financial restriction provisions:
(1) The amount of equity in the consolidated balance sheet at the end of the fiscal year should be more than 75% of the amount as of the previous year.
(2) Ordinary income in the consolidated statement of income should not be negative for two consecutive years. Ordinary income means income before income taxes less extraordinary items. The amount of ordinary income in the consolidated statement of income for the year ended March 31, 2019 is ¥2,275 million ($20,495 thousand).

6. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

The Company has contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans only.

The liability for retirement benefits for subsidiaries’ directors was ¥1 million ($9 thousand) and ¥19 million at March 31, 2019 and 2018, respectively.

The liability for employees' retirement benefits at March 31, 2019 and 2018, consisted of the following:

(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 4,208	¥ 4,096	$ 37,909
Current service cost	473	337	4,261
Interest cost	52	55	468
Actuarial (gains) losses	(13)	23	(117)
Benefits paid	(249)	(304)	(2,243)
Change in scope of consolidation	(6)	-	(54)
Balance at end of year	¥ 4,465	¥ 4,208	$ 40,225

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 4,505	¥ 4,150	$ 40,585
Expected return on plan assets	82	75	738
Actuarial (losses) gains	(74)	211	(666)
Contributions from the employer	289	281	2,603
Benefits paid	(184)	(214)	(1,657)
Balance at end of year	¥ 4,618	¥ 4,505	$ 41,603

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 4,163	¥ 3,908	$ 37,504
Plan assets	(4,618)	(4,505)	(41,603)
Total	(455)	(597)	(4,099)
Unfunded defined benefit obligation	301	300	2,711
Net asset for defined benefit obligation	¥ (153)	¥ (296)	$ (1,378)

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 301	¥ 300	$ 2,711
Asset for retirement benefits	(455)	(597)	(4,099)
Net asset for defined benefit obligation	¥ (153)	¥ (296)	$ (1,378)

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 473	¥ 337	$ 4,261
Interest cost	52	55	468
Expected return on plan assets	(82)	(75)	(738)
Recognized actuarial losses	(58)	18	(522)
Net periodic benefit costs	¥ 384	¥ 334	$ 3,459

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Actuarial (gains) losses	¥ (119)	¥ 212	$ (1,072)
Total	¥ (119)	¥ 212	$ (1,072)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized actuarial losses	¥ 557	¥ 677	$ 5,018
Total	¥ 557	¥ 677	$ 5,018

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments - domestic	27.8%	29.4%
Debt investments - international	9.1	9.1
Equity investments - domestic	25.3	25.4
Equity investments - international	26.4	24.9
Others	11.4	11.2
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 that are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	1.0%	1.0%
Expected rate of return on plan assets	2.0%	2.0%
Recognition period of actuarial gain / loss	10 years	10 years

7. 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. For companies that meet certain criteria, 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. The Company meets all the above criteria.

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 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 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 that 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.

8. STOCK OPTIONS

The stock options outstanding as of March 31, 2019, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2008 Stock Option	5 directors 4 Audit & Supervisory Board members	11,700 shares	2008.9.19	¥ 1	From September 20, 2008 to September 19, 2038
2009 Stock Option	5 directors 5 Audit & Supervisory Board members	19,400 shares	2009.7.17	¥ 1	From July 18, 2009 to July 17, 2039
2010 Stock Option	6 directors 5 Audit & Supervisory Board members	20,700 shares	2010.7.20	¥ 1	From July 21, 2010 to July 20, 2040
2011 Stock Option	6 directors 5 Audit & Supervisory Board members	24,700 shares	2011.7.19	¥ 1	From July 20, 2011 to July 19, 2041
2012 Stock Option	6 directors 4 Audit & Supervisory Board members	34,700 shares	2012.7.19	¥ 1	From July 20, 2012 to July 19, 2042
2013 Stock Option	5 directors 4 Audit & Supervisory Board members	31,900 shares	2013.7.18	¥ 1	From July 19, 2013 to July 18, 2043
2014 Stock Option	4 directors 5 Audit & Supervisory Board members	21,300 shares	2014.7.18	¥ 1	From July 19, 2014 to July 18, 2044
2015 Stock Option	8 directors	22,400 shares	2015.7.21	¥ 1	From July 22, 2015 to July 21, 2045
2016 Stock Option	8 directors	19,400 shares	2016.7.20	¥ 1	From July 21, 2016 to July 20, 2046
2017 Stock Option	9 directors	22,100 shares	2017.7.21	¥ 1	From July 22, 2017 to July 21, 2047

Stock option activity is as follows:

	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option
For the year ended March 31, 2018					
Non-vested					
March 31, 2017 Outstanding					
Granted					
Vested					
March 31, 2018 Outstanding					
Vested					
March 31, 2017 Outstanding	3,100	7,200	8,900	11,900	18,800
Vested					
Exercised					
March 31, 2018 Outstanding	3,100	7,200	8,900	11,900	18,800
For the year ended March 31, 2019					
Non-vested					
March 31, 2018 Outstanding					
Granted					
Vested					
March 31, 2019 Outstanding					
Vested					
March 31, 2018 Outstanding	3,100	7,200	8,900	11,900	18,800
Vested					
Exercised		(2,100)	(2,000)	(3,100)	(5,300)
March 31, 2019 Outstanding	3,100	5,100	6,900	8,800	13,500
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥	¥ 1,038	¥ 1,038	¥ 1,038	¥ 1,038
Fair value price at grant date	¥ 2,013	¥ 1,257	¥ 1,308	¥ 1,213	¥ 728

	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
For the year ended March 31, 2018					
Non-vested					
March 31, 2017 Outstanding					
Granted					22,100
Vested					(22,100)
March 31, 2018 Outstanding					
Vested					
March 31, 2017 Outstanding	19,300	13,800	20,300	19,400	
Vested					22,100
Exercised					
March 31, 2018 Outstanding	19,300	13,800	20,300	19,400	22,100
For the year ended March 31, 2019					
Non-vested					
March 31, 2018 Outstanding					
Granted					
Vested					
March 31, 2019 Outstanding					
Vested					
March 31, 2018 Outstanding	19,300	13,800	20,300	19,400	22,100
Vested					
Exercised	(5,500)	(2,900)	(2,500)	(2,400)	(2,100)
March 31, 2019- Outstanding	13,800	10,900	17,800	17,000	20,000
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at exercise	¥ 1,038	¥ 1,038	¥ 1,038	¥ 1,038	¥ 1,038
Fair value price at grant date	¥ 872	¥ 901	¥ 904	¥ 1,106	¥ 1,116

note1: Estimation of the number of stock options vested.
Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been actually forfeited is reflected.

9. 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% and 30.9 % for the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Loss on revaluation of available-for-sale securities	¥ 24	¥ 38	$ 216
Tax loss carryforwards	870	1,223	7,837
Allowance for doubtful accounts	409	379	3,684
Accrued bonuses	247	242	2,225
Allowance for product warranties	238	221	2,144
Allowance for losses on construction contracts	176	498	1,585
Deferred loss on derivatives under hedge accounting	26		234
Liability for employees' retirement benefits	87	84	783
Other	401	402	3,612
Total of deferred tax assets	¥ 2,482	¥ 3,090	$ 22,360
Valuation allowance related to Tax loss carryforward	(810)		(7,297)
Valuation allowance related to total deductible temporary difference, etc.	(1,204)		(10,846)
Total of valuation allowance	¥ (2,015)	¥ (2,494)	$ (18,153)
Total	¥ 467	¥ 596	$ 4,207
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (696)	¥ (873)	$ (6,270)
Deferred gain on derivatives under hedge accounting		(32)	
Asset for employees' retirement benefit	(35)	(213)	(315)
Other	(290)	(319)	(2,612)
Total	¥ (1,021)	¥ (1,438)	$ (9,198)
Net deferred tax liabilities	¥ (553)	¥ (842)	$ (4,981)

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2019, were as follows:

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Tax loss carryforwards (see note1)	¥ 2	¥ 120	¥ 4	¥ 26	¥ 6	¥ 709	¥ 870
Valuation allowance	¥ (2)	¥ (120)	¥ (4)	¥ (26)	¥ (6)	¥ (649)	¥ (810)
Deferred tax asset (see note2)						59	¥ 59

	Thousands of U.S. Dollars						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Tax loss carryforwards (see note1)	$ 18	$ 1,081	$ 36	$ 234	$ 54	$ 6,387	$ 7,837
Valuation allowance	$ (18)	$ (1,081)	$ (36)	$ (234)	$ (54)	$ (5,846)	$ (7,297)
Deferred tax asset (see note2)						$ 531	$ 531

note1: Figures for tax loss carryforward were the amounts multiplied by effective statutory tax rate.

note2: For the tax loss carryforward of ¥870 million ($7,837 thousand) (amount multiplied by effective statutory tax rate), deferred tax assets of ¥59 million ($531 thousand) have been recorded. The tax loss carryforward was determined to be recoverable as future taxable income is anticipated, and therefore valuation allowance has not been recognized.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.9%
Expenses not deductible for income tax purposes	0.9	4.3
Dividend income not taxable for income tax purposes	(0.6)	(1.1)
Tax credit mainly for research and development costs	(0.6)	(2.9)
Inhabitant taxes	1.2	1.9
Equity method	(1.4)	(2.1)
Valuation allowance	(21.0)	19.0
Income taxes for prior periods		2.4
Reconciliation of consolidation process	(3.2)	(13.4)
Other – net	(1.5)	0.4
Actual effective tax rate	4.4%	39.4%

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥482 million ($4,342 thousand) and ¥430 million for the years ended March 31, 2019 and 2018, respectively.

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy of the companies for Financial Instruments

The Companies use financial instruments, mainly long-term debt including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts.

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

Payment terms of payables, such as trade notes and trade accounts, are almost all less than five months. Although payables in foreign currencies are exposed to the market risk of fluctuations in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Almost all maturities of bank loans are less than four years after the balance sheet date. Although a part of such bank loans are exposed to the market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest-rate swaps.

Derivatives mainly include foreign currency forward contracts and interest-rate swaps that are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 12 for more details 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 debt according to the contractual terms. The Companies manage their credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

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. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

The basic principles of derivative transactions are approved by management at meetings held on a regular basis based on internal guidelines that prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliations of the transactions and balances with customers are performed and the transaction data is reported to the chief financial officer and the management, on a regular basis.

Liquidity risk management

The Company manages its liquidity risk by holding adequate volumes of liquid assets and through adequate financial planning by the corporate accounting department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Please see Note 12 for more details on the fair value of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2019	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 15,924	¥ 15,924	
Receivables-trade	25,777	25,772	¥ (4)
Investment securities	6,884	6,884	
Total	¥ 48,586	¥ 48,581	¥ (4)
Short-term borrowings	¥ 1,639	¥ 1,639	
Payables-trade	11,118	11,118	
Long-term debt	16,787	17,026	¥ 238
Total	¥ 29,545	¥ 29,784	¥ 238
Derivatives	¥ (113)	¥ (113)	

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 11,379	¥ 11,379	
Receivables-trade	26,644	26,635	¥ (9)
Investment securities	7,843	7,843	
Total	¥ 45,867	¥ 45,858	¥ (9)
Short-term borrowings	¥ 1,627	¥ 1,627	
Payables-trade	10,975	10,975	
Long-term debt	14,097	13,989	¥ (108)
Total	¥ 26,700	¥ 26,592	¥ (108)
Derivatives	¥ 175	¥ 175	

Current portion of long-term debt is included in long-term debt.

March 31, 2019	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 143,459	$ 143,459	
Receivables-trade	232,225	232,180	$ (36)
Investment securities	62,018	62,018	
Total	$ 437,711	$ 437,666	$ (36)
Short-term borrowings	$ 14,765	$ 14,765	
Payables-trade	100,162	100,162	
Long-term debt	151,234	153,387	$ 2,144
Total	$ 266,171	$ 268,324	$ 2,144
Derivatives	$ (1,018)	$ (1,018)	

Cash and Cash Equivalents

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

Receivables

The fair values of receivables are measured at the amount to be received at maturity, discounted at the Companies' assumed corporate discount rate, and an evaluation of potential losses.

Investment Securities

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

Fair value information for investment securities by classification is included in Note 3.

Payables and Short-Term Borrowings

The fair values of payables and short-term borrowings approximate fair value because of their short maturities.

Long-Term Debt

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

The interest rate swaps that 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.

As a result, the fair values of such interest rate swaps are included in those of hedged items in Note 12.

Derivatives

Fair value information for derivatives is included in Note 12.

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥ 2,642	¥ 2,635	$ 23,801
Trust funds	14	17	126

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

	Millions of Yen		
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	¥ 15,924		
Receivables	25,774	¥ 2	
Total	¥ 41,699	¥ 2	-

	Thousands of U.S. Dollars		
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years
Cash and cash equivalents	$ 143,459		
Receivables	232,198	$ 18	
Total	$ 375,666	$ 18	-

Please see Note 5 for annual maturities of long-term debt.

12. DERIVATIVES

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage their interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Companies' business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

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

Derivative Transactions to Which Hedge Accounting is not Applied

	Millions of Yen			
At March 31, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Foreign currency forward contracts:				
Buying JPY.	¥ 850		¥ 11	¥ 11

	Millions of Yen			
At March 31, 2018	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying JPY.	¥ 555		¥ (6)	¥ (6)

	Thousands of U.S. Dollars			
At March 31, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Foreign currency forward contracts:				
Buying JPY.	$ 7,657		$ 99	$ 99

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of Yen		
At March 31, 2019	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.$	Receivables	¥ 8,491		¥ (121)
Hedges for which the “deferred hedge” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥ 483	¥ 283	¥ (3)
Hedges for which the “exceptional” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥ 6,000	¥ 5,850	

		Millions of Yen		
At March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.$	Receivables	¥ 6,182		¥ 187
Hedges for which the “deferred hedge” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥ 683	¥ 483	¥ (5)
Hedges for which the “exceptional” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥ 4,500	¥ 4,500	

		Thousands of U.S. Dollars		
At March 31, 2019	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.$	Receivables	$ 76,495		$ (1,090)
Hedges for which the “deferred hedge” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	$ 4,351	$ 2,549	$ (27)
Hedges for which the “exceptional” method is applied				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	$ 54,054	$ 52,702	

13. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized (loss) gain on available-for-sale securities:			
(Losses) Gains arising during the year	¥ (483)	¥ 293	$ (4,351)
Reclassification adjustments to profit or loss	(94)		(846)
Amount before income tax effect	(578)	293	(5,207)
Income tax effect	176	(86)	1,585
Total	¥ (401)	¥ 206	$ (3,612)
Deferred (loss) gain on derivatives under hedge accounting:			
(Losses) Gains arising during the year	¥ (193)	¥ 90	$ (1,738)
Reclassification adjustments to profit or loss	3	4	27
Amount before income tax effect	(190)	94	(1,711)
Income tax effect	58	(29)	522
Total	¥ (132)	¥ 65	$ (1,189)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (212)	¥ (140)	$ (1,909)
Total	¥ (212)	¥ (140)	$ (1,909)
Defined retirement benefit plans:			
(Losses) Gains arising during the year	¥ (61)	¥ 193	$ (549)
Reclassification adjustments to profit or loss	(58)	18	(522)
Amount before income tax effect	(119)	212	(1,072)
Income tax effect	39	(58)	351
Total	¥ (80)	¥ 153	$ (720)
Share of other comprehensive (loss) income in associates -			
(Losses) Gains arising during the year	¥ (1)	¥ 3	$ (9)
Total	¥ (1)	¥ 3	$ (9)
Total other comprehensive (loss) income	¥ (828)	¥ 290	$ (7,459)

14. RELATED PARTY DISCLOSURES

Transactions of the Company with subsidiary officers for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Purchases of subsidiary stock	¥	¥ 460	$

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥ 2,183	27,230	¥ 80.18	$ 0.72
Effect of dilutive securities				
Stock acquisition rights		116		
Diluted EPS				
Net income for computation	¥ 2,183	27,347	¥ 79.84	$ 0.72
For the year ended March 31, 2018:				
Basic EPS				
Net income available to common shareholders	¥ 854	27,134	¥ 31.51	$ 0.30
Effect of dilutive securities				
Stock acquisition rights		137		
Diluted EPS				
Net income for computation	¥ 854	27,272	¥ 31.35	$ 0.30

Average number of common shares during the period is after deductions of 1) the number of shares of treasury stock and 2) the number of shares held by the ESOP Trust (116 thousand shares as of March 31, 2019).

16. SUBSEQUENT EVENTS

Share repurchase

The Company repurchased its own shares from May 15, 2019 through May 31, 2019 as resolved by its Board of Directors on May 14, 2019, pursuant to Article 156 of the Companies Act, in accordance with Article 165, paragraph 3 of the Companies Act, as detailed below.

1. Type of stock repurchased
   Common stock of the Company
2. Aggregate number of shares repurchased
   38,300 shares
3. Aggregate purchase price of shares
   33,330,400 yen
4. Method of repurchase
   Purchased through the Tokyo Stock Exchange

(Reference)
On May 14, 2019 the Company's board of directors resolved repurchases of its own shares, pursuant to articles of incorporation in accordance with Article 459, paragraph1, item1 of the Companies Act.

1. Reason for the repurchase of shares
   To increase capital efficiency and improve returns to shareholders
2. Class of shares to be repurchased
   Common stock of the Company
3. Aggregate number of shares to be repurchased
   Up to 600,000 shares
   Percentage against total number of issued shares (excluding own shares): 2.19%
4. Aggregate purchase price of shares
   Up to 600 million yen
5. Period in which repurchases may be made
   From May 15, 2019 through September 30, 2019
6. Method of repurchase
   Purchase through Tokyo Stock Exchange
7. Others
   All acquired shares herein are planned to be retired based on the resolution at the Board of Directors meeting in accordance with provisions in Article 178 of the Companies Act.

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at the Board of Directors' meeting held on May 14, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥16.0 ($0.14) per share	¥ 437	$ 3,936

Year-end cash dividends for the fiscal year ended March 31, 2019, included ¥1 million ($9 thousand) of dividends paid to ESOP Trust for the Employee Shareholding Association.

17. SEGMENT INFORMATION

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 for which 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. Information about products and services

For the fiscal years ended March 31, 2019 and 2018, the total sales, operating income, and total assets of the Pump reporting segment exceeded 90% of the totals of the Companies, thus the Companies have omitted the disclosure of information about products and services.

2. Information about geographical areas

(1) Sales

Millions of Yen				
2019				
Japan	Asia	Middle East	Other	Total
¥ 24,471	¥ 8,168	¥ 11,196	¥ 4,318	¥ 48,154

Millions of Yen					
2018					
		Middle East			
Japan	Asia	Qatar	Other	Other	Total
¥ 25,058	¥ 8,391	¥ 3,559	¥ 6,505	¥ 1,866	¥ 45,381

Thousands of U.S. Dollars				
2019				
Japan	Asia	Middle East	Other	Total
$ 220,459	$ 73,585	$ 100,864	$ 38,900	$ 433,819

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

Millions of Yen				
2019				
Japan	Asia	Middle East	Other	Total
¥ 8,208	¥ 1,284	¥ 596	¥ 66	¥ 10,156

Millions of Yen				
2018				
Japan	Asia	Middle East	Other	Total
¥ 7,469	¥ 1,432	¥ 674	¥ 54	¥ 9,631

Thousands of U.S. Dollars				
2019				
Japan	Asia	Middle East	Other	Total
$ 73,945	$ 11,567	$ 5,369	$ 594	$ 91,495

3. Information about goodwill

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
	Pumps	Pumps	Pumps
Amortization of goodwill	¥ 15	¥ 14	$ 135
Goodwill	5	20	45

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