2018
ANNUAL REPORT
Year ended March 31, 2018

Denyo Co., Ltd.

Profile

Since its establishment in 1948,

Denyo has been a pioneer in outdoor power sources, 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 65% share of the domestic market for engine-driven generators, our main product. The Denyo Group comprises the Company and its ten subsidiaries and one affiliate, along with its production facilities in Southeast Asia and the U.S., and R&D center in Japan.

CONTENTS

Celebrating *70 Years* in Business

On July 2, 2018, Denyo will celebrate its 70th year in business.

This milestone is all thanks to the gracious support and guidance of our valued shareholders and other stakeholders.

In commemoration, Denyo has created a special 70th anniversary logo.

The logo is based on the concept of "an accumulated history and looking to the future."

The logo uses the thickness of a cube to depict the history of technology and trust Denyo has built up from its postwar establishment in 1948 to the present day, while a separate section to the top right of the cube expresses Denyo continuing on for the next 100 or 200 years or even longer.

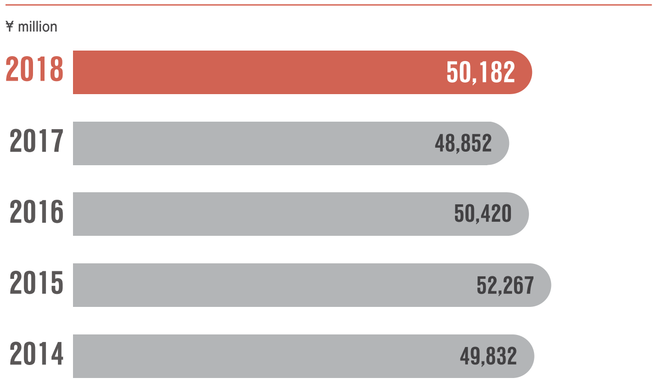
As we observe Denyo's 70th anniversary, all employees will make a push toward the future with renewed vigor, and we appreciate your continued support and guidance along the way.

Consolidated Financial Highlights

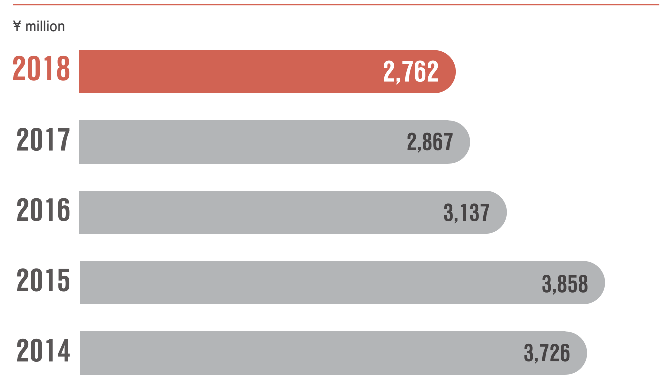
	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Net Sales	¥50,182	¥48,852	¥50,420	$472,213
Total Assets	72,589	68,678	66,994	683,061
Total Net Assets	56,133	53,146	50,812	528,211
Operating Income	3,902	4,247	4,097	36,719
Net Income*	2,762	2,867	3,137	25,991
Per Share Data	Yen			U.S. Dollars
Total Net Assets	¥2,545.17	¥2,407.30	¥2,285.62	$23.95
Net Income*	130.03	134.18	146.79	1.22
Cash Dividends	40.00	30.00	30.00	0.38

Note:Transaction into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥106.27 to U.S.$1, prevailing on the Tokyo Foreign Exchange Market on March 31, 2018.

Net Sales

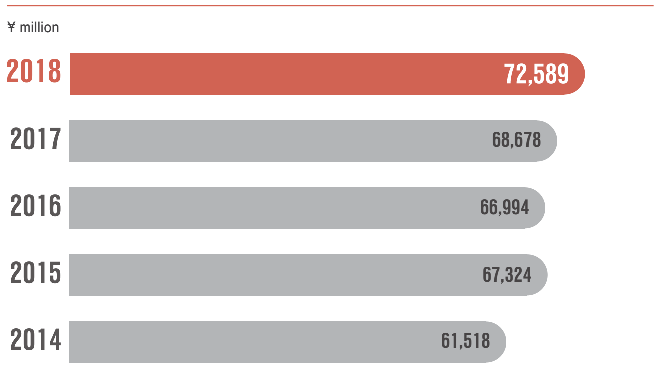


Net Income*

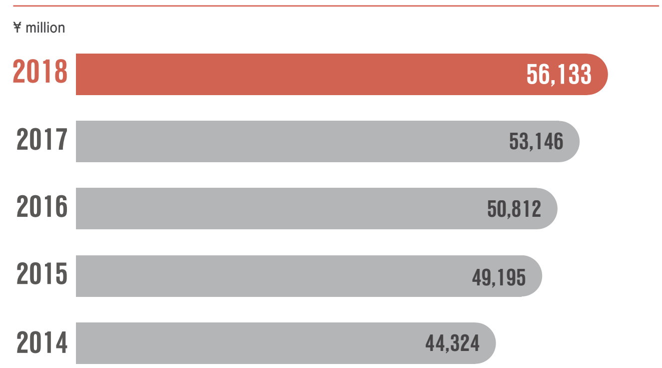


* Net Income attributable to owners of the parent.

Total Assets



Total Net Assets



TO OUR SHAREHOLDERS

Shoichi Shiratori,
President

In fiscal 2018 (ended March 31, 2018), the Japanese economy recovered moderately against a backdrop of strong corporate earnings with increased capital investment and signs of improvement in the employment and income situation. In the global economy, meanwhile, the U.S. continued to expand gradually and Asian economies also showed signs of recovery, remaining strong.

Regarding the business environment surrounding the Denyo Group, in Japan, in addition to construction for redevelopment projects in the Tokyo Metropolitan area, demand in construction was strong with work relating to the 2020 Tokyo Olympics hitting full stride, and an increase in capital investment from the private sector was also seen. Meanwhile overseas, while demand remained firm in the U.S. market, demand in Asian markets has been slow to recover.

Under these circumstances, the Denyo Group launched a large number of new products including silent generators with industry-leading low-noise performance, and also focused on proposal-oriented sales activities. As a result, consolidated net sales was ¥50,182 million (US$472,213 thousand), up 2.7% year on year. However, in terms of profit, due to fewer shipments of comparatively profitable large-sized units and increased fixed costs, consolidated operating income was ¥3,902 million (US$36,719 thousand), an 8.1% decrease year on year, consolidated ordinary income was ¥4,187 million (US$39,400 thousand), a 7.5% year-on-year drop, and net income attributable to owners of the parent fell 3.7% year on year to ¥2,762 million (US$25,991 thousand).

In terms of dividends for the fiscal year under review, we issued an interim dividend of ¥15 (US$0.14) per share. In addition, for the year-end dividend we decided to add a commemorative dividend for the 70th anniversary of ¥10 (US$0.09) to the regular ¥15 (US$0.14) and issue a year-end dividend of ¥25 (US$0.24) per share. As a result, dividends for the full year came to ¥40 (US$0.38) per share.

Regarding the future business outlook, there is expected to be steady domestic demand in construction for urban redevelopment particularly for construction related to the 2020 Tokyo Olympics, and an overall recovery in demand is expected overseas in light of the strong global economy. However, some situations require caution, including developments in U.S. trade policy and geopolitical risks in some regions.

Under these conditions, the Denyo Group will steadily implement various measures based on the “Denyo 2020”, three-year medium-term management plan that starts from the fiscal year ending March 31, 2019, and strive to expand its business performance.

We would like to take this opportunity to express our sincere gratitude to our shareholders for their continued patronage and support.

June 2018

S. Shiratori

Shoichi Shiratori, President

Review of Operations

Mālie Silent Generator

Denyo has developed the industry's first silent generator with a noise value of just 43 dB* and named it Mālie, which is the Hawaiian word for "quiet" or "calm." The product went on sale from October 2017. In recent years there has been an increasing demand for noise-reduction measures. In response, Denyo has continued to pursue the development of generators that reduce noise even by a decibel, and with this latest offering, noise has been reduced to just 43 dB, a noise value that is almost on par with the inside of a library.

To achieve this sophisticated quietness, Denyo combined technologies cultivated over many years to date, employed ingenuity with respect to sources of noise such as cooling and exhaust systems, and employed rigging techniques to improve damping performance.

Denyo also paid attention to maintainability with the Mālie. By adopting a front frame that collapses forward, it is easier to clean the radiator. A slide mechanism is used for the side panels, allowing more compact maintenance spaces than the conventional double-hinged type.

As well as being ideal as a power source for late-night construction work and events, achieving unprecedented quietness means it can also be used in disaster-prevention and commercial applications, which is expected to lead to even greater demand for the product.

*Average value from four directions 7 meters away with no load at 50Hz.

Mālie Silent Generator
DCA-25MZ

Front frame that collapses forward

Slide mechanism used for the side panels

TLG-8LSK-D Simul Generator for simultaneous three-phase and single-phase three-wire output

Denyo has added the lightweight and compact 2-pole type TLG-8LSK-D to its popular series of Simul Generators with three-phase and single-phase three-wire output. The new unit went on sale in July 2017.

As the Simul Generator employs Denyo's proprietary three-phase/single-phase independent winding system, even at sites where the three-phase power loads common in equipment such as water pumps are used simultaneously with the single-phase loads created by office equipment in field offices, load demands can be handled with a single unit. Additionally, even when three-phase power loads and single-phase loads are used separately, this unit supports the configuration without having to perform a switching operation, something that conventional units have required.

Moreover, the Simul Monitor developed by Denyo displays the power generation status in real-time, allowing users to easily check respective three-phase and single-phase voltages and current, as well as remaining available capacity.

The TLG-8LSK-D, the newest addition to the series, offers some distinct features. The installed weight has been limited to no more than 350kg and a more compact shape has been developed, allowing the unit to be loaded longways onto a light truck. The unit can also be hauled into and used at more cramped sites.

Denyo plans to actively incorporate the TLG-8LSK-D into proposals as a 2-pole type Simul Generator that is easy to transport and supports a wide range of sites.

TLG-8LSK-D

Allowed to load onto a light truck

Denyo's Medium-term Management Plan

Denyo group, has formulated a three-year medium-term management plan "Denyo 2020", covering from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021.

Denyo will focus on the following management objectives and implement priority strategies.

Business Objectives

	FY 2018/3 (Results)	FY 2021/3 (Target)	Change / Rate of Change
Consolidated Net sales	50.1 billion yen	58.0 billion yen	+7.9 billion yen
Ordinary income margin	8.3%	11.0%	+2.7%
ROE	5.3%	7.0%	+1.7%

Priority Strategies:

Strategies in the domestic market

- Focus efforts on mobile-type generators by reviewing the sales structure and developing new products.
- Increase the market share of stationary generators by strengthening cooperation with Group companies.

Strategies in overseas market

- Strengthen marketing and establish a system for producing and selling the stationary generators that each target market demands.

Reinforcing the operating foundations

- Be quick in developing products that meet market needs.
- Supply higher-quality products through production in optimal locations.
- Focus efforts on developing globally competitive human resources.

GAW-155ES Sound-insulated Gasoline-fueled Engine Welder

Denyo developed the GAW-155ES gasoline-fueled engine welder and commenced sales in October 2017.

The unit's welding performance represents a 5A improvement in welding output over previous models to provide more leeway when it comes to output. In addition to being able to alternate between constant current characteristics and drooping characteristics with switch depending on the nature of the welding task at hand, since an AC power source can be used at the same time while welding, the unit broadens the range of supported tasks and improves efficiency.

Power generating performance has also received a 3.0kVA upgrade in AC output, and inverter control supplies a stable current on par with commercial power supplies.

By adopting a panel structure that opens and closes on three sides, daily maintenance such as for the oil, air cleaner and fuel cock can be performed easily, and since all panels from the sides to the roof are removable, the unit can also be easily disassembled for maintenance.

Additionally, an automated idling stop feature is equipped as standard, making it possible to reduce fuel consumption and CO_2 emissions by around 47% each compared with previous models when used in combination with the non-step e-Mode (*).

In addition to improvements to welding, power generation and maintenance performance, the inclusion of an automated idling stop feature and other advancements make the GAW-155ES an even greater advancement over previous models. Accordingly, Denyo will strengthen sales of the model as its flagship gasoline-fueled engine welder.

(*) A feature that provides non-step control of engine RPM based on the welding current to achieve low fuel consumption and noise.

GAW-155ES

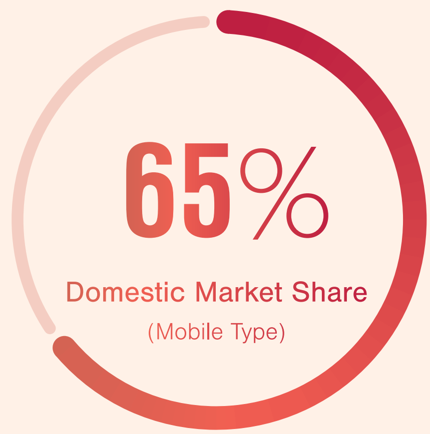
Panel structure that opens and closes on three sides

Overview of Product Segment

Business performance by product category and domestic market share

Engine Generators

In the engine generators segment, although shipments to Asia and the Middle and Near East declined, shipments to the U.S. increased, and there was an overall increase in shipments of mobile-type generators and emergency generators for the domestic market. This resulted in segment sales of ¥38,653 million (US$363,725 thousand), up 4.9% year on year.



Engine Welders

In the engine welders segment, performance in the domestic market was on par with the previous fiscal year, but an increase in shipments of compact engine welders to the U.S. and Europe brought segment sales up to ¥4,920 million (US$46,297 thousand), a 1.8% year on year increase.

Compressors

In the compressors segment, shipments of motor compressors used in tunnel construction, etc. increased for the domestic market, but declining shipments to the U.S. and Asia pushed segment sales down to ¥1,083 million (US$10,195 thousand), a 24.8% year on year drop.

Other Products

In the other products segment, sales were ¥5,526 million (US$51,997 thousand), down 3.4% from the previous fiscal year, due mainly to lower sales of self-propelled lifters.

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

Denyo Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2018, and Independent Auditor's Report

Financial Review

Business Environment and Results

In fiscal 2018 (ended March 31, 2018), the Japanese economy recovered moderately against a backdrop of strong corporate earnings with increased capital investment and signs of improvement in the employment and income situation. In the global economy, meanwhile, the U.S. continued to expand gradually and Asian economies also showed signs of recovery, remaining strong.

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Segment Information

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Information by geographical area is as follows.

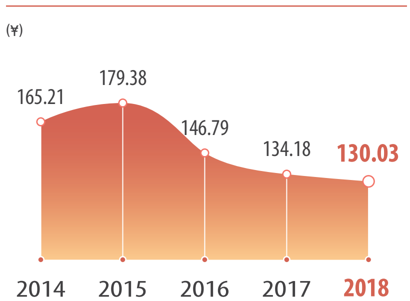
(Japan)
In Japan, shipments of mobile-type generators primarily to major rental companies increased against a backdrop of robust domestic construction demand, and sales of emergency generators for disaster prevention equipment were also strong. However, since exports of large-sized generators to overseas markets were sluggish overall, sales came to ¥37,917 million (US$356,803 thousand), up 2.9% from the previous fiscal year, while operating income fell 15.3% year on year to ¥2,234 million (US$21,025 thousand).

(U.S.)
In the U.S., the economy is continuing to expand and shipments of small and medium-sized generators for our core rental market increased accordingly, resulting in sales of ¥8,077 million (US $76,008 thousand), up 2.8% from the previous year. Operating income, meanwhile, fell 25.5% to ¥782 million (US$7,361 thousand), in part due to lower shipments of large-sized generators.

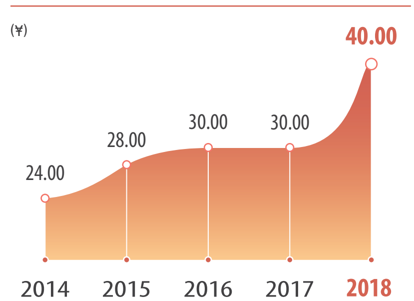
(Asia)
In Asia, conditions were severe in Singapore, our core market, but increased shipments of generators for infrastructure development-related construction in some other markets contributed to sales of ¥3,857 million (US$36,291 thousand), up 2.8% from the previous year. Thanks in part to an improved cost-to-sales ratio due to stable production at Denyo Vietnam Co., Ltd., operating income rose to ¥382 million (US$3,591 thousand), up 6.6% year on year.

(Europe)
In Europe, shipments of generators remained sluggish, resulting in sales of ¥331 million (US$3,111 thousand), down 18.9% from the previous fiscal year, while operating income fell 11.4% to ¥7 million (US$67 thousand).

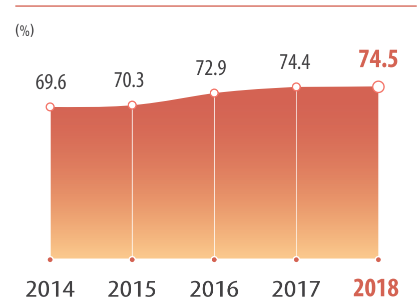
Net Income per Share



Cash Dividends per Share



Equity Ratio



Financial Position

(Assets)
Total assets at the end of the fiscal year under review were ¥72,589 million (US$683,061 thousand), an increase of ¥3,911 million (US$36,799 thousand) from the end of the previous fiscal year.

Current assets at the end of the fiscal year under review were ¥46,826 million (US$440,632 thousand), an increase of ¥3,011 million (US$28,336 thousand) from the end of the previous fiscal year. This was mainly due to an increase in cash and deposits of ¥1,933 million (US$18,192 thousand) and a rise in notes and accounts receivable - trade of ¥2,059 million (US$19,374 thousand), as well as a decrease in merchandise and finished goods of ¥857 million (US$8,060 thousand). Non-current assets at the end of the fiscal year under review were ¥25,763 million (US$242,429 thousand), up ¥899 million (US$8,463 thousand) from the end of the previous fiscal year. This largely reflected a ¥427 million (US$4,018 thousand) decrease in property, plant and equipment and intangible assets due to depreciation and amortization and an increase in investments in securities of ¥1,296 million (US$12,199 thousand), reflecting the revaluation of stockholdings.

(Liabilities)
Total liabilities at the end of the fiscal year under review were ¥16,456 million (US$154,851 thousand), increasing ¥924 million (US$8,690 thousand) from the end of the previous fiscal year.

Current liabilities at the end of the fiscal year under review were ¥12,320 million (US$115,930 thousand), up ¥723 million (US$6,808 thousand) from the end of the previous fiscal year. This was mainly due to an increase in notes and accounts payable - trade of ¥617 million (US$5,802 thousand). Non-current liabilities at the end of the fiscal year under review were ¥4,136 million (US$38,920 thousand), up ¥200 million (US$1,882 thousand) from the end of the previous fiscal year. This was due largely to a rise in deferred tax liabilities of ¥349 million (US$3,280 thousand).

(Net assets)
Net assets at the end of the fiscal year under review were ¥56,133 million (US$528,211 thousand), an increase of ¥2,987 million (US$28,109 thousand) from the end of the previous fiscal year. This was mainly due to profit attributable to owners of the parent of ¥2,762 million (US$25,991 thousand) and an ¥881 million (US$8,297 thousand) increase in the valuation difference on available-for-sale securities, as well as cash dividends paid of ¥663 million (US$6,239 thousand).

Cash Flows

Consolidated cash and cash equivalents (hereinafter “cash”) were ¥13,713 million (US$129,038 thousand) at the end of the fiscal year under review, increasing ¥1,494 million (US$14,054 thousand) from the end of the previous fiscal year, largely due to income before income taxes of ¥4,150 million (US$39,058 thousand).

The status of cash flows and the factors affecting cash flows in the fiscal year under review are as follows.

(Cash flows from operating activities)
Net cash provided by operating activities was ¥3,315 million (US$31,199 thousand), an increase of ¥367 million (US$3,455 thousand) from the previous fiscal year. This mainly reflected income before income taxes of ¥4,150 million (US$39,058 thousand), depreciation of ¥1,199 million (US$11,278 thousand), and an increase in notes and accounts receivable - trade of ¥2,094 million (US$19,709 thousand).

(Cash flows from investing activities)
Net cash used in investing activities was ¥1,121 million (US$10,549 thousand), a decrease of ¥132 million (US$1,243 thousand) from the previous fiscal year. This largely reflected ¥681 million (US$6,408 thousand) in payments for the purchase of property, plant and equipment.

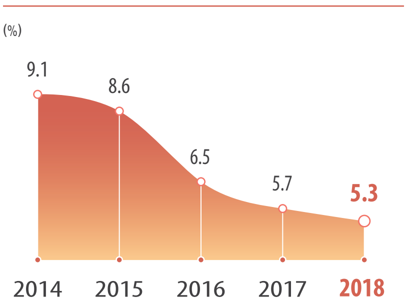
(Cash flows from financing activities)
Net cash used in financing activities was ¥738 million (US$6,947 thousand), a decrease of ¥342 million (US$3,216 thousand) from the previous fiscal year. This mainly reflected dividends paid of ¥663 million (US$6,239 thousand).

Dividends

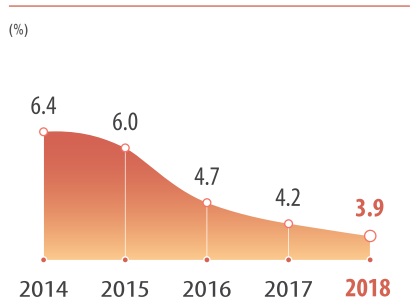
Denyo recognizes the importance of making further efforts to return profits to shareholders while also investing in equipment and research & development to enhance and maintain product competitiveness and striving to improve profitability and strengthen its financial structure. Our policy is to distribute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

Based on this policy, for the fiscal year under review, we paid an interim dividend of ¥15 (US$0.14) per share and decided to pay a year-end dividend of ¥25 (US$0.24) per share: an ordinary dividend of ¥15 (US$0.14) and a commemorative dividend for the 70th anniversary of our foundation of ¥10 (US$0.09). As a result, the annual dividend amounted to ¥40 (US$0.38) per share and the consolidated dividend payout ratio came to 30.8%.

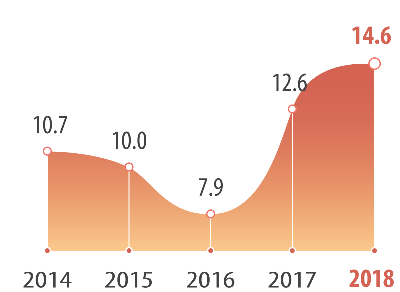
Return on Average Shareholders’ Equity



Return on Average Assets (ROA)



Price Earnings Ratio



DENYO CO., LTD. AND SUBSIDIARIES · YEAR ENDED MARCH 31, 2018

Consolidated Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥13,713	¥12,219	$129,038
Time deposits other than cash equivalents (Note 14)	1,158	718	10,896
Receivables (Note 14):			
Trade notes	7,748	6,278	72,911
Trade accounts	11,277	10,688	106,113
Associated companies (Note 20)	2,454	2,455	23,094
Other	98	17	924
Allowance for doubtful receivables	(6)	(7)	(57)
Inventories (Note 5)	9,751	10,705	91,759
Deferred tax assets (Note 11)	489	541	4,598
Prepaid expenses and other current assets	144	201	1,356
Total current assets	46,826	43,815	440,632
PROPERTY, PLANT AND EQUIPMENT:			
Land	4,842	4,848	45,563
Buildings and structures	12,717	12,247	119,666
Machinery and equipment (Note 13)	6,745	6,750	63,469
Furniture and fixtures	1,830	1,744	17,217
Construction in progress	198	141	1,862
Total	26,332	25,730	247,777
Accumulated depreciation	(12,184)	(11,230)	(114,647)
Net property, plant and equipment	14,148	14,500	133,130
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	9,964	8,752	93,761
Investments in associated companies (Note 6)	858	774	8,075
Deferred tax assets (Note 11)	74	61	692
Other assets	719	776	6,771
Total investments and other assets	11,615	10,363	109,299
TOTAL	¥72,589	¥68,678	$683,061

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 14)	¥210	¥210	$1,977
Current portion of long-term debt (Notes 7, 13 and 14)	3	3	28
Payables (Note 14):			
Trade notes	3,077	2,231	28,955
Trade accounts	6,469	6,691	60,871
Associated companies	9	16	80
Other	230	42	2,162
Accrued income taxes (Note 11)	473	630	4,453
Accrued expenses	1,318	1,260	12,405
Provision for product warranties	109	108	1,025
Other current liabilities	422	405	3,974
Total current liabilities	12,320	11,596	115,930
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 13 and 14)	1,065	1,127	10,020
Liability for retirement benefits (Note 9)	486	419	4,576
Deferred tax liabilities (Note 11)	2,256	1,908	21,231
Other long-term liabilities	329	482	3,093
Total long-term liabilities	4,136	3,936	38,920
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 10):			
Common stock—authorized, 97,811,000 shares; issued, 22,859,660 shares in 2018 and 22,859,660 shares in 2017	1,955	1,955	18,395
Capital surplus	1,779	1,779	16,745
Retained earnings	46,622	44,522	438,701
Treasury stock—at cost, 1,617,052 shares in 2018 and 1,623,221 shares in 2017 (Note 3)	(1,622)	(1,632)	(15,262)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,617	3,736	43,450
Foreign currency translation adjustments	756	765	7,116
Defined retirement benefit plans	(41)	(2)	(384)
Total	54,066	51,123	508,761
Noncontrolling interests	2,067	2,023	19,450
Total equity	56,133	53,146	528,211
TOTAL	¥72,589	¥68,678	$683,061

DENYO CO., LTD. AND SUBSIDIARIES · YEAR ENDED MARCH 31, 2018

Consolidated Statement of Income and Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES (Note 19 and 20)	¥50,182	¥48,852	$472,213
COST OF SALES	38,100	36,874	358,519
Gross profit	12,082	11,978	113,694
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	8,180	7,731	76,975
Operating income	3,902	4,247	36,719
OTHER INCOME (EXPENSES):			
Interest and dividend income	193	183	1,814
Interest expense	(51)	(65)	(476)
Gain on sale of property, plant and equipment	1	3	11
Loss on sale or disposal of property, plant and equipment	(8)	(3)	(71)
Loss on revaluation of investment securities	(34)		(318)
Foreign exchange loss	(38)	(14)	(357)
Equity in earnings of associated companies	99	92	933
Rent income	73	87	682
Commitment fee	(7)	(35)	(66)
Gain on sale of investment securities	4		38
Other—net	16	31	149
Other income—net	248	279	2,339
INCOME BEFORE INCOME TAXES	4,150	4,526	39,058
INCOME TAXES (Note 11):			
Current	1,237	1,472	11,643
Deferred	15	(8)	141
Total income taxes	1,252	1,464	11,784
NET INCOME	2,898	3,062	27,274
NET INCOME ATTRIBUTABLE TO:			
Owners of the parent	2,762	2,867	25,991
Noncontrolling interests	136	195	1,283
NET INCOME (Forward)	¥2,898	¥3,062	$27,274
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized gain on available-for-sale securities	881	719	8,287
Foreign currency translation adjustments	(27)	(421)	(256)
Defined retirement benefit plans	(39)	(2)	(367)
Share of other comprehensive income in associates	1	2	11
Total other comprehensive income	816	298	7,675
COMPREHENSIVE INCOME	¥3,714	¥3,360	$34,949
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥3,596	¥3,209	$33,839
Noncontrolling interests	118	151	1,110
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Basic net income	¥130.03	¥134.18	$1.22
Cash dividends applicable to the year	40.00	30.00	0.38

See notes to consolidated financial statements.

DENYO CO., LTD. AND SUBSIDIARIES · YEAR ENDED MARCH 31, 2018

Consolidated Statement of Changes in Equity

	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, 2016	21,375	¥1,955	¥1,779	¥42,344	¥(1,381)	¥3,014	¥1,142	¥1	¥48,854	¥1,958	¥50,812
Net income attributable to owners of the parent				2,867					2,867		2,867
Cash dividends, ¥30 per share				(689)					(689)		(689)
Purchase of treasury stock	(150)				(265)				(265)		(265)
Selling of treasury stock	11				14				14		14
Net change in the year						722	(377)	(3)	342	65	407
BALANCE, MARCH 31, 2017	21,236	1,955	1,779	44,522	(1,632)	3,736	765	(2)	51,123	2,023	53,146
Net income attributable to owners of the parent				2,762					2,762		2,762
Cash dividends, ¥40 per share				(662)					(662)		(662)
Purchase of treasury stock					(1)				(1)		(1)
Selling of treasury stock	7				11				11		11
Net change in the year						881	(9)	(39)	833	44	877
BALANCE, MARCH 31, 2018	21,243	¥1,955	¥1,779	¥46,622	¥(1,622)	¥4,617	¥756	¥(41)	¥54,066	¥2,067	¥56,133

	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, 2017	$18,395	$16,745	$418,949	$(15,360)	$35,153	$7,197	$( )	$481,062	$19,040	$500,102
Net income attributable to owners of the parent			25,991					25,991		25,991
Cash dividends, $0.38 per share			(6,239)					(6,239)		(6,239)
Purchase of treasury stock				(9)				(9)		(9)
Selling of treasury stock				107				107		107
Net change in the year					8,297	(81)	(3)	7,849	410	8,259
BALANCE, MARCH 31, 2018	$18,395	$16,745	$438,701	$(15,262)	$43,450	$7,116	$(3)	$508,761	$19,450	$528,211

See notes to consolidated financial statements.

DENYO CO., LTD. AND SUBSIDIARIES · YEAR ENDED MARCH 31, 2018

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥4,150	¥4,526	$39,058
Adjustments for:			
Income taxes paid	(1,397)	(1,232)	(13,145)
Depreciation and amortization	1,199	1,212	11,278
Loss on sale or disposal of property, plant and equipment—net	6		61
Equity in earnings of associated companies	(99)	(92)	(933)
Loss on revaluation of investment securities	34		318
Changes in assets and liabilities, net of effects:			
Increase in trade notes and accounts receivable	(2,094)	(197)	(19,709)
Decrease (increase) in inventories	897	(518)	8,438
Decrease in interest and dividend receivable	10	12	91
Increase (decrease) in trade notes and accounts payable	618	(922)	5,811
Increase (decrease) in provision for allowance for doubtful accounts	2	(22)	17
Increase (decrease) in liability for retirement benefits	15	(26)	140
Other—net	(26)	207	(226)
Total adjustments	(835)	(1,578)	(7,859)
Net cash provided by operating activities	3,315	2,948	31,199
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	2	8	23
Purchases of property, plant and equipment	(681)	(537)	(6,408)
Purchases of securities	(2)	(2)	(23)
Proceeds from sales of securities	29		276
Investment in loans receivable	(1)	(5)	(12)
Collections of loans receivable	6	7	54
Increase in time deposit—net	(457)	(675)	(4,301)
Other—net	(17)	(49)	(158)
Net cash used in investing activities	(1,121)	(1,253)	(10,549)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term loans—net	1	(23)	1
Purchases of treasury stock	(1)	(265)	(9)
Dividends paid	(663)	(690)	(6,239)
Other—net	(75)	(103)	(700)
Net cash used in financing activities	(738)	(1,081)	(6,947)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	38	(141)	351
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥1,494	¥473	$14,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,219	11,746	114,984
CASH AND CASH EQUIVALENTS, END OF YEAR	¥13,713	¥12,219	$129,038

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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 ¥106.27 to $1, the approximate rate of exchange at March 31, 2018. 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, 2018, include the accounts of the Company and its 10 subsidiaries, including mainly "Denyo Kosan Co., Ltd.," "Nishinihon Generator Mfg. 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 one other subsidiary 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.

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

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

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

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

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

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

h. ***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.

i. ***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.

j. ***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.

k. ***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 shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

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

m. ***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.

n. ***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.

o. ***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.

p. ***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.

q. ***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.

r. ***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.

s. *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.

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

u. *New Accounting Pronouncements*

Tax Effect Accounting—On February 16, 2018, the ASBJ issued the revised ASBJ Statement No. 28, “Implementation Guidance on Tax Effect Accounting” and the revised ASBJ Statement No. 26, “Implementation Guidance on Recoverability of Deferred Tax Assets.”

Based on the content of deliberations at a conference of the Japanese Institute of Certified Public Accountants concerning the transfer of authority to the ASBJ, it was deemed necessary to conduct a review of the “Implementation Guidance on Tax Effect Accounting” and other practical guidelines for tax effect accounting, specifically with respect to the treatment of future taxable amounts related to stocks of subsidiaries in non-consolidated financial statements, and the treatment related to the recoverability of deferred tax assets of companies classified under Category 1 of relevant standards.

The Company expects to apply the new guidance “Implementation Guidance on Tax Effect Accounting” and other related standards effective April 1, 2018, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

Accounting Standard for Revenue Recognition—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 April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

v. *Change in Disclosures—*”Increase in time deposit” and “Decrease in time deposit” which were disclosed under “Investing Activities” in the consolidated statement of cash flows for the year ended March 31, 2017, have been disclosed as “Increase in time deposit—net” for the year ended March 31, 2018, because the amounts are short term and short turnover. The amount of ¥(675) million disclosed as “Increase in time deposit” under “Investing Activities” in the consolidated statement of cash flows for the year ended March 31, 2017, has been reclassified to “Increase in time deposit—net” in the consolidated statement of cash flows for the year ended March 31, 2018.

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

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

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

The Company has introduced a new stock compensation plan for directors called the “Board Benefit Trust (BBT)” since September 1, 2015. 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
	2018	2017	2018
Treasury stock	¥526	¥538	$4,953
(Number of shares (thousands of shares))	(808)	(814)	

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current:			
Marketable equity securities	¥8,852	¥7,610	$83,298
Marketable trust fund investments and other	114	118	1,073
Nonmarketable equity securities	998	1,024	9,390
Total	¥9,964	¥8,752	$93,761

The cost and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017, were as follows:

	Millions of Yen			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥2,245	¥6,607		¥8,852
Trust fund investments and other	115		¥1	114
March 31, 2017				
Securities classified as available-for-sale:				
Equity securities	¥2,242	¥5,368		¥7,610
Trust fund investments and other	149		¥31	118

	Thousands of U.S. Dollars			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$21,126	$62,172		$83,298
Trust fund investments and other	1,080		$7	1,073

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Loss
Available-for-sale—Equity securities	¥29	¥4	
March 31, 2017			
Available-for-sale—Equity securities			

	Thousands of U.S. Dollars		
March 31, 2018	Proceeds	Realized Gains	Realized Loss
Available-for-sale—Equity securities	$276	$38	

The impairment losses on available for sale equity securities for the year ended March 31, 2018, was ¥34 million ($318 thousand).

5. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished products and merchandise	¥5,254	¥6,111	$49,443
Work in process	1,184	1,101	11,144
Raw materials and supplies	3,313	3,493	31,172
Total	¥9,751	¥10,705	$91,759

6. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments—New Japan Machinery Corporation	¥858	¥774	$8,075
Total	¥858	¥774	$8,075

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

Short-term bank loans at March 31, 2018 and 2017, consisted of bank overdrafts. The weighted-average interest rate applicable to the short-term bank loans was 0.6% at March 31, 2018 and 2017.

Long-term debt at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unsecured loans from banks, with interest rate at 3.4% (2018 and 2017)	¥1,063	¥1,122	$10,000
Obligations under finance leases	5	8	48
Total	1,068	1,130	10,048
Less current portion	(3)	(3)	(28)
Long-term debt, less current portion	¥1,065	¥1,127	$10,020

Annual maturities of long-term debt at March 31, 2018, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥3	$28
2020	1	13
2021	1	7
2022	1,063	10,000
Total	¥1,068	$10,048

8. COMMITMENT LINE CONTRACTS

In order to raise funds efficiently, the Company has entered into a commitment line contract with four financial institutions, of which Mizuho Bank, Ltd. is the arranger. The contract provided the Company with a commitment line of ¥3,000 million ($28,230 thousand) as of March 31, 2018. The Company had no borrowings outstanding under the agreement as of March 31, 2018.

9. RETIREMENT AND PENSION PLANS

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

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

(1) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥2,766	¥2,765	$26,025
Current service cost	162	165	1,524
Interest cost	23	23	220
Actuarial losses	83	15	782
Benefits paid	(125)	(198)	(1,180)
Others	(4)	(4)	(36)
Balance at end of year	¥2,905	¥2,766	$27,335

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥2,462	¥2,427	$23,172
Expected return on plan assets	30	31	286
Actuarial (losses) gains	(2)	1	(21)
Contributions from the employer	186	182	1,750
Benefits paid	(125)	(180)	(1,180)
Others	1	2	5
Balance at end of year	¥2,552	¥2,463	$24,012

(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
	2018	2017	2018
Funded defined benefit obligation	¥2,803	¥2,665	$26,378
Plan assets	2,552	2,463	24,012
Total	251	202	2,366
Unfunded defined benefit obligation	102	101	957
Liability for stock granting retirement	133	116	1,253
Net liability arising from defined benefit obligation	¥486	¥419	$4,576

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥486	¥419	$4,576
Net liability arising from defined benefit obligation	¥486	¥419	$4,576

(4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥162	¥165	$1,524
Interest cost	23	23	220
Expected return on plan assets	(30)	(31)	(286)
Recognized actuarial losses (gains)	11	(1)	103
Stock granting cost	38	32	359
Net periodic benefit costs	¥204	¥188	$1,920

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial gains	¥(56)	¥(3)	$(531)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial gains	¥(59)	¥(2)	$(556)

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
General account managed by a life insurance company	99.9%	99.3%
Others	0.1	0.7
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, 2018 and 2017, are set forth as follows:

	2018	2017
Discount rate	Mainly 0.60%	Mainly 0.60%
Expected rate of return on plan assets	Mainly 1.25%	Mainly 1.25%
Expected rate of future salary increase	Mainly 1.90%	Mainly 1.90%

10. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.9% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Accrued bonuses	¥191	¥186	$1,800
Provision for product warranties	34	34	319
Accrued enterprises taxes	38	46	354
Unrealized gain on sale of inventory	61	119	570
Unrealized gain on sale of property	22	22	208
Liability for retirement benefits	127	125	1,193
Loss on revaluation of investment securities	34	24	322
Tax loss carryforwards	31	79	292
Other	239	234	2,251
Less valuation allowance	(85)	(137)	(802)
Total	692	732	6,507
Deferred tax liabilities:			
Reserve for deferred gains on sales of property	346	346	3,260
Unrealized gain on available-for-sale securities	2,002	1,614	18,840

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Other	37	78	348
Total	2,385	2,038	22,448
Net deferred tax liabilities	¥(1,693)	¥(1,306)	$(15,941)

As the differences between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income and comprehensive income for the years ended March 31, 2018 and 2017, are less than 5% of the normal effective statutory tax rate, a reconciliation is omitted.

At March 31, 2018, some subsidiaries have tax loss carryforwards aggregating approximately ¥148 million ($1,389 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥30	$284
2020	60	562
2021		
2022	3	24
2023 and thereafter	55	519
Total	¥148	$1,389

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥529 million ($4,978 thousand) and ¥453 million for the years ended March 31, 2018 and 2017, respectively.

13. LEASES

The Group leases certain vehicles.

Lease payments under finance leases for the years ended March 31, 2018 and 2017, were ¥3 million ($29 thousand) and ¥3 million, respectively.

Obligations under finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥3	¥3	$28
Due after one year	2	5	20
Total	¥5	¥8	$48

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets. Bank loans are used to fund its ongoing operations.

Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in Note 15.

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

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

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

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

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

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

(3) Risk Management for Financial Instruments

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

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

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

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

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

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

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥13,713	¥13,713	
Time deposits other than cash equivalents	1,158	1,158	
Receivables	21,571	21,571	
Investment securities	8,966	8,966	
Total	¥45,408	¥45,408	
Short-term bank loans	¥210	¥210	
Payables	9,785	9,785	
Long-term debt	1,068	1,057	¥11
Total	¥11,063	¥11,052	¥11
Derivatives	¥(167)	¥(167)	

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥12,219	¥12,219	
Time deposits other than cash equivalents	718	718	
Receivables	19,431	19,431	
Investment securities	7,728	7,728	
Total	¥40,096	¥40,096	
Short-term bank loans	¥210	¥210	
Payables	8,980	8,980	
Long-term debt	1,130	1,145	¥(15)
Total	¥10,320	¥10,335	¥(15)
Derivatives	¥(352)	¥(352)	

	Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$129,038	$129,038	
Time deposits other than cash equivalents	10,896	10,896	
Receivables	202,985	202,985	
Investment securities	84,371	84,371	
Total	$427,290	$427,290	
Short-term bank loans	$1,977	$1,977	
Payables	92,068	92,068	
Long-term debt	10,048	9,947	$101
Total	$104,093	$103,992	$101
Derivatives	$(1,570)	$(1,570)	

Cash and Cash Equivalents and Time Deposits Other Than Cash Equivalents

The carrying values of cash and cash equivalents and time deposits other than cash equivalents approximate fair value because of their short maturities.

Investment Securities

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

Receivables and Payables

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

Short-Term Bank Loans and Long-Term Debt

The carrying values of short-term bank loans approximate fair value because of their short maturities.

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥997	¥1,024	$9,390

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

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2018	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	¥13,713		$129,038	
Time deposits other than cash equivalents	1,158		10,896	
Receivables	21,571		202,985	
Investment securities	66		622	
Total	¥36,508		$343,541	

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

15. DERIVATIVES

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2018	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts —								
Selling U.S.$	¥1,016	¥1,016	¥49	¥49	¥9,561	¥9,561	¥459	¥459
Currency swap contracts—								
Selling U.S.$	756	756	(216)	(216)	7,114	7,114	(2,029)	(2,029)
March 31, 2017								
Foreign currency forward contracts—								
Selling U.S.$	¥1,016	¥1,016	¥1	¥1				
Currency swap contracts—								
Selling U.S.$	992	992	(353)	(353)				

Derivative Transactions to Which Hedge Accounting Is Applied

	Thousands of U.S. Dollars			
March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	$10,000	$10,000	
March 31, 2017				
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	$10,000	$10,000	

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

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

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

16. CONTINGENT LIABILITIES

At March 31, 2018, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Export trade bill discounted	¥147	$1,388

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income (loss), including reclassification adjustments and tax effects for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥1,235	¥1,034	$11,624
Reclassification adjustments to profit or loss	34		318
Amount before income tax effect	1,269	1,034	11,942
Income tax effect	(388)	(315)	(3,655)
Total	¥881	¥719	$8,287
Foreign currency translation adjustments—			
Adjustments arising during the year	¥(27)	¥(421)	$(256)
Total	¥(27)	¥(421)	$(256)
Defined retirement benefit plans:			
Adjustments arising during the year	¥(56)	¥(3)	$(531)
Amount before income tax effect	(56)	(3)	(531)
Income tax effect	17	1	164
Total	¥(39)	¥(2)	$(367)
Share of other comprehensive income (loss) in associates—			
Gains (loses) arising during the year	¥1	¥2	$11
Total	¥1	¥2	$11
Total other comprehensive income (loss)	¥816	¥298	$7,675

18. NET INCOME PER SHARE

Basis for the computation of net income per share ("EPS") for the years ended March 31, 2018 and 2017, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2018	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥2,762	21,241	¥130.03	$1.22
Year Ended March 31, 2017				
Basic EPS—Net income available to common shareholders	¥2,867	21,370	¥134.18	

As noted in Note 2.k, 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 (809 thousand shares in 2018 and 820 thousand shares in 2017) is reflected.

19. SEGMENT INFORMATION

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

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, geographic segments of the Group consist of Japan, United States of America, Asia and Europe. Japan includes the Company, "Denyo Kosan Co., Ltd." and "Nishinihon Generator Mfg. 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						
	2018						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥37,917	¥8,077	¥3,857	¥331	¥50,182		¥50,182
Intersegment sales or transfers	3,809	275	3,535	4	7,623	¥(7,623)	
Total	¥41,726	¥8,352	¥7,392	¥335	¥57,805	¥(7,623)	¥50,182
Segment profit	¥2,234	¥782	¥382	¥7	¥3,405	¥497	¥3,902
Segment assets	62,056	6,241	10,605	461	79,363	(6,774)	72,589
Other:							
Depreciation and amortization	485	157	557		1,199		1,199
Investments in associated companies	858				858		858
Increase in property, plant and equipment and intangible assets	400	451	19		870		870

	Millions of Yen						
	2017						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥36,837	¥7,856	¥3,751	¥408	¥48,852		¥48,852
Intersegment sales or transfers	4,345	265	3,196	5	7,811	¥(7,811)	
Total	¥41,182	¥8,121	¥6,947	¥413	¥56,663	¥(7,811)	¥48,852
Segment profit	¥2,638	¥1,050	¥358	¥8	¥4,054	¥193	¥4,247
Segment assets	57,882	6,083	11,155	638	75,758	(7,080)	68,678
Other:							
Depreciation and amortization	540	123	549		1,212		1,212
Investments in associated companies	774				774		774
Increase in property, plant and equipment and intangible assets	205	254	53		512		512

	Thousands of U.S. Dollars						
	2018						
	Reportable Segment						
	Japan	United States of America	Asia	Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	$356,803	$76,008	$36,291	$3,111	$472,213		$472,213
Intersegment sales or transfers	35,845	2,590	33,260	34	71,729	$(71,729)	
Total	$392,648	$78,598	$69,551	$3,145	$543,942	$(71,729)	$472,213
Segment profit	$21,025	$7,361	$3,591	$67	$32,044	$4,675	$36,719
Segment assets	583,951	58,729	99,789	4,338	746,807	(63,746)	683,061
Other:							
Depreciation and amortization	4,561	1,482	5,232	3	11,278		11,278
Investments in associated companies	8,075				8,075		8,075
Increase in property, plant and equipment and intangible assets	3,765	4,247	182		8,194		8,194

Related Information

(1) Information about Products and Services

Information about products and services for the years ended March 31, 2018 and 2017, is omitted since sales to external customers in a single product line (generators, welders, compressors, and other related products) accounted for more than 90% of the total consolidated sales.

(2) Information about Geographical Areas

Sales to external customers and property, plant and equipment by geographical areas for the years ended March 31, 2018 and 2017, are summarized as follows:

	Millions of Yen				
	2018				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	¥31,212	¥10,383	¥5,939	¥2,648	¥50,182
Property, plant and equipment	9,087	1,223	3,837	1	14,148

	Millions of Yen				
	2017				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	¥29,252	¥10,311	¥6,480	¥2,809	¥48,852
Property, plant and equipment	9,119	961	4,419	1	14,500

	Thousands of U.S. Dollars				
	2018				
	Japan	North and Central America	Asia	Other Areas	Total
Sales to external customers	$293,703	$97,702	$55,882	$24,926	$472,213
Property, plant and equipment	85,507	11,511	36,106	6	133,130

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

(3) Information about Major Customers

Sales to major customers for the years ended March 31, 2018 and 2017, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Name of Customers	2018	2017	2018	Related Segment
Multiquip Inc.	¥8,077	¥7,856	$76,008	United States of America

20. RELATED-PARTY TRANSACTIONS

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

The transactions with the associates for the years ended March 31, 2018 and 2017, and related balances at March 31, 2018 and 2017, were mainly as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Transactions—Sales	¥2,936	¥2,948	$27,630
Balances:			
Trade notes receivable	¥1,594	¥1,723	$14,995
Trade accounts receivable	845	717	7,950

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's Board of Directors' meeting held on May 17, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 ($0.24) per share	¥552	$5,199

* * * * * *

Independent Auditor’s Report

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

We have audited the accompanying consolidated balance sheet of Denyo Co., Ltd. and its subsidiaries as of March 31, 2018, and the related consolidated statements of income and 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 Denyo Co., Ltd. and its subsidiaries as of March 31, 2018, 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.

June 29, 2018

Deloitte Touche Tohmatsu LLC

Deloitte Touche Tohmatsu LLC

Company Data

Company outline (As of March 31, 2018)

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.$18,394,971)
Authorized shares	97,811,000
Issued Shares	22,859,660
Shareholders	4,192
Financial Year	April 1 to March 31
Employees	561 (1,277 consolidated)
Branch and Sales offices	21

Directors, Audit Supervisory Board Members (As of June 28, 2018)

President	**Shoichi Shiratori**	
Representative Director, Executive Vice President	**Yoji Eto**	General Manager, Global Marketing Office Responsible for sales Division, Quality Management Division
Director & Executive Advisor	**Hideaki Kuboyama**	
Director, Managing Executive Officer	**Teruo Yashiro**	Responsible for Production Division, Development Division, Overseas Manufacturing Subsidiary
Director, Managing Executive Officer	**Yasuo Mizuno**	Chief Executive, Sales Division Responsible for Overseas Sales Subsidiary
Director, Senior Executive Officer	**Toshiya Tozawa**	Chief Executive, Adminstration Division
Director	**Haruhito Takada***	
Director	**Reiko Asahina***	
Audit & Supervisory Board Member	**Toru Masui**	
Audit & Supervisory Board Member	**Masaru Sugiyama**	
Audit & Supervisory Board Member	**Akira Yamada***	
Audit & Supervisory Board Member	**Yoshio Takeyama***	

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

Executive Officers (As of June 28, 2018)

Senior Executive Officer	**Satoru Kato**	Chief Executive, Quality Management Division
Senior Executive Officer	**Yasuhiro Yamada**	Head of International Sales Unit General Manager, International Sales Department I Sales Division
Senior Executive Officer	**Fumitoshi Arimitsu**	President of Nishinihon Generator Mfg. Co., Ltd.
Senior Executive Officer	**Sampei Sato**	Chief Executive, Development Division
Senior Executive Officer	**Makoto Tanabe**	General Manager, Planning & Coordination Department, Finance Department Administration Division
Executive Officer	**Kenichi Hamanosono**	Executive Officer of Denyo Kosan Co., Ltd.
Executive Officer	**Kensaku Moriyama**	Head of Domestic Sales Unit General Manager, East Japan Sales Department Sales Division
Executive Officer	**Chiyoki Kimura**	General Manager, General Affairs Department Administration Division
Executive Officer	**Michio Nonaka**	Chief Executive, Production Division
Executive Officer	**Toshiaki Shimazu**	General Manager, Production Management Department
Executive Officer	**Toru Hiroi**	General Manager, Development Department, Patent Administration Department Development Division
Executive Officer	**Takanori Yoshinaga**	General Manager, Engineering Department Development Division
Executive Officer	**Yukio Nunogami**	General Manager, West Japan Sales Department Sales Division
Executive Officer	**Masao Yamada**	General Manager, Quality Management Department Quality Management Division

Business Lines

Manufacture and sales of:

Generators	Engine-driven Generators Stand-by Generating Sets General-use Generating Sets AC Generators
Welders	Engine-driven Welders Welding Generators Welding Jigs Automatic Welding Equipment
Compressors	Engine-driven Air Compressors Motor-driven Air Compressors
Other Products	Water-related Equipment 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

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

Nishinihon Generator Mfg. 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

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

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

Investor Information

(As of March 31, 2018)

Head Office	2-8-5, Nihonbashi-horidomecho, Chuo-ku, Tokyo 103-8566, Japan Tel: 81-3-6861-1111 Fax: 81-3-6861-1181
Financial Year	April 1 to March 31
Common Stock	Authorized shares: 97,811,000 Issued shares: 22,859,660 (Included 760,731 shares of Company's own stock)
Stock Listing	Tokyo Stock Exchange, First Section (Code: 6517)
Shareholders	4,192
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, 2018)

Shareholders	**Shares Held** (Thousands)	**Voting Right Ratio** (%)
Kyuei Corporation	1,600	7.24
Mizuho Trust & Banking Co., Ltd.	1,103	4.99
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,000	4.52
The Dai-ichi Life Insurance Co., Ltd	872	3.94
Trust & Custody Services Bank, Ltd. (Trust E Account)	807	3.65
Japan Trustee Services Bank,Ltd. (Trust Account)	658	2.97
Denyo Shin-eikai Group	593	2.68
Tsurumi Manufacturing Co., Ltd	543	2.45
Northern Trust Co. (AVFC) Re Fidelity Funds	543	2.45
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	540	2.44

Denyo Co., Ltd.

http://www.denyo.co.jp

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