



ANNUAL REPORT
2019

OSAKI ELECTRIC CO.,LTD.

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Financial Highlights

Osaki Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of
	2015	2016	2017	2018	2019	U.S. dollars
For the year:						
Net sales	¥ 77,366	¥ 75,596	¥ 86,159	¥ 78,780	¥ 82,089	\$ 739,610
Operating income	3,270	3,738	7,692	5,544	4,299	38,733
Profit attributable to owners of parent	2,754	1,493	3,803	2,666	1,806	16,274
At year-end:						
Total assets	89,579	87,428	92,206	85,785	98,314	885,792
Total equity	50,537	51,028	55,347	57,924	58,881	530,513
Number of employees	3,069	3,077	3,078	2,960	3,383	
Per share of common stock:						
	Yen					U.S. dollars
Net income	¥ 74.30	¥ 33.46	¥ 80.65	¥ 54.63	¥ 36.95	\$ 0.33
Cash dividends	15.00	12.00	20.00	20.00	20.00	0.18
Equity	875.32	854.31	913.09	958.80	974.95	8.78

Notes : U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥110.99=U.S.\$1
the approximate Tokyo foreign exchange market rate as of March 31, 2019

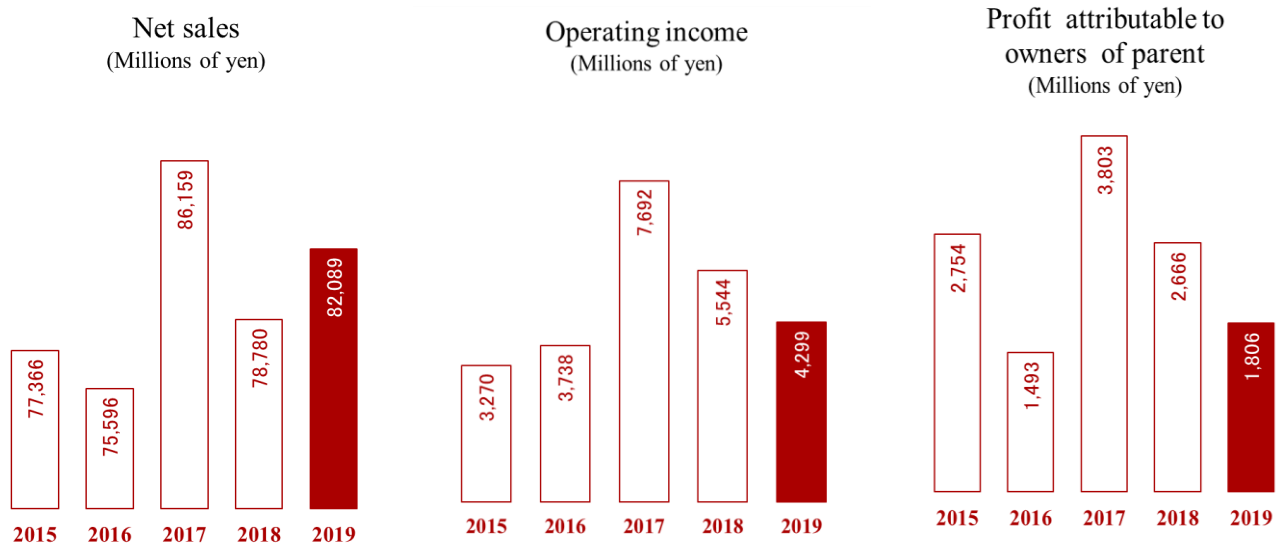
Business segments -**Measurement and control equipment:**

Watt-hour meters, Instrument VCT, Distribution panels & Supervisory control boards, Optical communication device,
Meter reading systems.

FPD Assembly equipment:

Sensor related equipment, Energy related equipment, FPD related equipment.

Real estate: Estate for rent.



Message from the Chairman and President

TO OUR SHAREHOLDERS

Since its founding in 1916, OSAKI has remained committed to the effective application of energy through power measurement and control. Our core product, the smart meter commands a top-class position within Japan, and continue to accelerate global enterprise—an effort marked by bringing the global manufacturer of smart meters, EDMI, into our fold in 2012. OSAKI business operations now span over 100 countries across Japan, Australasia, Europe, ASEAN, and Africa.

OSAKI has set forth the vision “Global Energy Solution Leader” in its commitment to energy-related challenges faced by society worldwide. Among the nations of our world, the business environment for smart meters continues to experience significant shifts, while IoT and AI technologies are advancing rapidly. OSAKI is joining forces with diverse business partners to implement enhanced functionality to smart meters and innovative IoT solutions with AI for the global markets.

We believe that OSAKI has an exciting future ahead of us, and we ask that you join our journey to realize better tomorrow.

Y. Watanabe
Chairman and CEO
OSAKI Electric Co., Ltd.

M. Watanabe
President and COO
OSAKI Electric Co., Ltd.

The forward-looking statements in this document of matters best assumed by OSAKI Group (hereafter as “OSAKI” or “the Group”) as of the end of the consolidated fiscal period under review.

Management Policy

1. Basic Corporate Policy

OSAKI has set forth the corporate vision "Global Energy Solution Leader" in its commitment to energy-related challenges faced by society worldwide. We will challenge for advanced technologies, create new values and be responsible for a better society through our energy solutions.

2. Medium- to Long-Term Management Strategies and Issues to Be Addressed

Demand for smart meters in the Japanese market has reached its peak and expected to decrease in the next five years. Under these business conditions, OSAKI will carry out the following strategies to complement the sales decrease of smart meters in Japan and to sustain profit growth.

(1) Expanding Global Business

Under OSAKI's supervision, EDMI, a subsidiary headquartered in Singapore, will execute the following measures in the focus regions including Australasia, UK, and the Middle East.

- Elevate global presence by leveraging existing contracts of smart meters and other hardware business for revenue
- Increase profits by reinforcing solutions and the value proposition such as Solution Ecosystem including HEMS, and Software as a Cloud Service.
- Expand subscription services
- Reinforce production structure and streamline development platform

While maximizing the overseas production, Japan Office will take a leading role in production planning for the entire Group, and carry out group-wide designing and development of smart meters for better productivity.

(2) Expanding value-added smart meter businesses

- Expand smart metering solutions including energy management systems and Automatic Meter Reading services
- Develop technologies responsive to new power supply platform expected to launch in the future

(3) Developing new products and services

- Develop new products and services responsive to the coming of the digital utility era
- Collaborate with various partners including start-ups, universities, research centers, and other organizations from different industries

(4) Building resilient operations structure

- Strengthen group-wide operations in manufacturing and development
- Build strong teams by promoting greater diversity in personnel and training
- Reinforce cost control
- Promote corporate brand

3. Mid-term Management Plan

	Fiscal Year ending March 31, 2020 Forecast	Fiscal Year ending March 31, 2021 Outlook	Fiscal Year ending March 31, 2022 Outlook	(Millions of yen) Fiscal Year ending March 31, 2024 Target
Net sales	92,000	100,000	105,000	
Operating income	4,300	5,000	6,000	8,000 or more
Profit attributable to owners of parent	1,600	2,000	3,000	
ROE	3.3%	4.0%	6.0%	8.0% or more

4. Fundamental Policy Regarding Distribution of Profits

The Company sets basic policy to carry out the continual distribution of steady dividends to shareholders while providing additional performance-based dividends.

The basic policy states that, in principle, the amount distributed is higher of either a dividend payout ratio of 30% or 2% of DOE (dividend on equity).

With the goal of increasing capital efficiency, we continuously evaluate the share buy-back option while taking such factors as cash on hands, working capital, financial performance and stock price trend, and investment opportunities into consideration.

As part of our drive to increase our long-term growth in corporate value, we apply retained earnings towards R&D investments and capital expenditures that will increase our competitiveness. We also aim to use retained earnings effectively towards M&A and other business opportunities aimed at increasing earnings.

The articles of incorporation allow for an interim dividend. Consequently, the basic policy establishes semi-annual dividends from surplus as an interim dividend and year-end dividend. The board of directors authorizes the interim dividend, and the General Shareholders Meeting authorizes the year-end dividend.

Dividends of surplus during the operating year of this report with record dates

Date of Resolution	Total Dividend (Millions of yen)	Dividend per Share (Yen)
Board of directors' resolution of Oct. 31, 2018	489	10.00
Annual general shareholders meeting resolution of June 27, 2019	489	10.00

Present status of Business

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Present status of Business

1. Business Performance

(1) Overview of Operating Results of This Fiscal Year

Japanese economy during the consolidated fiscal year under review experienced a mild recovery supported by active capital expenditures and demand on domestic markets. Meanwhile, intensifying US-China trade friction and the Brexit issue in the EU has created an atmosphere of uncertainty overseas.

Amid such circumstances, the Measurement and Control Equipment Business saw continued firm demand on domestic markets for our mainstay smart meter products and the second half saw some power companies wrap up inventory adjustments. However, sales did not reach the favorable levels seen during the previous fiscal year.

Overseas, smart meter sales to Australia increased on higher demand. In addition, revenues increased on new projects in the Middle East as well as increased sales of communications hubs in the UK.

As a result, net sales increased by 4.3% (YoY) to 80,239 million yen. On the other hand, operating profit decreased by 25.0% (YoY) to 3,999 million yen. In addition to cost increases attributable to production delays caused by a lack of certain electronic parts and materials overseas, profits were also impacted by a higher cost of sales ratio attributable to changes in our product mix overseas.

Regarding Other (FPD assembly equipment business, real estate business), net sales increased 8.9% (YoY) to 2,152 million yen and operating profit increased by 42.7% (YoY) to 294 million yen. In addition to increased revenues from sensor devices and high-performance devices, real estate business occupancy rates also increased.

As a result, net sales for the consolidated fiscal year under review increased 4.2% (YoY) to 82,089 million yen, operating profit decreased by 22.5% (YoY) to 4,299 million yen, ordinary income decreased by 23.8% (YoY) to 4,293 million yen, and profit attributable to owners of parent decreased by 32.2% (YoY) to 1,806 million yen.

Consolidated Financial Results

(Millions of yen)

	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019	YoY Change	
			Amount	%
Net sales	78,780	82,089	3,308	+4.2%
Measurement and control equipment	76,947	80,239	3,291	+4.3%
Others	1,977	2,152	175	+8.9%
Adjustment	(144)	(302)	(157)	—
Gross profit	21,979	20,264	(1,715)	(7.8)%
Ratio to sales	27.9%	24.7%	—	(3.2) pt.
SG & A expenses	16,435	15,965	(469)	(2.9)%
Ratio to sales	20.9%	19.4%	—	(1.5) pt.
Operating income	5,544	4,299	(1,245)	(22.5)%
Ratio to sales	7.0%	5.2%	—	(1.8) pt.
Measurement and control equipment	5,330	3,999	(1,331)	(25.0)%
Others	206	294	88	+42.7%
Adjustment	8	5	(2)	(28.6)%
Ordinary income	5,634	4,293	(1,341)	(23.8)%
Profit attributable to owners of parent	2,666	1,806	(859)	(32.2)%
Net income per share (yen)	54.63	36.95	(17.68)	(32.4)%
ROE	5.8%	3.8%	—	(2.0) pt.

Consolidated Sales by Region (Excluding intercompany sales)

(Millions of yen)

	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019	YoY Change	
			Amount	%
Japan	59,927	57,735	(2,192)	(3.7)%
Overseas	18,852	24,353	5,501	+29.2%
Oceania	7,807	9,522	1,714	+22.0%
Europe	3,858	4,449	590	+15.3%
Asia	6,168	7,086	918	+14.9%
Others	1,017	3,295	2,277	+223.8%
Total	78,780	82,089	3,308	+4.2%
Average exchange rate	¥81.26/SGD	¥110.43/USD		

(2) Outlook for the Fiscal Year ending March 31, 2020

In Japan, the installation of smart meters is expected to complete by the Fiscal Year ending March 31, 2024, leading to a gradual decrease in demand for smart meter shipment over the next five years.

The Company expects a decrease in sales and profits in Japan due to a decline in smart meter demand and more competition. However, the Company plans to expand its solution businesses in Japan including energy management related products and services, Automated Meter Reading services, and smart locks for rental apartments.

In overseas, the business momentum is expected to be strong with a robust increase in smart meter demand mainly in Australasia, UK, and the Middle East regions. The Company has concluded supply contracts with major customers and expects an increase in sales and profits. OSAKI will reinforce its manufacturing framework, such as streamlining systems of group procurement, in response to the strong product demand.

Based on the above, the outlook for the fiscal year ending March 31, 2020, includes consolidated net sales of 92,000 million yen (up 12.1% YoY) and consolidated operating profit largely unchanged at 4,300 million yen. Based on an expected increase in financing expenses related to increasing demand for operating capital overseas, we are forecasting ordinary income of 3,900 million yen (down 9.2% YoY), and profit attributable to owners of parent of 1,600 million yen (down 11.4% YoY).

Consolidated Forecast

(Millions of yen)

	Fiscal Year ended March 31, 2019 Actual	Fiscal Year ending March 31, 2020 Forecast	YoY Change	
			Amount	%
Net sales	82,089	92,000	9,910	+12.1%
Operating income	4,299	4,300	0	+0.0%
Ordinary income	4,293	3,900	(393)	(9.2)%
Profit attributable to owners of parent	1,806	1,600	(206)	(11.4)%

2. Overview of Financial Condition for This Fiscal Year

As of the end of the consolidated fiscal year ended March 31, 2019, total assets increased 12,528 million yen (YoY) to 98,314 million yen on increased cash and deposits of 3,140 million yen. Also, overseas, notes and accounts receivable-trade increased 2,106 million yen and inventories increased 7,059 million yen.

Total liabilities increased 11,571 million yen (YoY) to 39,432 million yen. Notes and accounts payable-trade and electronically recorded obligations-operating increased 3,246 million yen, short-term and long-term loans payable increased 7,594 million yen, and other current liabilities increased 516 million yen.

Net assets increased 957 million yen (YoY) to 58,881 million yen on increased retained earnings of 827 million yen and a 74 million yen decrease in treasury shares deducted from net assets.

(Millions of yen)

	Total assets	Total liabilities	Total equity	Equity ratio
As of March 31, 2019	98,314	39,432	58,881	48.5%
As of March 31, 2018	85,785	27,861	57,924	54.5%
YoY Change	12,528	11,571	957	(6.0) pt.

3. Cash Flows

The balances of cash and cash equivalents for the consolidated fiscal year under review increased 2,720 million yen (YoY) to 16,422 million yen.

The status of cash flows for the consolidated fiscal year under review and major factors is as follows.

(Millions of yen)

	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019	YoY Change
Cash flows from operating activities	8,110	76	(8,033)
Cash flows from investing activities	(4,305)	(2,818)	1,487
Cash flows from financing activities	(5,510)	5,739	11,250
Cash and cash equivalents at end of year	13,701	16,422	2,720

(1) Cash flows from operating activities

Cash flows from operating activities resulted in net cash acquired of 76 million yen. Major factors included depreciation of 2,634 million yen, goodwill amortization of 204 million yen, an increase of 2,067 million yen in accounts receivable-trade, an increase of 7,101 million yen in inventories, an increase of 3,270 million in accounts payable-trade, 417 million yen in other increased capital, and 1,602 million yen in income taxes paid.

(2) Cash flows from investing activities

Cash flows from investing activities resulted in 2,818 million yen in net cash used. Major factors included the purchase of property, plant, and equipment of 1,611 million yen and 1,000 million yen in expenditures for long-term deposits.

(3) Cash flows from financing activities

Cash flows from financing activities resulted in 5,739 million yen of net cash gained. Major factors include an increase of 7,528 million yen in short-term and long-term loans payable and 1,720 million yen in dividend payments including non-controlling interests.

4. Business Environment and Responses to Business Challenges**(1) Important Accounting Policy**

OSAKI Group consolidated financial statements are created based on Japanese generally accepted accounting principles. When creating these consolidated financial statements, we apply various factors deemed reasonable based on past earnings and current conditions to make estimates and judgments. However, actual results may vary from these estimates due to uncertainties specific to estimates.

As of the beginning of the consolidated fiscal period under review, we apply the Partial Amendments to Accounting Standard for Tax Effect Accounting (Corporate Accounting Standard No. 28; February 16, 2018). We conducted a comparison and analysis of our financial status with the previous consolidated fiscal period after having retroactively applied the said standard.

(2) Earnings Analysis of This Fiscal Year

Looking at the Measurement and Control Equipment Business in Japan, our Group responded to the nationwide push for smart meter installation by establishing a supply structure that enabled us to maintain a strong market share. We also completed the development of a smart meter for a product launch next fiscal year that achieves both quality improvements and cost reductions. Additionally, we promoted the development of new revenue streams by aggressively pursuing sales of products and services related to energy management systems that assist in the effective use of energy resources as well as sales of a smart metering system that enables automated batch meter reading and management. This resulted in increased sales of BEMS products for buildings and commercial facilities and HEMS products for residential housing.

As a result, domestic net sales were largely on par with original plans but were below the particularly favorable levels of the previous fiscal period, resulting in a year-on-year decline in net sales.

Overseas, sales in Oceania increased significantly thanks to smart meter installations in eastern Australia. New projects in the Middle East also contributed to sales. However, expected sales growth in the latter half of the fiscal year in the UK did not materialize, meaning that, despite increased sales of communications hubs, we will not see substantial smart meter shipments until the next fiscal period.

As a result, overseas net sales were below targets but still increase year-on-year.

Looking at Other (FPD assembly equipment business, real estate business), the FPD assembly equipment business benefitted from a sales strategy of focusing on highly profitable sensor devices, high-performance devices, and energy and lighting equipment as well as new client development efforts. The real estate business worked to improve occupancy rates by renovating rental properties to match market needs.

Overall, net sales were largely on par with original plans, resulting in a year-on-year increase in net sales.

As a result of the above, consolidated net sales were 82,089 million yen, which was 3,910 million yen (4.5%) below initial plans but up 3,308 million yen (4.2%) compared to the previous fiscal period.

Looking at profits, selling, general and administrative expenses decreased 469 million yen (YoY), but in overseas markets, cost of sales ratio became higher because of production delays due to difficulty in procuring certain parts and materials as well as to a change in our product mix. These factors resulted in an operating profit of 4,299 million yen, which was 1,700 million yen (28.3%) below initial plans and down 1,245 million yen

(22.5%) compared to the previous fiscal period.

Consolidated ordinary income was 4,293 million yen, which was 1,706 million yen (28.4%) below initial plans and down 1,341 million yen (23.8%) compared to the previous fiscal period. Profit attributable to owners of parent was 1,806 million yen, which was 1,493 million yen (45.3%) below initial plans and down 859 million yen (32.2%) compared to the previous fiscal period.

As indicated above, domestic earnings were largely on par with plans but overseas earnings were below initial plans due to production delays caused by the insufficient procurement of certain electronic parts and materials. In response, this fiscal year we migrated to a structure through which we as parent company take a leading role in overseas production and materials procurement. From the next fiscal period, we will strengthen our global production structure as we seek to expand demand.

(3) Capital sources and capital liquidity

The capital required for Group operating activities mainly comes from capital earned through cash flows from operating activities. At the same time, we also maintain liquidity through capital procurement using bank loans when capital is needed to cover a period prior to the collection of receivables.

Our main capital demands for the fiscal year ended March 31, 2019 are as follows.

- Strategic parts and materials purchasing for business sales growth and overseas production expansion
- R&D expenses related to increasing the added value of smart meters and for product and service development in new businesses
- Capital expenditures aimed at increasing the competitiveness of our smart meters and strengthening our global production structure

We engage in Group capital financing to promote the effective use of Group capital and increase capital efficiency. At the same time, we engage in capital procurement based on comprehensive evaluations of timing, and interest rate trends in domestic and overseas markets. We also consider the impact on our financial indicators such as our equity ratio, D/E ratio, and ROE.

Management resources are used towards investments in growing overseas businesses, establishing new businesses, and increasing the added value of smart meters as well as to enhance shareholder returns.

5. Risks in Business Operations

OSAKI Group recognizes that the following risks factors may produce a serious impact on Group earnings and financial status. It is noted that future risks outlined in this document are judged by management as the best assumption as of the end of the consolidated fiscal period under review.

(1) Demand fluctuation risks

Product demand may fluctuate due to the political, economic conditions or policies of a given region, as well as customer business performance, strategy, or capital expenditure plans.

Under Japan's Measurement Act, the service life of smart meters and other power meters is set at 10 years. Likewise, in the international markets, laws require replacement after stipulated service life, although the service life differs by regions. As such, the market cycles show that demand increases during replacement periods and decreases after hitting the replacement peak.

In response to the cyclic product demand, the Group expands its operations in regions, including Oceania, Europe, and Asia, and while working to generate new demand and acquire new customers in an effort to disperse the impact of demand fluctuations, not all initiatives will proceed as expected, and the Group earnings could be impacted by a significant fluctuation in demand.

(2) Pricing competition risks

The smart meters market is competitive in and outside of Japan, making pricing an important competitive factor. To avoid excessive price competitions, the Group selects markets that assess quality, safety, and added value as important procurement factors. While the Group continues to improve productivity and quality, it is difficult to completely avoid price competitions. As such, Group earnings could be impacted by a significant drop in prices or the large volume of products sold at lower-than-expected pricing.

(3) Product and service quality risks

While OSAKI has established a strict quality control system to ensure products meet the established quality control standards and to prevent defective products from being distributed to the market, the Group earnings could be impacted by an incident requiring a product recall, exchange, or compensation for damages.

(4) Customer concentration risks

Major customers of OSAKI, including Japanese power companies and overseas energy supply companies, account for over half of the Group consolidated net sales. OSAKI works to strengthen relationships by serving as business partners to its customers while expanding its businesses to new customers. However, Group earnings could be impacted by the demand conditions, strategies, operating environments, and capital expenditure plans of major customers.

(5) Overseas business risks

OSAKI conducts global operations mainly in Oceania, Europe, and Asia, contributing roughly 30% of the consolidated net sales. Recognizing global business growth as a core component of the medium- to the long-term management plan, the Group promotes synergy by assigning management members to serve executive positions at the global subsidiary. OSAKI also encourages personnel interaction between various departments to promote the sharing of corporate philosophies, business strategy, development, production technology, and quality standards.

However, compared to Japan, overseas markets have a greater level of uncertainty in terms of political and economic conditions and legal systems. As a result, Group earnings may be impacted by sudden market changes, product delays or other factors.

(6) Currency rate fluctuation risks

Overseas subsidiary profits and assets are subjected to currency rate fluctuations. OSAKI executes forward exchange contracts to mitigate the impact of currency fluctuations. However, Group earnings and financial status may be impacted by sudden currency rate fluctuations.

(7) Raw material and component procurement risks

The Group procures the majority of raw materials and components from external sources. The Group focuses on purchasing based on multi-sourcing and adequate pricing. Vendors are selected based on quality standards. OSAKI also continuously makes specifications revisions and minor model changes to our mainstay power meters for the purpose of improving functions and quality as well as to reduce costs. As such, the procurement of parts and materials is based on a variety of factors, including expected orders, order lead time, and the timing of product model updates. At the same time, the Group also works to ensure timely ordering and the appropriate maintenance of inventory levels.

However, strains on demand and supply, supply delays, price increases, and other factors can result in the inability to sufficiently procure raw materials and parts. Such conditions could have an impact on production activities. Furthermore, Group earnings and financial status could be impacted in a case where multiple customers require specification changes within a short timeframe and we incur valuation losses or disposal losses on parts and

materials no longer needed.

(8) New business risks

The Group engages in new business creation with the goal of supporting continuous growth. Business development activities involve the use of its resources as well as collaborations with various corporations, experts, and academics.

However, due to the accelerating speed of technological innovation, it can be difficult to establish and maintain a competitive advantage in domains with competition from businesses operating in various fields and industries. Furthermore, a certain amount of time is required to stabilize the income generation. As such, Group profitability could decline in cases where business development efforts do not go as expected or there is a need to reevaluate our strategy.

(9) Disaster-related production risks

The Group has dispersed our production sites throughout Japan and overseas and implements safety measures. However, Group earnings and financial status could be impacted in the event a natural disaster such as a large-scale earthquake or typhoon, or an accidental disaster such as fire causes serious damage to a production site or in case of a long-term stoppage of production or shipments that has an impact on group business activities.

6. Research and Development

We develop and improve our products and services by engaging in flexible personnel assignments and investing in R&D to ensure our ability for rapid responses to changes in our operating environment and customer demands. Group total R&D investments for the consolidated fiscal period under review were 3,059 million yen.

R&D activities are mainly conducted for the Measurement and Control Equipment Business.

For the domestic power meter market, we focused on R&D related to smart meters. As power companies move closer to the full adoption of smart meters, we are partnering with Group companies on R&D related to power meters that match market needs. We focused on R&D aimed at increasing competitiveness by expanding our product line and addressing technical demands related to communications functions for smart meters.

On the domestic systems equipment market, we worked on the development of energy management systems equipment and services as well as batch meter reading systems for buildings and commercial facilities, which optimize energy supply and demand and promote labor savings. At the same time, we advanced the development of our equipment, systems, and server environment for the “watch Series” we are developing as a new business.

Overseas, we have established development centers in such countries as Singapore, Australia, and the UK where we are promoting R&D related to smart meter units, software, and communications terminals. In particular, we focused on the development of electricity meters, gas meters, and software development to address the UK smart meter project planned for full-scale release next fiscal year. In Oceania, we also focused on developing a new means of communications that are compatible with existing smart meters as well as on reducing the cost of smart meters for emerging countries.

7. Plant and Facilities

Overview of Capital Expenditures

Our Group conducts continuous capital expenditures for the purpose of maintaining and increasing production capacity and enhancing and strengthening our R&D functions. For the consolidated fiscal year under review, we conducted 1,885 million yen in capital expenditures.

In the Measurement and Control Equipment Business, we invested 1,840 million yen mainly on capital expenditures related to electricity meters as well as 45 million yen in investments in other areas.

Furthermore, there were no significant sales or disposal of equipment.

8. Corporate Governance

(1) Fundamental Approach to Corporate Governance

Osaki Electric recognizes that the enhancement of corporate governance is one of the most important issues in terms of achieving management's goal of enhancing corporate value. The Group is committed to serving the interest of our stakeholders. Moreover, the Osaki Group will further improve management efficiency and transparency, and aim for fair management practices. We make continuous efforts in pro-active, prompt information disclosures, and enhance disclosures such as corporate details through the Internet.

(2) Overview of Corporate Governance Organization

Osaki Electric adopts a statutory auditor system. The Company established the board of auditors that includes outside auditors, provides an auditing function by statutory auditors, and thus serves as a management oversight function. The auditors consist of four members, of whom two are outside auditors who maintain independence and objectivity of management oversight functions by providing an external checking function. Moreover, one statutory auditor has accounting experience in serving as the director of accounting for the Company with considerable knowledge of finance and financial accounting.

The directors consist of fifteen members. Two of these members are independent outside directors, who participate in management as members of the board of directors, from whom appropriate advice concerning overall management of the Company can be solicited, and by whom decision-making and oversight functions of the board of directors can be reinforced. These benefits are considered to be an asset in improving the enterprise value of the Company.

In accordance with the “Statutes Partially Revising the Companies Law” (2014 Statute No. 90) instituted on May 1, 2015, the Company executed agreements, based on Article 427, Section 1 with the non-executive directors and auditors that limit liability for compensation of damages provided in Article 423, Section 1 of the Companies Law. Authorization of such limited liability based on the agreements is restricted to good intentions and no serious negligence in the execution of duties that caused the liability imposed on the subject director or auditor, and the amount of limited liability for compensation of damages is set at the statutory figure.

In addition to the auditor policy that includes independent outside auditors, the Company considers the board of directors' function that includes independent outside directors to be the optimum form of corporate governance organization for the Company.

The board of directors is positioned as an organization that not only decides important matters established by law and basic management policy but also oversees the execution of business activities. In principle, the board of directors holds monthly meetings and convenes further if necessary. This practice allows the board to respond dynamically to management environment changes and service efficient operations. As the assisting function of the board meeting, management meetings attended by senior directors are held weekly in principle, in order to conduct decision-making for daily business execution and to deliberate management issues.

On February 13, 2019, we established a Nomination and Remuneration Advisory Committee to serve as an advisory body to the Board of Directors whose purpose is to improve the fairness, transparency, and objectivity of procedures related to nominations and compensation.

Overview of the Nomination and Compensation Advisory Committee

1. Structure

- (1) Comprised of three or more members who are directors and statutory auditors, the majority of which shall be appointed from among the independent outside directors and independent outside auditors.
- (2) The committee chairperson shall be appointed from among the independent outside directors.

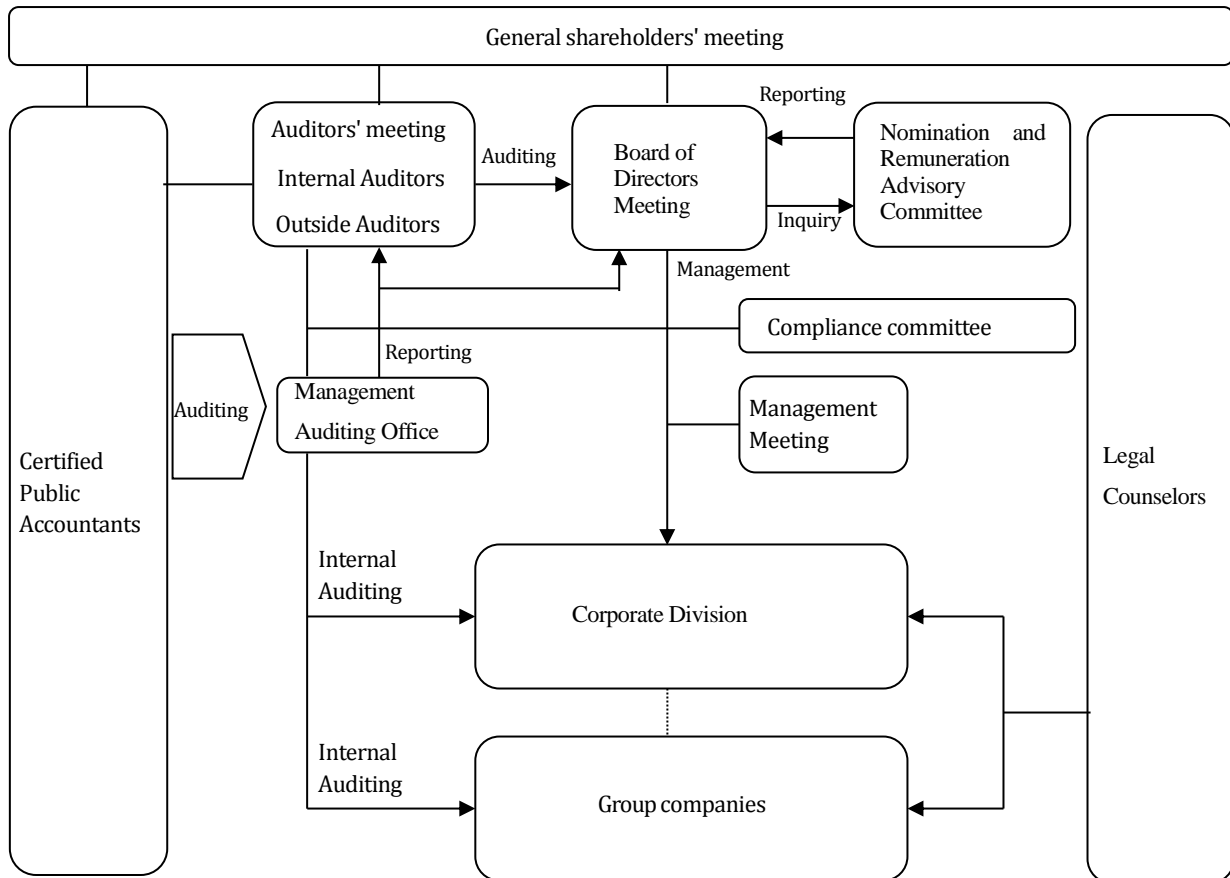
2. Role

Of the following matters, the Committee shall debate on matters presented for advice by the Board of Directors and issue a response to the Board of Directors

- (1) Matters concerning the appointment or removal of directors and statutory auditors
- (2) Standards of independence for outside officers
- (3) Matters concerning the appointment or removal of the representative director
- (4) Matters concerning the appointment or removal of executive directors
- (5) Policy on determining director compensation systems and amounts
- (6) Details of individual compensation for directors
- (7) Matters concerning limits on compensation amounts for directors and auditors
- (8) Other matters deemed necessary by the Board of Directors

In regard to compliance, the compliance committee is established to oversee compliance to all laws and regulations and social norms, and to set forth the code of practice and compliance manual at Osaki Group companies to instill the purposes of compliance. The committee also issues the Osaki Group Compliance Handbook to promote compliance awareness and maintain compliance organizations. Concerning legal and accounting matters, moreover, the committee receives appropriate advice from experts such as legal counsel and certified public accountants to satisfy legal compliance.

Diagram of the Corporate Governance System



1. Organization of Internal Controls System

Based on the Companies Law and its enactment rules, we have established fundamental policy for structuring the internal controls system, and maintain the system accordingly to secure proper operational duties as follows:

a) An organization that secures conformance to the law and articles of incorporation with respect to the execution of duties by directors and employees of the Company and its subsidiaries

- * The Company establishes the compliance committee, which sets forth the code of practice and compliance manual at the Osaki Group companies. The company also issues and promotes the Osaki Group Compliance Handbook so that officers and employees of the Company and its subsidiaries observe the law, the articles of incorporation, internal company rules, and social norms.
- * Based on management rules of the Osaki Group, the Company shall plan and implement various measures to enhance the effectiveness of the internal controls system at each subsidiary and provide guidance and support to the subsidiaries.
- * The Internal Auditing Office implements the internal audits of the Company and those subsidiaries with no internal audit department in accordance to schedule, audits the appropriateness and efficiency of duties, and makes efforts for reinforcement and improvement of the compliance organization.
- * Through appropriate operations of the helpline system, the Osaki Group shall devise early detection and correction to violations of the law and unlawful conduct by officers and employees, and thus apply efforts to reinforce the compliance organization.
- * The Osaki Group shall conduct operations based on the basic internal controls policy related to financial reporting and secure the reliability of financial reporting required by the Financial Instruments and Exchange Law.
- * As a member of society, Osaki Group, based on its code of practice, shall refrain from holding any relations with anti-social forces that threaten the order and safety of civil society, and shall respond to any eventuality with a resolute attitude.

b) Organization for storing and managing information related to the execution of duties by directors of the Company

- * The Company shall record information and documents related to the execution of duties by directors on paper or electromagnetic media and appropriately stored and managed in accordance with the board of directors meeting rules and internal corporate rules.
- * Directors and statutory auditors of the Company are entitled to have access to these documents during business hours.

c) Rules and other organizations related to managing the risk of loss of the Company and its subsidiaries

- * At the Company, each department, as well as each committee (Compliance, Quality Control, Environmental Conservation, Product Liability, Export Administration) of the Company, shall identify, analyze, and assess risks according to the Risk Management Rules and the Basic Policy for Risk Management, and prepare a Risk Map. Any recognized risk shall have necessary countermeasures instituted to reduce such a risk. At any subsidiary, the Company shall instruct the arrangement of a comparable organization and establish an organization that delivers the appropriate information to the Company in the event of any unforeseen developments.
- * The Internal Auditing Office audits the risk management status of the Company and those subsidiaries with no internal audit office through an internal audit. The office reports the results periodically at board meetings of the Company, where improvement measures will be deliberated and decided.

d) Organization to secure efficient execution of duties by directors of the Company and its subsidiaries

- * The Company establishes goals of the Company and entire Osaki Group shared by directors at the beginning of each year and prepares a specific annual operating plan to achieve the goals. Furthermore, the achievement of the goals is reviewed monthly and quarterly. Feedback of the results to departments of the Company and subsidiaries secures effectiveness and efficiency of operations.
- * The Company convenes the board of directors' meetings monthly in principle, and otherwise as necessary to respond efficiently to dynamic changes in the management environment of Osaki Group.
- * In principle, the Company convenes management meetings composed of senior directors weekly to conduct multi-faceted studies and discussions over management issues that affect the corporate Osaki Group.
- * Execution of daily duties at the Company and subsidiaries shall be based in accordance with occupational duty authority rules and internal approval process rules.

e) Organization concerning reporting to the Company regarding matters associated with executing duties by board members of subsidiaries of the Company

- * Based on operating management rules of the Osaki Group, every subsidiary of the Company bears the obligation of reporting important management matters associated with a said subsidiary to the Company.
- * For subsidiaries within Japan, the Company in principle convenes group management council meetings to discuss business performance and other necessary matters of such subsidiaries. Major subsidiaries outside Japan periodically report business performance and other important management issues to the board of directors of the Company.

f) Items regarding employee status, employee independence from directors, and securing effectiveness of direction given to the said employee, whenever a statutory auditor of the Company requests placement of an employee for assistance in the auditor's duties.

- * Dedicated employees shall be placed to assist the duties of the auditors.
- * Such employees that assist the duties of the auditor shall not hold any co-duties in a post to execute operations of the Company, shall conduct their duties under the auditor's direction and command, and shall submit to transfers with the consent of the auditor.

g) Reporting organization to statutory auditors by director or employee of the Company or by a director, statutory auditor, or employee of a subsidiary of the Company (including anyone who received a report from the foregoing), the organization to assure no unfavorable treatment as a consequence of such reporting to anyone who provides such reporting

- * Whenever a director, employee, or subsidiary's statutory auditor in the Osaki Group learns, in regard to execution of duties, of any facts concerning significant violation of the law or articles of incorporation, facts of unlawfulness, or facts that may impose significant damages to the Osaki Group, the Company shall secure an organization that reports such matters to the statutory auditors of the Company without delay.
- * The Company shall secure an organization where, in addition to items prescribed by law, directors, employees, and subsidiaries' statutory auditors in the Osaki Group shall report items that may have a serious effect on the Osaki Group, the implementation status of internal audits, and notifications regarding the group helpline system and their details to the statutory auditors of the Company without delay.
- * The Osaki Group shall refrain from imposing any unfavorable treatment like discharge or anything else to informants, for reasons of informing through the helpline system.

h) Items concerning policy associated with expenses incurred and liabilities processed in the execution of duties by statutory auditors of the Company

- * The directors of the Company shall execute necessary budgetary measures for the expenses associated with auditing, in order to secure smooth audits by the statutory auditors.

i) Organizations to otherwise secure effective auditing by statutory auditors of the Company

- * The board of directors of the Company shall secure the attendance of statutory auditors to board meetings, management meetings, and other important meetings of the Company in order to secure appropriateness of operations.
- * The representative director of the Company shall secure opportunities to regularly exchange opinions with the statutory auditors.

Consolidated Financial Statements

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Consolidated Balance Sheets

March 31, 2018, and 2019

ASSETS	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Current assets:			
Cash and cash equivalents (Note 3)	¥ 10,752	¥ 13,892	\$ 125,167
Deposits (Note 3)	3,018	2,601	23,442
Notes and accounts receivable – trade	17,730	19,836	178,726
Merchandise and finished goods	5,116	6,484	58,420
Work in process	2,407	3,766	33,935
Raw materials and supplies	5,102	9,436	85,021
Other current assets	1,873	2,510	22,619
Allowance for doubtful accounts	(717)	(605)	(5,456)
Total current assets	45,285	57,923	521,876
Non-current assets:			
Property, plant and equipment			
Buildings and structures	23,123	23,242	209,410
Less-accumulated depreciation	(13,191)	(13,675)	(123,214)
Total buildings and structures	9,931	9,566	86,195
Machinery, equipment and vehicles	14,004	13,963	125,807
Less-accumulated depreciation	(9,784)	(10,102)	(91,019)
Total machinery, equipment and vehicles	4,219	3,861	34,787
Land	12,503	12,503	112,658
Leased assets	2,052	1,986	17,895
Less-accumulated depreciation	(803)	(805)	(7,255)
Total leased assets	1,249	1,180	10,639
Construction in progress	50	186	1,677
Other fixed assets	7,676	7,454	67,164
Less-accumulated depreciation	(6,878)	(6,629)	(59,726)
Total other fixed assets	798	825	7,437
Net property, plant and equipment	28,752	28,124	253,396
Intangible assets			
Goodwill	835	615	5,548
Other intangible assets	1,130	1,115	10,047
Total intangible assets	1,966	1,730	15,595
Investments and other assets			
Investment securities (Note 4)	5,948	5,735	51,674
Net defined benefit asset	1,083	1,054	9,504
Deferred income taxes	1,197	1,150	10,364
Other assets	1,553	2,597	23,405
Allowance for doubtful receivables	(2)	(2)	(24)
Total investments and other assets	9,780	10,535	94,923
Total fixed assets	40,499	40,391	363,916
TOTAL	¥ 85,785	¥ 98,314	\$ 885,792

See notes to consolidated financial statements

Consolidated Balance Sheets

March 31, 2018, and 2019

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Current liabilities:			
Notes and accounts payable, trade	¥ 7,235	¥ 10,468	\$ 94,320
Electronically recorded obligations - operating	4,025	4,038	36,390
Short-term debt (Note 5)	1,585	10,703	96,434
Accrued income taxes	754	841	7,585
Provision for bonuses	1,682	1,733	15,622
Provision for directors' bonuses	24	0	2
Provision for product warranties	55	46	420
Other current liabilities	4,909	5,426	48,890
Total current liabilities	20,272	33,260	299,667
Long-term liabilities:			
Long-term debt (Note 5)	1,559	36	327
Lease obligation	613	767	6,917
Accrued retirement allowances for directors	138	108	979
Net defined benefit liability	2,180	2,254	20,308
Deferred income taxes	2,337	2,265	20,407
Other long-term liabilities	758	740	6,671
Total long-term liabilities	7,588	6,172	55,612
Total liabilities	27,861	39,432	355,279
Equity:			
Shareholders' equity			
Common stock:			
Authorized – 100,000,000 shares			
Issued 2019 – 49,267,180 shares and			
Issued 2018 – 49,267,180 shares	7,965	7,965	71,770
Capital surplus	8,750	8,750	78,844
Retained earnings	26,841	27,669	249,295
Treasury stock, at cost:			
346,095 shares in 2019 and			
461,938 shares in 2018	(297)	(223)	(2,009)
Total shareholders' equity	43,260	44,162	397,899
Accumulated other comprehensive income			
Unrealized gains on securities	1,586	1,412	12,726
Foreign currency translation adjustments	1,556	1,763	15,892
Remeasurements of defined benefit plans	390	356	3,212
Total accumulated other comprehensive income	3,534	3,532	31,831
Stock acquisition rights (Note 6)	475	474	4,278
Non-controlling interests	10,654	10,710	96,504
Total equity	57,924	58,881	530,513
TOTAL	¥ 85,785	¥ 98,314	\$ 885,792

See notes to consolidated financial statements

Consolidated Statements of Income

Years ended March 31, 2018, and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Net sales	¥ 78,780	¥ 82,089	\$ 739,610
Cost of sales	56,800	61,824	557,027
Gross profit	21,979	20,264	182,583
Selling, general and administrative expenses (Note 7)	16,435	15,965	143,850
Operating income	5,544	4,299	38,733
Non-operating income:			
Interest income	21	24	222
Dividend income	140	149	1,347
Foreign exchange gain	34	-	-
Dividend income of insurance	10	48	440
Others	152	196	1,772
	359	419	3,783
Non-operating expenses:			
Interest expenses	101	149	1,345
Loss on retirement of non-current assets	109	123	1,111
Foreign exchange loss	-	105	946
Others	58	47	432
	269	425	3,836
Ordinary income	5,634	4,293	38,680
Extraordinary gains:			
Gain on liquidation of subsidiaries	-	68	619
	-	68	619
Extraordinary losses:			
Impairment losses	-	27	246
Loss on sales of land	66	-	-
Loss on disaster	-	57	514
	66	84	760
Income before income taxes and minority interests	5,568	4,277	38,539
Income taxes			
Current	1,682	1,672	15,071
Deferred	304	(2)	(26)
	1,986	1,669	15,044
Profit	3,582	2,607	23,494
Profit attributable to non-controlling interests	915	801	7,219
Profit attributable to owners of parent	¥ 2,666	¥ 1,806	\$ 16,274

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Years ended March 31, 2018, and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Profit	¥ 3,582	¥ 2,607	\$ 23,494
Other comprehensive income			
Unrealized gains on securities	19	(174)	(1,568)
Foreign currency translation adjustments	381	207	1,866
Remeasurements of defined benefit plans	123	(34)	(308)
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)	(0)
	523	(1)	(12)
Comprehensive income	¥ 4,105	¥ 2,606	\$ 23,482
Comprehensive income attributable to owners of the parent	3,189	1,805	16,262
Comprehensive income attributable to non-controlling interests	915	801	7,219

Consolidated Statements of Changes in Equity

Years ended March 31, 2018, and 2019

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2017	¥ 7,965	¥ 8,719	¥ 25,248	¥ (297)	¥ 41,637
Change in treasury shares of parent arising from transactions with non-controlling shareholders		31			31
Cash dividends paid			(1,073)		(1,073)
Profit attributable to owners of parent			2,666		2,666
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock					
Net changes of items other than shareholders' equity					
Balance at March 31, 2018	7,965	8,750	26,841	(297)	43,260
Change in treasury shares of parent arising from transactions with non-controlling shareholders					
Cash dividends paid			(977)		(977)
Profit attributable to owners of parent			1,806		1,806
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock			(1)	74	73
Net changes of items other than shareholders' equity					
Balance at March 31, 2019	¥ 7,965	¥ 8,750	¥ 27,669	¥ (223)	¥ 44,162

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2018	\$ 71,770	\$ 78,844	\$ 241,835	\$ (2,681)	\$ 389,767
Change in treasury shares of parent arising from transactions with non-controlling shareholders					
Cash dividends paid			(8,804)		(8,804)
Profit attributable to owners of parent			16,274		16,274
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock			(9)	674	664
Net changes of items other than shareholders' equity					
Balance at March 31, 2019	\$ 71,770	\$ 78,844	\$ 249,295	\$ (2,009)	\$ 397,899

	Millions of yen						
	Accumulated other comprehensive income				Stock Acquisition rights	Non-controlling interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2017	¥ 1,567	¥ 1,175	¥ 267	¥ 3,010	¥ 405	¥ 10,377	¥ 55,431
Change in treasury shares of parent arising from transactions with non-controlling shareholders							31
Cash dividends paid							(1,073)
Profit attributable to owners of parent							2,666
Purchase of treasury stock							(0)
Disposal of treasury stock							
Net changes of items other than shareholders' equity	19	380	123	523	69	276	869
Balance at March 31, 2018	1,586	1,556	390	3,534	475	10,654	57,924
Change in treasury shares of parent arising from transactions with non-controlling shareholders							
Cash dividends paid							(977)
Profit attributable to owners of parent							1,806
Purchase of treasury stock							(0)
Disposal of treasury stock							73
Net changes of items other than shareholders' equity	(174)	207	(34)	(1)	(0)	56	54
Balance at March 31, 2019	¥ 1,412	¥ 1,763	¥ 356	¥ 3,532	¥ 474	¥ 10,710	¥ 58,881

	Thousands of U.S. dollars						
	Accumulated other comprehensive income				Stock Acquisition rights	Non-controlling interests	Total equity
	Unrealized gains on securities	Foreign Currency Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2018	\$ 14,295	\$ 14,026	\$ 3,520	\$ 31,843	\$ 4,283	\$ 95,993	\$ 521,887
Change in treasury shares of parent arising from transactions with non-controlling shareholders							
Cash dividends paid							(8,804)
Profit attributable to owners of parent							16,274
Purchase of treasury stock							(1)
Disposal of treasury stock							664
Net changes of items other than shareholders' equity	(1,568)	1,865	(308)	(12)	(5)	510	493
Balance at March 31, 2019	\$ 12,726	\$ 15,892	\$ 3,212	\$ 31,831	\$ 4,278	\$ 96,504	\$ 530,513

As of the beginning of the fiscal period under review, we apply the Partial Amendments to Accounting Standard for Tax Effect Accounting and have retroactively applied said accounting standard to the consolidated balance sheet, consolidated statement of income, and consolidated statement of changes in equity for the previous consolidated accounting period.

Consolidated Statement of Cash Flows

Years ended March 31, 2018, and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,568	¥ 4,277	\$ 38,539
Depreciation and amortization	2,820	2,634	23,739
Impairment losses	-	27	246
Amortization of goodwill	200	204	1,839
Increase (decrease) in allowance for doubtful receivables	254	(98)	(888)
Increase (decrease) in accrued bonuses allowance	(32)	67	604
Increase (decrease) in accrued bonuses allowance for directors	(31)	(23)	(212)
Increase (decrease) in allowance for product warranties	4	(8)	(78)
Increase (decrease) in accrued retirement allowances for directors	14	(29)	(264)
Increase (decrease) in net defined benefit liability	127	73	662
Decrease (increase) in net defined benefit asset	33	(21)	(191)
Interest and dividend income	(161)	(174)	(1,570)
Interest expenses	101	149	1,345
Loss on disposal of property, plant and equipment	109	123	1,111
Loss (gain) on sales of land	66	-	-
Loss (gain) on liquidation of subsidiaries	-	(68)	(619)
(Increase) decrease in notes and accounts receivable	1,294	(2,067)	(18,625)
(Increase) decrease in inventories	1,968	(7,101)	(63,984)
Increase (decrease) in notes and accounts payable	(1,426)	3,270	29,469
Other, net	(502)	417	3,759
Interest and dividend received	163	176	1,586
Interest paid	(101)	(149)	(1,346)
Income taxes paid	(2,360)	(1,602)	(14,435)
Net cash provided by (used in) operating activities	8,110	76	688
Cash flows from investing activities:			
Payments for property, plant and equipment	(3,707)	(1,611)	(14,515)
Proceeds from sales of property, plant and equipment	163	40	367
Payments for intangible assets	(627)	(322)	(2,906)
Payments for long-term deposits	-	(1,000)	(9,009)
Other, net	(133)	74	673
Net cash provided by (used in) investing activities	(4,305)	(2,818)	(25,389)
Cash flows from financing activities:			
Increase (decrease) in short-term debt, net	(2,404)	8,781	79,118
Proceeds from long-term debt	135	-	-
Payments for long-term debt	(1,503)	(1,253)	(11,292)
Repayment of lease obligation	(66)	(67)	(603)
Cash dividends paid	(1,072)	(977)	(8,804)
Dividends paid to non-controlling interests	(598)	(743)	(6,701)
Payments for treasury stock	(0)	(0)	(1)
Other, net	-	0	1
Net cash provided by (used in) financing activities	(5,510)	5,739	51,716
Effect of exchange rate changes on cash and cash equivalents	(11)	(277)	(2,499)
Net increase (decrease) in cash and cash equivalents	(1,716)	2,720	24,515
Cash and cash equivalents at beginning of year (Note 3)	15,417	13,701	123,444
Cash and cash equivalents at end of year (Note 3)	¥ 13,701	¥ 16,422	\$ 147,959

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Summary of Main Accounting Policies

Osaki Electric Co., Ltd., (“the Company”) and its Japanese subsidiaries maintain financial accounting books according to accounting principles generally accepted as fair and proper in Japan and prepare financial statements accordingly. Foreign subsidiaries maintain financial accounting books according to accounting principles generally accepted as fair and proper in their country of presence and prepare financial statements accordingly.

(1) Fundamental Policy of Consolidation and Accounting Treatment of Investment in Affiliates

The consolidated financial statements of the Company include accounts of the Company and subsidiaries for which the Company owns a simple majority or more of shares. Transactions, debts, and credits between consolidated companies are entirely eliminated.

(2) Foreign Currency Conversion

Monetary debts and credits in foreign currencies are converted into Japanese currency at the spot exchange rate on the consolidated financial closing date, and conversion differences are treated as income or loss. The assets and liabilities of foreign subsidiaries are converted into Japanese currency at the spot exchange rate on the financial closing dates of the respective subsidiaries, and revenues and expenses are converted to Japanese currency according to the average rate during the fiscal period. The conversion differences are included under foreign currency translation adjustments and non-controlling interests in equity.

(3) Cash and Cash Equivalents

Cash and cash equivalents include amounts converted easily to their stated values with slight fluctuation risks in value resulting from any variation in interest rate because of the short maturity period, and also high-liquidity investments that mature within three (3) months of their acquisition date.

(4) Marketable Securities

Marketable securities with fair market value are stated at fair market value, based on the quoted market price on the last day of the fiscal period (All valuation differences are directly charged or credited to shareholders’ equity and the costs of securities sold are computed by the moving average method). Securities without fair market value are stated at acquisition cost by being determined by the moving average method. Held-to-maturity securities follow the amortized cost method.

(5) Inventories

Finished products and work in process are stated mainly at acquisition cost according to the moving average method or total average method (asset values on the balance sheet are calculated by the book value write-down method based on decreased profitability). Build-to-order products are stated at acquisition cost by specific identification method (asset values on the balance sheet are computed by the book value write-down method based on decreased profitability).

Raw materials, purchased components, and supplies are stated mainly at acquisition cost by the moving average method (asset values on the balance sheet are computed by the book value write-down method based on decreased profitability).

(6) Derivative

The financial derivative transaction follows the market value method.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost. By following the method and the identical standard provided in the Corporate Tax Law, depreciation expenses are computed mainly by the declining balance method for the Company and Japanese subsidiaries and the straight-line method for foreign subsidiaries.

(8) Intangible Assets

Intangible assets follow the straight-line method; however, for software used by the Company, the straight-line method based on the usable period (5 years) internally is applied.

(9) Leases

For financed lease transactions without ownership transfer, the accounting treatment refers to ordinary sale and purchase transactions. The depreciation method of lease assets related to finance lease transactions without ownership transfer adopts the straight-line method that sets the lease period as the service life and the residual value as zero.

(10) Allowance for Doubtful Receivables

To reserve against write-off losses for receivables, estimated uncollectable amounts are entered according to historical write-off experience for general receivables and collection potential for individual receivables with specific write-off concerns.

(11) Accrued Bonuses Allowance

In order to prepare for payment of employee bonuses, an allowance is entered on the basis of expected disbursement amounts.

(12) Accrued Bonuses Allowance for Directors

In order to prepare for payment of director bonuses, an allowance is entered on the basis of expected disbursement amounts.

(13) Allowance for Product Warranties

In order to prepare for expenses disbursed in the after-market servicing of products, an allowance is entered on the basis of past disbursement experience.

(14) Accrued Retirement Allowances for Directors

In order to prepare for retirement benefits disbursed to directors, the year-end disbursement required is entered in accordance with internal rules.

(15) Accounting Treatment of Retirement Benefits

In calculating retirement benefit obligations, the method of attributing the projected amounts of retirement benefits up until the consolidated fiscal year under review mainly refers to the benefit formula-based plan. For differences arising mathematically, proportionate amounts derived by the straight-line method for the number of years (10) within the average remaining employment period of employees at the time of accrual mainly for the respective consolidated fiscal year are expensed, beginning in the consolidated fiscal year following their accrual.

Some consolidated subsidiaries apply a simplified method to the calculation of liabilities associated with retirement benefits and the expenses of retirement benefits where the self-determined disbursement required at year's end for retirement benefits is established as the liability for retirement benefits.

2. U.S. Dollar Amounts

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥110.99 = U.S.\$1, the approximate current rate on Tokyo Foreign Exchange Market at March 31, 2019, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

As of March, 31	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Cash and cash equivalents in the balance sheets	¥ 10,752	¥ 13,892	\$ 125,167
Deposits	3,018	2,601	23,442
Total	13,770	16,494	148,609
Time deposits	(69)	(72)	(649)
Cash and cash equivalents in the cash flow statements	13,701	16,422	147,959

4. Investment in Securities

Investments in securities comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Available-for-sale securities			
Acquisition cost	¥ 2,023	¥ 2,023	\$ 18,229
Fair value	4,145	3,951	35,600
Net unrealized gain	2,122	1,927	17,370

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Investments in unconsolidated subsidiaries and affiliates	¥ 12	¥ 9	\$ 89
Investments in equity method affiliates	4	0	4
Investments in non-public companies and others	1,786	1,773	15,980

5. Short-term Debt and Long-term Debt

Short-term debt and long-term debt comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Short-term debt:			
Unsecured	¥ 342	¥ 9,146	\$ 82,408
Secured	-	-	-
Current portion of long-term debt	1,243	1,556	14,026
Net short-term debt	1,585	10,703	96,434

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Long-term debt:			
Unsecured	¥ 2,703	¥ 1,530	\$ 13,793
Secured	99	62	559
Less current portion	1,243	1,556	14,026
Net long-term debt	1,559	36	327

6. Stock Acquisition Rights

Stock acquisition rights comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Stock acquisition rights as the stock options	¥ 475	¥ 474	\$ 4,278

7. Research and Development Expenses

Research and development expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
As of March, 31			
Selling, general and administrative expenses	¥ 3,398	¥ 3,059	\$ 27,561

8. Segment Information

The business of the Company and its consolidated subsidiaries is divided into the following three categories.

Measurement and control equipment:

Watt-hour meters, Instrument VCT, Distribution panels & Supervisory control boards, Optical communication device, Meter reading systems.

FPD assembly equipment:

Sensor related equipment, Energy related equipment, FPD related equipment.

Real estate: Estate for rent

Business segments –

The FPD Assembly Equipment Business and Real Estate Business have low importance from perspectives of profitability and total assets and are therefore reported as Other Business.

	Millions of yen				
	2018				
	Reportable Segments				
Year ended March 31	Measurement and control equipment	Other Business Activities	Total	Adjustment	Consolidated
Sales to customers	¥ 76,917	¥ 1,862	¥ 78,780	¥ -	¥ 78,780
Intersegment sales	29	114	144	(144)	-
Total sales	76,947	1,977	78,924	(144)	78,780
Operating income	5,330	206	5,536	8	5,544

The segment income is adjusted by fixed assets.

	Millions of yen				
	2019				
	Reportable Segments				
Year ended March 31	Measurement and control equipment	Other Business Activities	Total	Adjustment	Consolidated
Sales to customers	¥ 80,203	¥ 1,885	¥ 82,089	¥ -	¥ 82,089
Intersegment sales	35	267	302	(302)	-
Total sales	80,239	2,152	82,391	(302)	82,089
Operating income	3,999	294	4,293	5	4,299

The segment income is adjusted by fixed assets.

For the Measurement and Control Equipment Business, an impairment loss of fixed assets of 27 million yen are respectively recognized and booked as an extraordinary loss.

	Thousands of U.S. dollars				
	2019				
	Reportable Segments				
Year ended March 31	Measurement and control equipment	Other Business Activities	Total	Adjustment	Consolidated
Sales to customers	\$ 722,623	\$ 16,987	\$ 739,610	\$ -	\$ 739,610
Intersegment sales	316	2,407	2,723	(2,723)	-
Total sales	722,940	19,394	742,334	(2,723)	739,610
Operating income	36,030	2,651	38,681	51	38,733

Independent Auditor's Report

HARA AUDIT CORPORATION

264 Shin-Otemachi Bldg.
2-2-1, Otemachi, Chiyoda-ku
Tokyo 100-0004, JAPAN

To the Shareholders and Board of Directors of
Osaki Electric Company, Limited

We have audited the accompanying consolidated balance sheets of Osaki Electric Company, Limited ("the Company") and its consolidated subsidiaries as of March 31, 2018, and 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended March 31, 2018, and 2019, and the related notes, 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 conformity 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 Company'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 Company'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.

Audit opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2018, and 2019, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 2 to the consolidated financial statements.

Hara audit corporation

Tokyo, Japan
June 25, 2019

The Companies

COUNTRY	COMPANY	SEGMENT
JAPAN	OSAKI ELECTRIC CO., LTD.	● ●
	ENEGATE CO., LTD.	●
	OSAKI ELECTRIC SYSTEMS CO., LTD.	●
	IWATE OSAKI ELECTRIC CO., LTD.	●
	OSAKI PLATECH CO., LTD.	●
	OSAKI DATATECH CO., LTD.	●
	OSAKI ENGINEERING CO., LTD.	●
	OSAKI ESTATE CO., LTD.	●
SINGAPORE	OSAKI UNITED INTERNATIONAL PTE.LTD.	●
	EDMI LIMITED	●
CHINA	EDMI SHENZHEN CO., LTD	●
MALAYSIA	EDMI ELECTRONICS SDN. BHD.	●
UNITED KINGDOM	EDMI EUROPE LIMITED	●
AUSTRALIA	EDMI PTY LTD	●

- Measurement and control equipment
- FPD assembly equipment
- Real estate

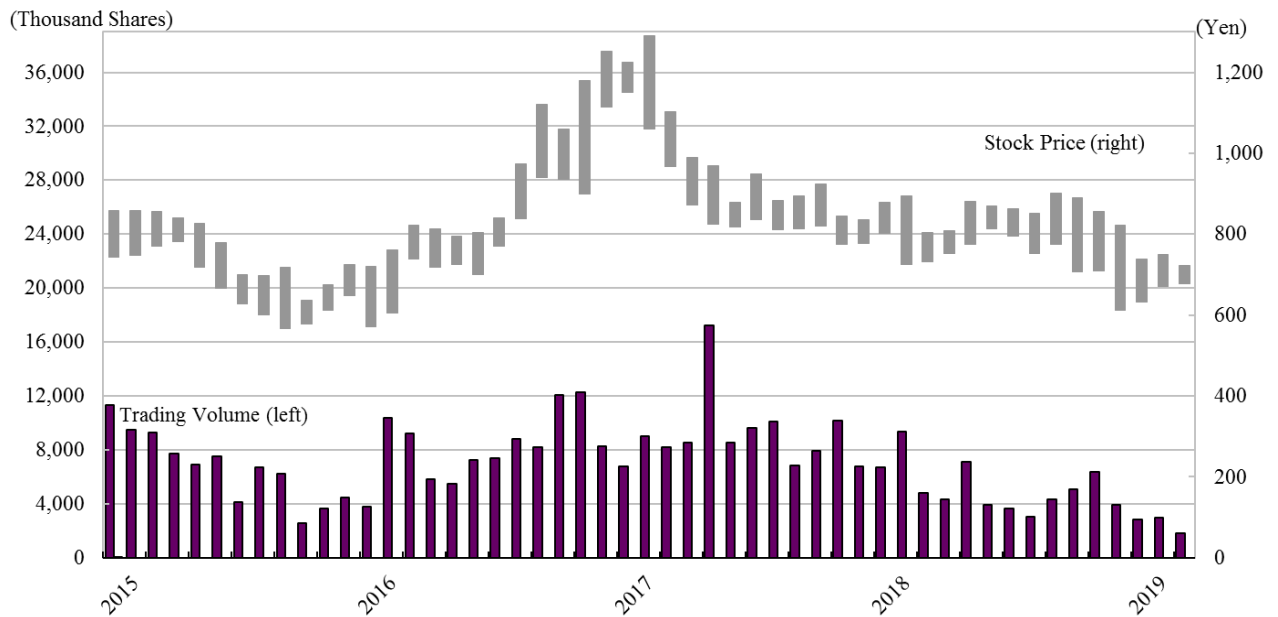
Stock Information

(As of March 31, 2019)

Common Stock

Authorized	:	100,000,000
Issued	:	49,267,180
Number of Shareholders	:	4,516

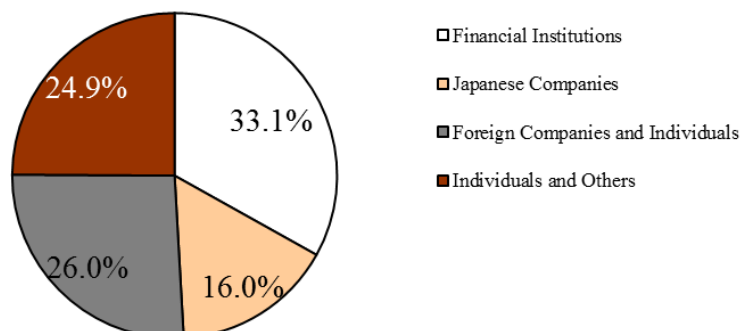
Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Major Shareholders

	Number of shares	
	(Thousand shares)	(%)
Japan Trustee Services Bank, Ltd. (Trust Account)	3,769	7.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,684	7.5
GOVERNMENT OF NORWAY	1,986	4.0
Osaki Electric cooperation company shareholding commission	1,598	3.2
MUFG Bank, Ltd.	1,552	3.1

Breakdown of Shareholders



Investor Information

Management (As of June 27, 2019)

REPRESENTATIVE DIRECTORS

Chairman and CEO

Yoshihide Watanabe

President and COO

Mitsuyasu Watanabe

Executive Vice President

Haruyuki Kawabata

DIRECTORS

Senior Managing Director

Kazuo Nemoto

Managing Directors

Ryuichi Ueno

Satoshi Komazawa

Directors

Atsumi Hatakeyama

Takehiko Ota

Jun Abe

Hiroyuki Hatakeyama

Noriyuki Tokumoto

Nobuyuki Ono

Hiroyuki Yokoi

Seiji Takashima

Nobuhiro Kasai

CORPORATE AUDITORS

Standing Auditor

Choichiro Hori

Auditors

Toshio Yamanaka

Shigehiko Yamamoto

Kumiko Kitai

Notes:

Mr. Seiji Takashima and Mr. Nobuhiro Kasai are outside Director.

Mr. Shigehiko Yamamoto and Ms. Kumiko Kitai are outside Corporate Auditors.

Corporate Data (As of March 31, 2019)

Osaki Electric Co., Ltd.

Head Office

10-2, Higashi-Gotanda 2-chome

Shinagawa-ku Tokyo 141-8646

JAPAN

Phone : 81-3-3443-7171

Date of Founding

January 26th, 1937

Paid-in Capital

¥ 7,965 million (US\$ 71 million)

Stock Exchange Listings

Tokyo Stock Exchange

Independent Public Accountants

Hara Audit Corporation

Tokyo, Japan

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

Transfer Agency Department

1-1, Nikko cho, Fuchu-shi,

Tokyo, Japan

Phone : 81-42-204-0303

Mailing address :

Shin-TOKYO Post Office post office box No.29

137-8081, JAPAN

Mitsubishi UFJ Trust and Banking Corporation

Transfer Agency Department

For further information, please contact:

Osaki Electric Co., Ltd.

Investor Relations Department

<https://www.osaki.co.jp/en/index.html>

<https://www.osaki.co.jp/en/profile/about/contact.html>