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Financial Results Summary for the Second Quarter of the Fiscal Year Ended March 31, 2019 [Japan GAAP] (Consolidated)

November 14, 2018

Company Name Tabuchi Electric Co., Ltd. Exchange listed on: Tokyo Stock Exchange
 Securities code 6624 URL http://www.zbr.co.jp
 Representative (Title) President and Chief Executive Officer (Name) Toshihiro Kaihoshi
 Corporate Director, Executive
 Contact (Title) Corporate Officer and Manager, Management Control Division (Name) Masao Sasano (TEL) +81-6-4807-3500
 Scheduled date for submission of quarterly report: November 14, 2018 Scheduled commencement date of dividends payment: —
 Preparation of supplementary materials for report : Yes
 Convening results briefing : No

(Amounts rounded down to the nearest million yen)

1. Consolidated Operating Results for the Second Quarter of the Fiscal Year Ended March 31, 2019 (From April 1, 2018 to September 30, 2018)

(1) Consolidated Operating Results

	Net sales		Operating income		Ordinary income		Net income attributable to parent company shareholders	
	million yen	%	million yen	%	million yen		million yen	%
Second quarter of the fiscal year ending March 31, 2019	12,504	(9.1%)	(1,023)	—	(781)	—	(3,644)	—
Second quarter of the fiscal year ending March 31, 2018	13,751	5.9%	(2,171)	—	(2,144)	—	(4,426)	—

(Note) Comprehensive income: Second quarter of the Fiscal year ended March 31, 2019 -¥3,823 million yen (-)
 Second quarter of the Fiscal year ended March 31, 2018 -¥4,306 million yen (-)

	Net income per share	Net income per share - fully diluted
	yen	yen
Second quarter of the fiscal year ending March 31, 2019	(90.17)	—
Second quarter of the fiscal year ending March 31, 2018	(109.53)	—

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
Second quarter of the fiscal year ending March 31, 2019	17,912	(2,546)	(14.2)
Second quarter of the fiscal year ending March 31, 2018	22,695	1,277	5.6

(Reference) Shareholders' equity: Second quarter of the Fiscal year ended March 31, 2019 -¥2,546 million yen (-)
 Second quarter of the Fiscal year ended March 31, 2018 ¥1,277 million yen

2. Dividends

	Annual dividends				
	End of 1Q	End of 2Q	End of 3Q	End of the year	Total
	yen	yen	yen	yen	yen
Fiscal year ending March 31, 2018	—	0.00	—	0.00	0.00
Fiscal year ended March 31, 2019	—	0.00			
Fiscal year ended March 31, 2019 (Forecast)			—	—	—

(Note) Presence or absence of amendment from the most recently announced dividend forecast: None

3. Consolidated Operating Results Forecast for the fiscal year ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

The Company and a domestic subsidiary made formal applications for business turnaround ADR procedure to the Japanese Association of Turnaround Professionals (“JATP”) on June 25, 2018, and received acceptance the same day, while continuing consultation with all financial institutions dealing with business. We are in the process of formulating a business turnaround plan. As the business turnaround plan is expected to affect the Company’s business forecasts, we have decided that the previously disclosed performance forecast will be undecided, we plan to revise the earnings forecasts without delay after the plan is finalized.

* Notes

(1) Major changes in subsidiaries during the first six months of the fiscal year ending March 31, 2019 : None
(Changes in specified subsidiaries resulting in a change in the scope of consolidation)

(2) Adoption of special accounting treatment used in preparation of the quarterly consolidated financial statements : None

(3) Changes in accounting policies or estimates and retrospective restatements

1) Changes in accounting policies in line with revisions in accounting standards : None

2) Changes in accounting policies other than item 1) above : None

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(4) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	Second quarter of the fiscal year ending March 31, 2019	40,502,649 ^{share} _s	Fiscal year ended March 31, 2018	40,502,649shares
2) Number of shares of treasury stock at the end of the period	Second quarter of the Fiscal year ending March 31, 2019	85,136 ^{share} _s	Fiscal year ended March 31, 2018	85,132shares
3) Average number of shares issued during the first three months	Second quarter of the Fiscal year ending March 31, 2019	40,417,515 ^{share} _s	Second quarter of the Fiscal year ended March 31, 2018	40,417,547shares

* Financial Results Summary is not subject to audit

* Explanation for appropriate use of operating results forecasts, other special notes

The operating results forecasts are prepared based on the information available as of the date of the announcement of the material and the actual results may differ from forecasts due to various factors.

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1. Analysis of Business Results and Financial Position Concerning Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019

(1) Analysis of Business Results

During the second quarter consolidated cumulative period, the global economy continued to recover in the United States due to solid consumer spending with the improvement of employment and income environment in the background. In Europe there is a problem of withdrawal from the EU in the UK, but the moderate economic recovery continued with the background of expanding exports and firmness of personal consumption. In China and emerging economies as a whole, the economy showed signs of picking up again. Meanwhile, the impact of the US and European trade friction, which began with the import tariff triggered by the US, remains uncertain. In the Japanese economy, we suffered from disasters such as earthquakes, typhoons and floods, but the economy continued a gradual recovery trend.

Under such a business environment, although the transformer business remained strong mainly in sales to industrial equipment, the power supply for amusement declined in the power supply equipment business. In addition, sales of inverters remained sluggish due to the continued situation of new certification stagnation due to the problem of the revised FIT law related procedures in the domestic photovoltaic power generation market.

As a result, for the consolidated fiscal year under review, the Company Group posted net sales of 12,504 million yen (down 9.1% year on year), operating loss of 1,023 million yen (compared to operating loss of 2,171 million yen for the same period in the previous fiscal year), and ordinary loss of 781 million yen (compared to ordinary loss of 2,144 million yen for the same period in the previous fiscal year), and net loss attributable to owners of the parent was 3,644 million yen (compared to net loss attributable to owners of the parent of 4,426 million yen for the same period in the previous fiscal year).

The operating results by segment are as follows:

(i) Transformers Business

In the transformer business, although sales were strong, especially sales to industrial equipment, posted net sales of 5,212 million yen (up 6.1% year on year) and an operating income of 148 million yen (up 116.4% from the previous term).

(ii) Power Supplies Business,

Due to a decrease in power supply for amusement and a decrease in inverter for PV power generation due to the slump in domestic PV power generation market, and net sales amounted to 7,291 million yen (down 17.5% from the previous term). Operating loss was 1,099 million yen (operating loss was 2,137 million yen in the same period of the previous fiscal year).

(2) Summary of Financial Position for the Current Fiscal Year

As for the financial position for the second quarterly current fiscal year end, total assets stood at 17,912 million yen, a decrease of 4,783 million yen from the previous consolidated fiscal year end. This was mainly due to a decrease in cash and deposits of 253 million yen and Notes and accounts receivable of 658 million yen and Merchandise and finished goods of 1,938 million yen and Raw materials and supplies of 835 million yen and Property, plant and equipment (net) of 603 million yen and Investment securities of 161 million yen respectively. Total liabilities amounted to 20,458 million, a decrease of 959 million yen from the end of the previous consolidated fiscal year. This was mainly due to the decrease in Notes and accounts payable - trade of 400 million yen and electronic record liabilities of 139 million yen and Other current liabilities of 272 million yen and long-term borrowings by 399 million yen, respectively.

Net assets exceeded liabilities of 2,546 million yen, a decrease of 3,823 million yen from the end of the previous

consolidated fiscal year. This was primarily due to the posting of a net loss attributable to owners of the parent of 3,644 million yen.

(3) Explanation about future forecast information such as forecast of consolidated performance

Regarding the consolidated earnings forecast for the fiscal year ending March 2019, due to the fact that it is undergoing business turnaround ADR procedures, we will make it undecided once, and we plan to revise our earnings forecast without delay as soon as the plan is finalized..

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Previous fiscal year (March 31, 2018)	Second quarter of the current fiscal year September 30, 2018)
Assets		
Current assets		
Cash and deposits	2,623	2,369
Notes and accounts receivable - trade	4,426	3,768
Electronically recorded monetary claims - operating	70	48
Merchandise and finished goods	4,382	2,443
Work in process	437	397
Raw materials and supplies	2,663	1,827
Other	996	809
Allowance for doubtful accounts	(0)	(0)
Total current asset	15,598	11,663
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	1,430	910
Other, net	2,291	2,208
Total property, plant and equipment	3,722	3,118
Intangible assets	137	117
Investments and other assets		
Investment securities	1,733	1,571
Other	1,504	1,442
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	3,237	3,012
Total non-current assets	7,096	6,248
Deferred assets	0	-
Total assets	22,695	17,912

	(Millions of yen)	
	Previous fiscal year (March 31, 2018)	Second quarter of the current fiscal year (September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,679	2,279
Electronically recorded obligations - operating	1,056	916
Short-term loans payable	8,094	8,419
Current portion of long-term loans payable	30	—
Current portion of bonds	776	901
Lease obligations	41	20
Income taxes payable	66	95
Provision for bonuses	218	196
Provision for product warranties	197	213
Other	1,853	1,581
Total current liabilities	15,015	14,624
Non-current liabilities		
Long-term loans payable	1,788	1,389
Lease obligations	2	7
Net defined benefit liability	560	560
Long-term unearned revenue	3,241	3,152
Other	809	724
Total non-current liabilities	6,402	5,833
Total liabilities	21,418	20,458
Net assets		
Shareholders' equity		
Capital stock	3,611	3,611
Retained earnings	(1,947)	(5,591)
Treasury shares	(21)	(21)
Total shareholders' equity	1,642	(2,002)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	71	(0)
Deferred gains or losses on hedges	(3)	(12)
Foreign currency translation adjustment	(397)	(499)
Re-measurements of defined benefit plans	(36)	(30)
Total accumulated other comprehensive income	(365)	(544)
Total net assets	1,277	(2,546)
Total liabilities and net assets	22,695	17,912

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

First six months of the current fiscal year

(Millions of yen)

	First six months of the previous fiscal year (From April 1, 2017 To September 30, 2017)	First six months of the current fiscal year (From April 1, 2018 to September 30, 2018)
Net sales	13,751	12,504
Cost of sales	13,255	10,975
Gross profit	495	1,528
Selling, general and administrative expenses	2,667	2,551
Operating income	(2,171)	(1,023)
Non-operating income		
Interest income	3	4
Dividend income	4	4
Exchange gain	71	264
Share of profit of entities accounted for using equity method	19	37
Other	31	43
Total non-operating income	130	354
Non-operating expenses		
Interest expenses	65	66
Commission paid	25	30
Other	12	15
Total non-operating expenses	104	112
Ordinary income (loss)	(2,144)	(781)
Extraordinary profit		
Gains on sales of investment securities	-	83
Total extraordinary profit	-	83
Extraordinary loss		
Restructuring expenses	-	2,789
Impairment loss	2,220	84
Loss on retirement of fixed assets	9	-
Others	34	-
Total extraordinary losses	2,264	2873
Income (loss) before income taxes and minority interests	(4,408)	(3,571)
Income taxes - current	40	82
Income taxes - deferred	(22)	(9)
Total income taxes	17	73
Net income(loss)	(4,426)	(3,644)
Net income attributable to parent company shareholders	(4,426)	(3,644)

Quarterly Consolidated Statement of Comprehensive Income

First six months of the current fiscal year

(Millions of yen)

	First six months of The previous fiscal year (From April 1, 2017 to September 30, 2017)	First six months of The current fiscal year (From April 1, 2018 to September 30, 2018)
Net income(Loss)	(4,426)	(3,644)
Other comprehensive income		
Valuation difference on available-for-sale securities	(43)	(72)
Deferred gains or losses on hedges	22	(9)
Foreign currency translation adjustment	101	(85)
Re-measurements of defined benefit plans, net of tax	9	5
Share of other comprehensive income of entities accounted for using equity method	30	(16)
Total other comprehensive income	120	(179)
Comprehensive income	(4,306)	(3,823)
(Breakdown)		
Comprehensive income attributable to parent company shareholders	(4,306)	(3,823)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Relating to Going Concern Assumption)

The company recorded operating loss, ordinary loss and net loss attributable to parent company shareholders during the consolidated fiscal year of the past two years., Even in the second quarter consolidated accounting period, an operating loss of 1,023 million yen, a consolidated ordinary loss of 781 million yen, and a net loss attributable to parent company shareholders of 3,644 million yen, then Net assets section exceeded debt of 2,546 million yen.

In addition, about the non-consolidated statement situation, we recorded an operating loss of 1,023 million yen, an ordinary loss of 626 million yen, and a net loss of 2,905 million yen, then Net assets section exceeded debt of 3,801 million yen (As of the end of the previous fiscal year 822 million yen Overdraft) in the same financial period, As a result of this, borrowing agreements concluded with some financial institutions (outstanding amount of 3,117 million as of September 30, 2018) conflict with the financial restriction provision of this contract. It is necessary to cause important doubts on the premise of going concern.

In order to resolve this situation and to establish a solid earnings structure for future business turnaround and to fundamentally improve the financial structure, The company is taking special measures to revive industrial vitality and innovation of industrial activities with engaging in business turnaround procedure by using specified dispute resolution (hereinafter referred to as "business turnaround ADR procedure"). In the future, we will reduce and withdraw from unprofitable businesses by reviewing our business portfolio, operate on domestic residential and low-voltage industrial PV generating markets in the Energy-solution business, and mainly in Asian and domestic transformer markets in the Power supply & device business. We intend to make maximum self-efforts such as concentrating resources and trying further cost reduction.

Our group will work on the following management improvement measures for business turnaround.

1. Measures for Reformulating Business

1) Reviewing the business portfolio

With regard to Energy-solution business, we will withdrew from overseas markets and shifted all resources to the domestic residential inverter market and the hybrid system with battery storage market mainly OEM. With regard to the Power supply & devices business, we plan "selection and concentration", by withdrawing from some of the unprofitable products.

As part of the project review, (important subsequent events) 3. As stated in the sale of the shares of the subsidiary, at the Board of Directors meeting held on November 6, 2018, we resolved to transfer the shares of Tecno Electric Industry Co., Ltd., a consolidated subsidiary of the Company.

2) Fixed cost reduction

Along with review of the business portfolio, we will implement consolidation of operations, reduction of labor costs and expenses by improving efficiency.

As part of fixed cost reduction, (Important subsequent events) 2. As stated in the application for voluntary retirement, at the Board of Directors of the Company held on October 16, 2018, we decided to offer a voluntary retirement program.

3) Strengthening Business Activities

Along with review of the business portfolio, with regard to the Energy-solutions business, we will focus our development and sales resources on the OEM business in Japan. With regard to the power supply & device business, we will strengthen the business with existing customers focusing on air-conditioners and entry to new markets (automotive, etc.).

4) Collaboration with business sponsor

With regard to the Energy-solution business, together with our sponsors, we aim to expand sales of PV inverters, jointly develop applications for automotive applications, and expand sales channels.

2. Stabilizing the financial base

We have temporarily suspended repayment of principal loans and set up pre-DIP finance facilities for financial institutions that are subject creditors in the Business Turnaround ADR Procedure filed on June 25, 2018. In addition, while proceeding with consultation with the financial institution, which is the subject creditor, we will proceed with the formulation of a business turnaround plan to strengthen the business foundation by supplementing credit by sponsors and strengthening our financial base. On October 16, 2018, we concluded a contract on sponsor support (hereinafter referred to as "sponsored contract") with Diamond Electric MFG Co., Ltd. (hereinafter referred to as "Diamond Electric") and we have reached an agreement with the company regarding the plan about the third party allocation of our common stock (hereinafter referred to as "sponsorship agreement").

And (important subsequent events) 1. As stated in the conclusion of a contract concerning sponsor support, we plan to issue ordinary shares equivalent to 3 billion yen based on sponsorship agreement with Diamond Electric as the allocation destination.

Also (Important subsequent events) 5. As described in the drafting of the business turnaround plan, At the creditor meeting (continuing meeting) for the consultation of the business plan draft held on November 7, 2018, we explained to the Company's transaction credit institution about the proposed business plan. Regarding the proposed business plan, we will consider the transaction credit institution which is the subject creditor in the future, and at the 3rd Creditors Meeting for Business Turnaround ADR Procedures that will be held on December 7, 2018, the business turnaround plan will be established by agreements of the subject creditors, We have offered a 54.91% (4,947.76 million yen) debt exemption for the targeted receivables outstanding as of the business turnaround ADR application date to the financial institution as the subject creditor. We also request approval for the amount of eligible loans after the abandonment of claims, such as keeping the principal up to the fiscal year ending March 2020 and repaying equal annual repayment equivalent to one-seventh of the total amount of the targeted claims from the fiscal year ending March 2021. In addition, if business Turnaround ADR procedures are established and measures are taken by the financial support, sponsors' capital reinforcement and self-help efforts, it is possible to eliminate the excess of debts.

However, these countermeasures are in the process of being implemented, and depending on the progress of negotiations on the progress status of future projects, the state of consultation with major banks, the

conditions of the business turnaround ADR procedure and sponsorship agreement, Since there is a possibility that it will have a significant influence on future cash flow, we recognize that there is an important uncertainty about the premise of going concern at present.

We believe that by steadily implementing the aforementioned management improvement measures and by consulting with the financial institution that is the subject creditor in the business turnaround ADR proceedings, we strive to eliminate events or situations that may cause important doubts concerning the premise of going concern.

The quarterly consolidated financial statements are prepared on the premise of a going concern and the effect of significant uncertainty concerning the assumptions of such continuing companies is not reflected in the quarterly consolidated financial statements.

(Notes when there is a significant change in the amount of shareholders' equity)

For the second quarter consolidated accounting period (From April 1, 2018 to September 30, 2018)

Not applicable.

(Segment Information)

I First six months of the previous fiscal year (From April 1, 2017 to September 30, 2017)

1. Information on net sales and income or loss by reportable segment

(Millions of yen)

	Reportable segment			Adjustments	Amount on Consolidated Statement of Income
	Transformer Business	Power Supply Business	Total		
Net sales					
Net sales to outside customers	4,913	8,837	13,751	—	13,751
Intersegment net sales or transfers	754	—	754	(754)	-
Total	5,668	8,837	14,505	(754)	13,751
Segment income	68	(2,137)	(2,069)	(102)	(2,171)

(Notes) 1. Adjustment of -102 million yen to segment income is all-company expenses that are not distributed to each reportable segment.

All-company expenses are primarily research and development expenses that do not belong to reportable segments.

2. Segment income is adjusted with operating income on the Quarterly Consolidated Statement of Income.

II First six months of the current fiscal year (From April 1, 2018 to September 30, 2018)

1. Information on net sales and income or loss by reportable segment

(Millions of yen)

	Reportable segment			Adjustments	Amount on Consolidated Statement of Income
	Transformer Business	Power Supply Business	Total		
Net sales					
Net sales to outside customers	5,212	7,291	12,504	—	12,504
Intersegment net sales or transfers	458	—	458	(458)	-
Total	5,671	7,291	12,962	(458)	12,504
Segment income	148	(1,099)	(951)	(71)	(1,023)

(Notes) 1. Adjustment of -71 million yen to segment income is all-company expenses that are not distributed to each reportable segment.

All-company expenses are primarily research and development expenses that do not belong to reportable segments.

2. Segment income is adjusted with operating income on the Quarterly Consolidated Statement of Income.

(Additional Information)

Partial Amendments to "Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) from the beginning of the first quarter consolidated accounting period, deferred tax assets are shown in the investment and other assets classification, and deferred tax liabilities are presented in the classification of long-term liabilities.

- Our company shall have the officers at the end of the above mentioned shareholders meeting submit the forms for resignation which are subject to the condition precedent that newly appointed directors and auditors take office, and shall have such officers resign at the time of completion of such condition precedent.

2) Pledge matter of Diamond Electric

Diamond Electric pledges our company to comply with the following matters.

Separate from the Sponsor Agreement, Diamond Electric shall make an effort to execute a DIP financing agreement (loan agreement) as a bridge loan with our company until the time of the Third Party Allocation of Shares is executed, with Diamond Electric as a lender and our company as a borrower, provided that Allotter and our company shall consider and discuss the necessity and reasonableness of such financing. (Furthermore, in the event that such DIP financing agreement is executed, the specific terms and conditions will be discussed and agreed upon separately).

(7) Amount of Funds to be Raised

This third-party allotment of new shares is currently aimed at resolving excessive debts of the Company as part of the management improvement measures we are working on, and is intended to promptly revitalize drastic business turnaround, It is planned to be used for funds, capital investment funds and working capital.

(8) Others

At the extraordinary general meeting of shareholders scheduled to be held in December 2018, it is a condition to suspend issuance of the common shares related to the third party allotment increase and other proposals concerning this.

All rights and permission etc. required for the third party allotment will be acquired (the law concerning the prohibition of private monopolization and securing of fair trade (hereinafter referred to as "Antitrust Law") and the competition law outside the country Completion of the procedure based on the Financial Instruments and Exchange Act and the effectiveness of the notification under the Financial Instruments and Exchange Act including the effectiveness of issuance registration and submission of supplementary documents for issue registration shall be subject to suspension condition.

2. application for voluntary retirement

we are currently dealing with the business turnaround. We will implement business reinforcement based on review of our business portfolio and reduction of fixed costs without sanctuary, and we will work on revitalizing our business at the premise of loss. Under these circumstances, we decided to offer a voluntary retirement program, including providing career support program, to employees who would seek working opportunities outside the company on this occasion.

Outline of Voluntary Retirement Program as below,

- (1) Eligibility: Employees belonging to Tabuchi Electric Co., Ltd.
- (2) Number of accepting application: approx. 90 personnel
- (3) Application period: From December 13, 2018 through December 26, 2018 (scheduled)
- (4) Date of Retirement: January 31, 2019 (scheduled)
- (5) Support program: In addition to special extra retirement payment, we will provide support for finding new job

opportunities to those who are eligible for this program.

Since the number of applicants who wish to retire at present is uncertain, it is difficult to estimate losses due to voluntary retirement.

3. Sale of subsidiary shares

At the Board of Directors meeting held on November 6, 2018, Because we do not have clear business synergies with Tecno Electric Industry Co., Ltd. ("TCN"), as a consolidated subsidiary of the Company and TCN's trading flow and products are completely independent from our consolidated group, we have resolved to transfer all shares of TCN as part of measures for business turnaround.

(1) Partner to sell shares	Muthuo Yonekura, (who is a Representative Director of TCN)
(2) Date of concluding the share transfer agreement	November 6, 2018
(3) Stock transfer schedule date	January 10, 2019
(4) Subsidiary name to be relocated	Tecno Electric Industry Co., Ltd.
(5) Address	345 Tokawa, Hadano-city, Kanagawa, 259-1306, Japan
(6) Representaive	Representative Director Toshihiro Kaihoshi Representative Director Mutsuo Yonekura
(7) Main business contents	Electromagnetic, Field coil, Transformers for medical and industrial equipment
(8) Transaction Relationship	There are no important transactions
(9) Number of shares to be transferred	436 shares (Number of voting rights 436) The Company's ownership percentage after the transfer is 0% and is excluded from our consolidated subsidiary.
(10) Transfer price and gains / losses on transfer	Regarding the transfer price, since the buyer is an individual, as it sets forth the obligation of confidentiality in the share transfer agreement by offer from buyer, we will refrain from disclosing. The impact of this case on the Group's business performance is minor
(11) Others	As a result of the transfer of shares, the company filed an application on June 25, 2018 and received by the Business Practitioner Association on November 6, 2018, with agreement with all the subject creditors of the company, the business turnaround ADR procedure has ended.

4. Eliminate and conclude important contracts

In connection with TDK Corporation (hereinafter referred to as "TDK") at the Board of Directors meeting held on November 7, 2018, the Company concluded its role as a capital and business alliance that was agreed on February 21,

2007, and canceled by agreement, TDK signed a "free share transfer agreement" with the aim of transferring the company's common stock (8,000,000 shares) held by the company free of charge, with the aim of supporting the company's business turnaround plan.

(1) Outline of the counterparty to resolve this capital and business alliance

- | | |
|-------------------------------------|---|
| 1) Name | TDK Corporation |
| 2) Address | Shibaura Renasite Tower, 3-9-1 Shibaura, Minato-ku, Tokyo |
| 3) Representative's Position / Name | Representative Director Shigenao Ishiguro |
| 4) Primary Business Contents | Passive Components, Sensor Application Products, Magnetic Application Products and Film Application Products |
| 5) Capital Ties | largest shareholder holding 19.75% of the Company's common stock |
| 6) Personal Relationship | Mr. Seiji Osaka, Senior Managing Executive Officer of TDK, serves as Outside Director of the Company.

With the resolution of the agreement on capital and business tie-up on November 7, 2018, resigned from outside director of our company |
| 7) Transaction relationship | We have signed an agreement on capital and business alliance with TDK, and we have continuous business relationships such as material purchase. |

(2) Agreement to cancel "Agreement on capital and business alliance"

- | | |
|---|------------------|
| 1) Date of resolution of this agreement | November 7, 2018 |
|---|------------------|

(3) Contract to conclude "Contract grant transfer agreement"

- | | |
|--|--|
| 1) Date of concluding the share transfer agreement | November 7, 2018 |
| 2) Scheduled stock transfer date | The gratis transfer is a prerequisite for the execution of a third party allotment of shares of the Company's common stock to Diamond Electric as our sponsor, and the payment period of this third party allotment increase will be temporary, scheduled to be held in December 2018 It is scheduled to be January 25, 2019 from the day following the general meeting of shareholders. |

(4) Others

Regardless of the resolution of this capital and business tie-up, traditional transactions such as consignment of development work by individual contracts are scheduled to be continued, and the effect of the elimination of this capital and business alliance on the Company's business results is minor.

5. Formulation of business turnaround plan

During the Business Turnaround ADR Procedure filed on June 25, 2018, while promoting consultation with the financial institution, which is the target creditor, we intend to strengthen the business foundation by strengthening credit enhancement and financial base by sponsor, With the development of a business turnaround plan drafted, concluded a sponsorship agreement with Diamond Electric on October 16, 2018, and reached an agreement with the company concerning the business turnaround plan. After resolving at the Board of Directors meeting held on November 7, 2018, we discussed the proposed business plan to all target creditors at the creditors meeting (continuing meeting) for consultation of the proposed business turnaround plan held on the same day. Regarding the proposed business plan, we will consider all subject creditors in the future, and at the creditors meeting (continuing meeting) for resolving the proposed project on the turnaround plan to be held on December 7, 2018,

We aim to establish by agreement from the all creditors.

(1) Measures for Reformulating Business

1) Reviewing the business portfolio

With regard to Energy-solutions business, we will withdrew from overseas markets and shifted to the domestic residential market and hybrid system with battery storage market mainly OEM. With regard to the Power supply & devices business, we plan “selection and concentration”, by withdrawing from some of the unprofitable products.

As part of the project review, (important subsequent events) 3. As stated in the sale of the shares of the subsidiary, at the Board of Directors meeting held on November 6, 2018, we resolved to transfer the shares of Tecno Electric Industry Co., Ltd., a consolidated subsidiary of the Company.

2) Fixed cost reduction

Along with review of the business portfolio, we will implement consolidation of operations, reduction of labor costs and expenses by improving efficiency.

As part of fixed cost reduction, (Important subsequent events) 2. As stated in the recruitment of voluntary retirement, the Board of Directors of the Company held on October 16, 2018, we have resolved to recruit for our desired retirement.

3) Strengthening Business Activities

Along with review of the business portfolio, with regard to the Energy-solutions business, we will focus our development and sales resources on the OEM business in Japan. With regard to the power supply & device business, we will strengthen the business with existing customers focusing on air-conditioners and entry to new markets (in automotive, etc.).

4) Collaboration with business sponsors

With regard to the Energy-solution business, we are aiming to expand sales promotion of inverters, and jointly develop applications for vehicle use and expand sales channels thereof. Measures for business restructuring

(2) Financial situation and capital increase measures

1) Financial situation

Even in the second quarter consolidated accounting period, an operating loss of 1,023 million yen, a consolidated ordinary loss of 781 million yen, and a net loss attributable to parent company shareholders of 3,644 million yen, then Net assets section exceeded debt of 2,546 million yen.

In addition, about the non-consolidated statement situation, we recorded an operating loss of 1,023 million yen, an ordinary loss of 626 million yen, and a net loss of 2,905 million yen, then Net assets section exceeded debt of 3,801 million yen (As of the end of the previous fiscal year 822 million yen Overdraft) in the same financial period

2) Request for Financial Assistance

The subject creditors do not possess any collateral against our company and the total amount of the subject claim (total amount 9,010,590,000 JPY) is unsecured. We are requesting the subject creditors that, within the amount of such unsecured loan, 4,947,760,000 JPY (equal to 54.91%) shall be exempted from the debt. With regard to the

claim amount after the abandonment of the debt, the principal will be under the grace period until the March 2020. From the March 2021 period, 1/7 of the total claim amount shall be repaid uniformly on a yearly basis.

3) Solving Insolvency

In the event Business Turnaround ADR Procedures are established and the financial support from creditors in above 2) is implemented, the increase of capital from the sponsor is implemented, and the voluntary effort measures are implemented, then as a result, in the March 2019 period, our company anticipates that the excess debt will be eliminated according to the standards of asset evaluation stipulated by the Business Turnaround ADR Procedures.

4) Measures to Increase Capital

As stated in (important subsequent event) 1. the sponsorship support agreement, In order to strengthen our credit and financial base, our company has entered into a Sponsor Agreement with Diamond Electric as Allottee for Third Party Allocation of Shares of new shares with a payment totaling 3,000 million yen.

(3) Regarding Management Responsibilities and Shareholder Responsibilities

1) Management Responsibilities

Our company's officers (directors and auditors, hereinafter the same) plan to resign following the establishment of the Business Turnaround ADR Plan. Furthermore, with regard to the officers that will resign, a resignation bonus, etc. will not be provided.

Also, from the perspective of our company's management, we have already reduced the officer's remuneration since April 2017.

2) Shareholder Responsibilities

As part of the management and shareholders responsibilities, the officers approve that all common shares (which are limited to shares free of lien) that our company's officers and Mr. Teruhisa Tabuchi, our company's chairman and director, possesses shall be acquired by our company free of charge by the payment date.

Also, as stated in (Important subsequent events) 4. the resolution and concluding of important contracts, our largest shareholder TDK agrees to transfer all of common shares owned by TDK to our company free of charge on the condition that the Business Turnaround Plan is approved by all subject creditors and established, and that the Third Party Allocation of Shares is completed. Our company and TDK executed a Shares Free Transfer Agreement today.

In addition, if business turnaround ADR procedures are established and measures are taken by the financial support, sponsors' capital reinforcement and self-help efforts, it is possible to eliminate the excess of debts.

3. Others

Important events on the premise of going concern etc.

The company recorded operating loss, ordinary loss and net loss attributable to parent company shareholders during the consolidated fiscal year of the past two years., Even in the second quarter consolidated accounting period, an operating loss of 1,023 million yen, a consolidated ordinary loss of 781 million yen, and a net loss attributable to parent company shareholders of 3,644 million yen, then Net assets section exceeded debt of 2,546 million yen.

In addition, about the non-consolidated statement situation, we recorded an operating loss of 1,023 million yen, an ordinary loss of 626 million yen, and a net loss of 2,905 million yen, then Net assets section exceeded debt of 3,801 million yen (As of the end of the previous fiscal year 822 million yen Overdraft) in the same financial period, As a result of this, borrowing agreements concluded with some financial institutions (outstanding amount of 2,997 million as of September 30, 2018) conflict with the financial restriction provision of this contract. it is necessary to cause important doubts on the premise of going concern.

In order to resolve this situation, the Group steadily implemented countermeasures as described in "2. Quarterly Consolidated Financial Statements and Notes (3) Notes on Quarterly Consolidated Financial Statements (Notes on Going Concern Assumption)" We will continue to execute. However, these countermeasures are in the process of being implemented, and even depending on the above-mentioned countermeasures, depending on the progress of the project in the future, the state of consultation with major banks, the progress of various conditions of the business turnaround ADR procedure and sponsorship agreement, Since there is a possibility that it will have a significant influence on future cash flow, we recognize that there is an important uncertainty about the premise of going concern at present.