## [Cover]

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| Document submitted | Annual Securities Report ("Yukashoken Hokokusho") |
| Applicable law clause | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act |
| Destination | Director General of the Kanto Finance Bureau |
| Date of submission | June 25, 2019 |
| Fiscal year | The 116th term (from April 1, 2018 to March 31, 2019) |
| Corporate name | TSUGAMI CORPORATION |
| Name and title of representative | Takao Nishijima, Chairman and CEO |
| Address of home office | 12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo |
| Telephone number | +81-3-3808-1711 (key number) |
| Contact person | Toshio Honma, Co-COO ADMINISTRATION |
| Nearest contact point | 12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo |
| Telephone number | +81-3-3808-1711 (key number) |
| Contact person | Toshio Honma, Co-COO ADMINISTRATION |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo) |

## Chapter 1. Corporate Information

### Section 1. Overview of the Company's Situation

1. Changes in major financial data

(1) Consolidated financial data

| Fiscal term | IFRS | |
|---|---|---|
| | 115th term | 116th term |
| Closing month and year | March 2018 | March 2019 |
| Revenue (million yen) | 56,794 | 68,486 |
| Profit before tax (million yen) | 6,151 | 10,384 |
| Profit attributable to owners of the parent (million yen) | 3,942 | 6,192 |
| Comprehensive income attributable to owners of parent (million yen) | 5,158 | 4,297 |
| Equity attributable to owners of the parent (million yen) | 31,591 | 33,244 |
| Total assets (million yen) | 66,761 | 69,692 |
| Equity attributable to owners of the parent per share (yen) | 595.14 | 641.69 |
| Basic earnings per share (yen) | 70.62 | 117.98 |
| Diluted earnings per share (yen) | 68.01 | 115.22 |
| Percentage of equity attributable to owners of the parent (%) | 47.3 | 47.7 |
| Return on equity attributable to owners of the parent (%) | 12.50 | 19.10 |
| Price-earnings ratio (times) | 18.95 | 7.22 |
| Cash flows from operating activities (million yen) | 6,278 | 1,643 |
| Cash flows from investing activities (million yen) | -633 | -1,362 |
| Cash flows from financing activities (million yen) | -478 | 355 |
| Cash and cash equivalents at the end of the term (million yen) | 10,466 | 11,112 |
| Number of employees<br>(Average number of temporary employees in addition to the above) | 2,445<br>(88) | 2,326<br>(94) |

(Note) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; the same shall apply hereinafter).

2. Starting from the 116th term, consolidated financial statements are prepared under the International Financial Reporting Standards (hereinafter "IFRS").

| Fiscal term | Japan GAAP | | | | |
|---|---|---|---|---|---|
| | 112th term | 113th term | 114th term | 115th term | 116th term |
| Closing month and year | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| Net sales (million yen) | 54,132 | 40,132 | 41,050 | 57,576 | 67,447 |
| Ordinary income (loss) (million yen) | 7,745 | 1,095 | 2,848 | 6,510 | 10,154 |
| Net income attributable to owners of parent (million yen) | 5,297 | 877 | 2,630 | 4,171 | 6,033 |
| Comprehensive income (million yen) | 7,848 | -1,428 | 3,516 | 5,813 | 5,768 |
| Net assets (million yen) | 37,279 | 32,594 | 31,462 | 37,516 | 40,065 |
| Total assets (million yen) | 56,829 | 47,859 | 50,127 | 62,362 | 64,217 |
| Net assets per share (yen) | 522.94 | 473.78 | 510.43 | 585.58 | 632.63 |
| Net income (loss) per share (yen) | 74.37 | 13.04 | 41.91 | 74.71 | 114.94 |
| Net income per share after residual equity adjustment (yen) | 72.92 | 12.77 | 40.93 | 71.97 | 112.26 |
| Capital adequacy ratio (%) | 64.1 | 66.2 | 61.1 | 49.8 | 51.0 |
| Earnings on equity (%) | 15.72 | 2.58 | 8.44 | 13.52 | 18.90 |
| Price-earnings ratio (times) | 10.34 | 31.37 | 17.66 | 17.91 | 7.41 |
| Cash flows from operating activities | 3,135 | 4,226 | 5,550 | 6,832 | 2,428 |
| Cash flows from investing activities (million yen) | -1,706 | -959 | 920 | -615 | -1,286 |
| Cash flows from financing activities (million yen) | -2,822 | -3,520 | -6,353 | -1,002 | -539 |
| Cash and cash equivalents at the end of the term (million yen) | 4,952 | 4,589 | 4,561 | 10,181 | 10,778 |
| Number of employees (Japan GAAP)<br>(Average number of temporary employees in addition to the above) | 1,959<br>(102) | 1,614<br>(105) | 1,959<br>(95) | 2,419<br>(88) | 2,298<br>(94) |

(Note) 1. Starting from the beginning of the 116th term, the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018), etc. are applied, and the total assets and the capital adequacy ratio for the 115th term are the amounts after retroactively applying the said accounting standards.

2. The consolidated financial statements for the 116th term under Japan GAAP do not undergo audit pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

(2) Financial data of the submitting company

| Fiscal term | 112th term | 113th term | 114th term | 115th term | 116th term |
|---|---|---|---|---|---|
| Closing month and year | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| Net sales (million yen) | 34,992 | 31,852 | 28,601 | 33,821 | 38,557 |
| Ordinary income (loss) (million yen) | 2,522 | 252 | 706 | 1,767 | 3,491 |
| Net income (million yen) | 1,698 | 292 | 1,253 | 3,072 | 3,125 |
| Capital (million yen) (Number of shares issued) (thousand shares) | 12,345<br>(74,919) | 12,345<br>(74,919) | 12,345<br>(64,919) | 12,345<br>(55,000) | 12,345<br>(55,000) |
| Net assets (million yen) | 30,494 | 26,574 | 24,708 | 21,129 | 20,066 |
| Total assets (million yen) | 39,050 | 33,281 | 33,331 | 36,302 | 35,787 |
| Net assets per share (yen) | 427.60 | 386.23 | 400.56 | 385.68 | 377.75 |
| Dividend per share<br>(Of which, interim dividend per share) (yen) | 14.00<br>(6.00) | 16.00<br>(8.00) | 16.00<br>(8.00) | 18.00<br>(9.00) | 21.00<br>(9.00) |
| Net income per share (yen) | 23.85 | 4.34 | 19.96 | 55.03 | 59.54 |
| Net income per share after residual equity adjustment (yen) | 23.39 | 4.25 | 19.50 | 53.44 | 58.15 |
| Capital adequacy ratio (%) | 76.2 | 77.6 | 72.1 | 56.4 | 54.7 |
| Earnings on equity (%) | 5.78 | 1.05 | 5.03 | 13.81 | 15.61 |
| Price-earnings ratio (times) | 32.24 | 94.18 | 37.07 | 24.32 | 14.31 |
| Dividend payout ratio (%) | 58.7 | 368.4 | 80.1 | 32.7 | 35.3 |
| Number of employees<br>(Average number of temporary employees in addition to the above) | 430<br>(90) | 439<br>(93) | 439<br>(83) | 368<br>(70) | 449<br>(81) |
| Total shareholder return (%)<br>(Comparative indicator: TOPIX) (%) | 126.9<br>(128.3) | 71.2<br>(112.0) | 127.4<br>(125.7) | 227.2<br>(142.7) | 151.9<br>(132.3) |
| Highest share price (yen) | 814 | 788 | 783 | 1,834 | 1,486 |
| Lowest share price (yen) | 505 | 355 | 385 | 730 | 562 |

(Note) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; the same shall apply hereinafter).

2. The figures in the consolidated financial data for the 116th term under Japan GAAP do not undergo audit pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Starting from the beginning of the 116th term, the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018), etc. are applied, and the total assets and the capital adequacy ratio for the 115th term are the amounts after retroactively applying the said accounting standards.

4. The highest share price and the lowest share price are those on the Tokyo Stock Exchange (First Section).

2. Corporate history

| | |
|---|---|
| March 1937 | Tsugami Mfg., Co., Ltd. established with capital of ¥2 million in Nagaoka, Niigata |
| December 1938 | Head office relocated to Kyobashi-ku, Tokyo |
| September 1941 | All plants in Nagaoka factory completed |
| February 1945 | Tsugami Precision Engineering Industry Co., Ltd. absorbed and renamed Shinshu Plant |
| February 1948 | Head office relocated to Minato-ku, Tokyo |
| May 1949 | Listed on Tokyo Stock Exchange, Osaka Securities Exchange, and Niigata Stock Exchange |
| October 1961 | Toyo Seiki K.K. absorbed and made Ibaraki Plant |
| July 1968 | Zao Seisakusho K.K. established |
| September 1970 | Tsugami *Sogo Kenkyusho* (Research Institute) was established in Nagaoka. |
| November 1970 | Corporate name was changed to TSUGAMI CORPORATION |
| September 1974 | Tsugami Machine Tool Trading Corp. was established |
| March 1975 | Ibaraki Plant closed and sold |
| October 1982 | Corporate name was changed to TSUGAMI CORPORATION |
| May 1988 | Shares of Azuma Shimamoto Ltd. (corporate name changed to Tsugami Shimamoto Ltd.) acquired |
| April 1991 | TSUGAMI PRECISION CO., LTD. (currently a consolidated subsidiary) was established |
| May 1991 | Weldon Machine Tool Inc., a U.S. manufacturer of machine tools, acquired (corporate name changed to WMT Corporation) |
| April 1997 | Tsugami High Tech Co., Ltd. (currently TSUGAMI MACHINAERY CO., LTD., a consolidated subsidiary) was established |
| November 2001 | Shares of Tsugami Techno Co., Ltd. acquired |
| December 2002 | Liquidation of WMT Corporation completed |
| September 2003 | PRECISION TSUGAMI (CHINA) CORPORATION (currently a consolidated subsidiary) was established |
| April 2004 | Tsugami Machine Tool Trading Corp. absorbed |
| October 2004 | Shimamoto Precision Ltd. and Tsugami Techno Co., Ltd. merged. The corporate name of the new company as a result of the merger is Tsugami Shimamoto Ltd.<br>Tsugami High Tech Co., Ltd. and TSUGAMI MACHINAERY CO., LTD. merged. The corporate name of the new company is TSUGAMI MACHINAERY CO., LTD. (currently a consolidated subsidiary). |
| February 2005 | Invests in REM Sales LLC (currently an affiliate to which the equity method is not applied) |
| November 2005 | New plants in Nagaoka and Shinshu factories were completed |
| October 2006 | TSUGAMI GENERAL SERVICE CO., LTD. and Tsugami Tool Co., Ltd. were merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary). |
| November 2007 | TSUGAMI GmbH (currently a non-consolidated subsidiary) was established |
| January 2009 | Tsugami Shimamoto Ltd. absorbed |
| February 2010 | TSUGAMI KOREA Co., Ltd. (currently a non-consolidated subsidiary) was established |
| November 2010 | Shinagawa Precision Machinery (Zhejiang) Co., Ltd. (currently a non-consolidated subsidiary) was established |
| April 2011 | TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) was established in India. |
| June 2011 | TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) was established in India. |
| March 2012 | TSUGAMI Universal Pte. Ltd. (currently a non-consolidated subsidiary) was established in Singapore. |
| April 2013 | TSUGAMI GENERAL SERVICE CO., LTD. and TSUGAMI PRECISION CO., LTD. were merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary) |
| July 2013 | Precision Tsugami (China) Corporation Limited (currently a non-consolidated subsidiary) was established |
| September 2013 | Precision Tsugami (Hong Kong) Limited (currently a non-consolidated subsidiary) was established |
| April 2015 | TSUGAMI GmbH changed its trade name to TSUGAMI EUROPE GmbH (currently a non-consolidated subsidiary) |
| September 2017 | Precision Tsugami (China) Corporation Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited |
| April 2018 | Precision Tsugami (Anhui) Corporation (currently a non-consolidated subsidiary) was established |

3. Businesses

The Group consists of TSUGAMI Corporation (“the Company”) and 14 subsidiaries (of which thirteen are consolidated subsidiaries) and engages primarily in the manufacture and sale of Automatic lathes, Grinding machines, Machining centers, and Rolling machines chiefly in Japan and China. The Group undertakes additional business activities, including research on individual companies and other services.

(1) Positions of Group companies in the Group’s businesses

The following is a description of the positions of Group companies in the Group’s businesses in Japan, China, India and South Korea:

(i) Japan

The Company manufactures and sells machine tools. Products are sold also by TSUGAMI Machinery Co., Ltd., subsidiary. The Company purchases certain parts and products from subsidiary PRECISION TSUGAMI (CHINA) CORPORATION.

(ii) China

PRECISION TSUGAMI (CHINA) CORPORATION manufactures and sells machine tools. Shinagawa Precision Machinery (Zhejiang) Co., Ltd. manufactures and sells machine tool castings. PRECISION TSUGAMI (CHINA) CORPORATION also purchases certain parts from the Company and Shinagawa Precision Machinery (Zhejiang) Co., Ltd., and sells products to the Company.

(iii) India

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED manufactures and sells machine tools.

(iv) South Korea

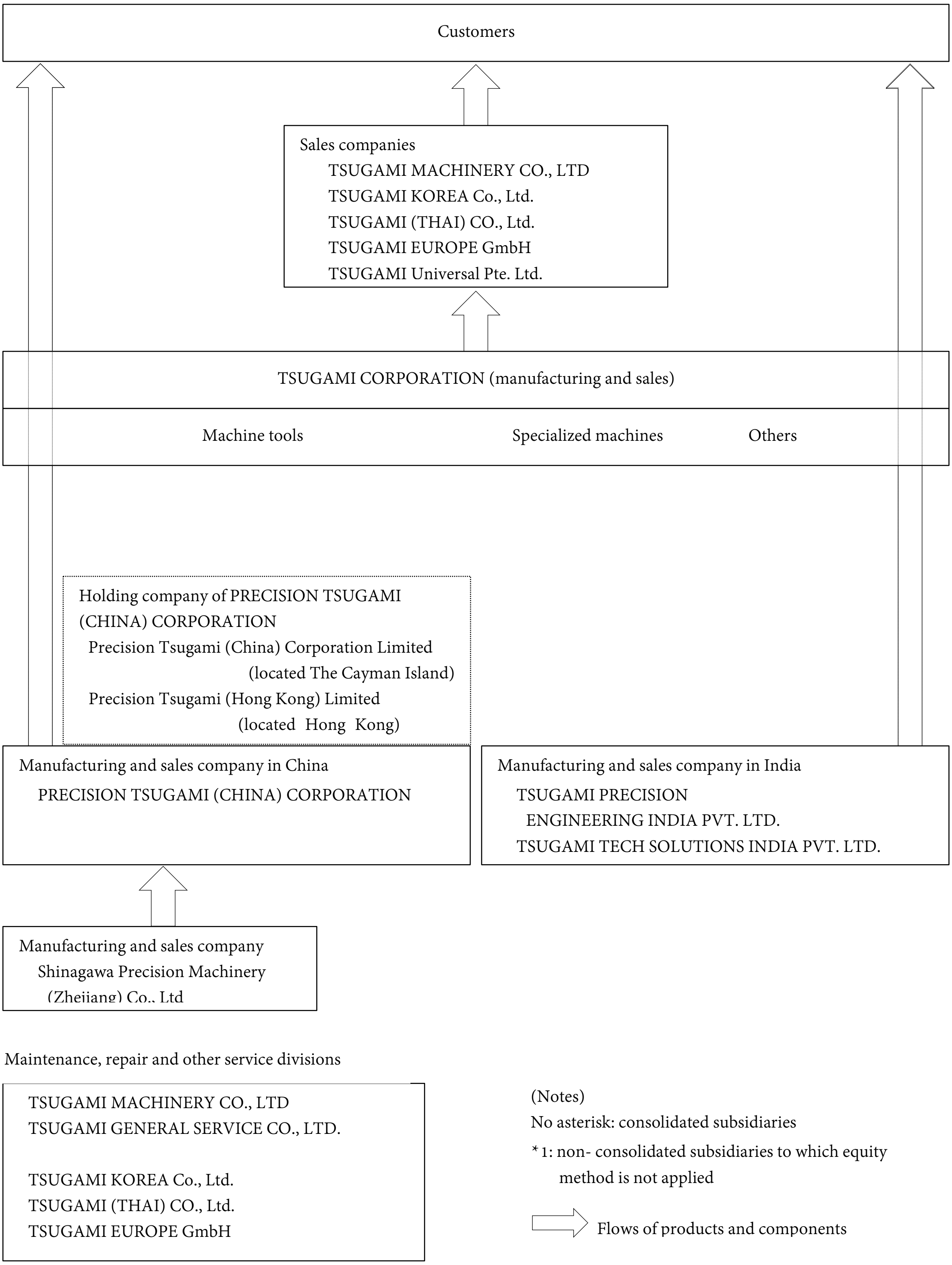
TSUGAMI Korea Co., Ltd. sells products of the Company.

TSUGAMI (Thai) Co., Ltd., TSUGAMI EUROPE GmbH and TSUGAMI Universal Pte. Ltd., subsidiaries, sell products of the Company.

After-sales services for the products of the Group are provided by the Company and the subsidiaries TSUGAMI Machinery Co., Ltd. and TSUGAMI (Thai) Co., Ltd.

(2) Business diagram

Businesses operated by the Group are as presented in the following figure.



4. Situations of affiliates

| Name | Address | Capital or investments | Major business | Ownership of voting rights (%) | Relations |
|---|---|---|---|---|---|
| (Consolidated subsidiaries)<br>TSUGAMI MACHINAERY CO., LTD. | Kawasaki-ku, Kawasaki-shi, Kanagawa | 60 million yen | Sales, installation and repairing of machine tool parts in Japan. | 100 | Sells products and parts of the Company; installs and repairs products of the Company.<br>There are interlocking officers. |
| TSUGAMI GENERAL SERVICE CO., LTD. | Nagaoka-shi, Niigata | 42 million yen | Inspections and maintenance of buildings and facilities of factories and non-life insurance agency operations in Japan. | 100 | Checks and maintains buildings and equipment on the premises of the Company's plants; carries out the agency of nonlife insurance of the Company.<br>There are interlocking officers. |
| Precision Tsugami (China) Corporation Limited (Note 1) | The Cayman Islands | 381 million Hong Kong dollar | Holding Company | 70.8 | Holds all shares in Precision Tsugami (Hong Kong) Limited.<br>There are interlocking officers. |
| Precision Tsugami (Hong Kong) Limited (Note 1, 3) | Hong Kong, China | 767 million Hong Kong dollar | Holding Company | 100 (100) | Holds all shares in PRECISION TSUGAMI (CHINA) CORPORATION. |
| PRECISION TSUGAMI (CHINA) CORPORATION (Note 1, 2, 3) | Zhejiang, China | 517 million yuan | Manufacturing and sales of machine tools in China. | 100 (100) | Manufactures and sells products of the Company.<br>There are interlocking officers. |
| Shinagawa Precision Machinery (Zhejiang) Co., Ltd (Note 3) | Zhejiang, China | 35 million yuan | Manufacturing and sales of machine tool castings in China. | 100 (100) | Manufactures and sells of machine tool castings for products of the Company.<br>There are interlocking officers. |
| Precision Tsugami (Anhui) Corporation (Note 3) | Anhui, China | 50 million yuan | Manufacturing and sales of machine tools, castings in China | 100 (100) | Plans to manufacture the company's products, machine tool castings and other parts for the products.<br>There are interlocking officers. |
| TSUGAMI KOREA Co., Ltd. | Anyang-Si, South Korea | 1,000 million won | Sales of machine tools in South Korea. | 100 | Sells products of the Company.<br>There are interlocking officers. |
| TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (Note 3) | Oragadam, Dt. Tamil Nadu, India | 495 million Indian rupee | Manufacturing and sales of machine tools in India. | 90.9 (15.1) | Manufactures and sells products of the Company.<br>There are interlocking officers. |
| 4 other companies | | | | | |

(Note) 1. PRECISION TSUGAMI (CHINA) CORPORATION, Precision Tsugami (China) Corporation Limited and Precision Tsugami (Hong Kong) Limited are specified subsidiaries.

2. The ratio of the net sales of PRECISION TSUGAMI (CHINA) CORPORATION (excluding intra-Group sales among consolidated companies) to consolidated net sales exceeded 10%.

Information on major profit and other items

| | |
|---|---|
| (1) Revenue | ¥47,411 million |
| (2) Profit before tax | ¥7,896 million |
| (3) Profit | ¥6,122 million |
| (4) Total equity | ¥19,944 million |
| (5) Total assets | ¥31,552 million |

3. The figure in the parenthesis is the indirect ownership of voting rights.

## 5. Employees

### (1) Group employees

As of March 31, 2019

| Business segment | Number of employees | |
|---|---|---|
| Japan | 497 | (94) |
| China | 1,572 | (--) |
| India | 209 | (--) |
| South Korea | 22 | (--) |
| Others | 26 | (--) |
| Total | 2,326 | (94) |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees.

2. The number of employees in China fell by 179 from the end of the previous fiscal year to 1,572, mainly due to a decrease in employees at PRECISION TSUGAMI (CHINA) CORPORATION in the fiscal year under review.

### (2) Employees of the submitting company

As of March 31, 2019

| Number of employees | Average age | Average service years | Average annual salary (thousand yen) |
|---|---|---|---|
| 449 (81) | 43.4 | 18.7 | 6,496 |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees. Workers on loan from other companies to the Company (four employees) are included. Workers on loan from the Company to other companies (82 employees) are not included. The employees of the Company are classified into Japan Segment.

2. The average annual salary (tax included) includes overtime charges and bonuses.

### (3) Labor union

The labor union of the Company belongs to JAM, an industrial union. The number of union members, who have concluded union-shop contracts, is 274.

Labor-management relations are good.

## Section 2. Business Situation

1. Management Policy, Management Environment and Issues to Be Addressed, etc.

The Group's basic management policy is to contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies it has been developing since the Company was first established.

We are determined to achieve sustained growth over the long term, through the provision of high-precision, high-speed and high-rigidity products that meet our customers' needs.

Regarding the management environment, we will focus on the following challenges based on the recognition described in [Section 2 Business Situation, 3. Analysis of financial position, operating results, and cash flows by management (1) Overview of operating results, etc. (i) Financial position and operating results].

(Challenges in the medium to long term)

The Group is addressing the following priority issues proactively as its medium- and long-term management strategies.

(1) Introduction of new products targeting growth fields

The Group will make every effort to launch new products that will sufficiently meet customers' requests in markets that are expected to grow, including the auto parts market, where eco-friendliness and energy saving are required, the IT market, which includes more sophisticated HDDs and smartphones, and the medical care market.

(2) Business strategies targeting growth regions

The Group will continues its efforts to build up production, sales and after-sales service organizations in Asian markets (including China, Southeast Asia and India), which we continue to need to emphasize.

(3) Management streamlining and customer satisfaction enhancement

To bolster the comprehensive strength of the corporate group, the Group, including affiliates, will seek to enhance its sales, production, and management systems and to achieve efficient management.

The Group will continue to make every effort to offer new products that satisfy customer demands, to expand and upgrade its services, to improve customer satisfaction on a constant basis, and to maintain the trust of its customers.

Meanwhile, the Group will promote CSR activities, including environment conservation and compliance, and remains committed to justifying the trust of its shareholders, customers, and all other stakeholders.

Forward-looking statements in the document are based on the judgments of the Group's management as of the end of the fiscal year under review.

## 2. Business and other risks

Risks that may adversely affect the operating results, share prices, financial situation and other aspects of the Group include the following:

### (1) Effects of business fluctuations

The machine tool industry is an industry that is susceptible to the effects of business fluctuations. The Group is continuing its efforts to minimize the effects that unexpected market downsizing can have on its performance, by reducing fixed costs and taking other steps in an attempt to maximize management efficiency. Sudden and unexpected changes, however, may affect the Group’s production, business performance and financial situation.

### (2) Effects of changes in prices of raw materials

The prices of cast metals and iron and steel products, the main raw materials of products of the Group, are influenced by movements of exchange rates and the international supply-demand situation. Increases in prices of raw materials for those reasons may affect the Group’s production, business performance, and financial situation.

### (3) Effects of fluctuations in exchange rates

Each year, overseas sales are accounting for a greater percentage of total sales of the Group’s products. Exports by the Group are denominated in yen, and they are not directly influenced by exchange rate fluctuations in principle. A sharp appreciation of the yen, however, prompts agents and users overseas to ask the Group to lower its selling prices for its products. In addition, the risk of an exchange loss attributable to fluctuations in the Chinese yuan is rising in proportion to the growing weight of production at manufacturing factories in China.

### (4) Effects of overseas operations

Subsidiaries in China and India manufactures and sells machine tools, and the Group sells products and provides after-the-sale services through subsidiaries in South Korea, India, Thailand, Germany and others. Deterioration in political situations and changes in laws and regulations in those countries may affect the Group's production, business performance and financial standing.

### (5) Effects of matters relating to quality

The Group is united in its commitment to improving quality, in addition to proactively developing new products and introducing them to markets. Nonetheless, unexpected issues, such as accidents and poor service, may affect the Group’s production, business performance and financial conditions should they arise.

### (6) Effects relating to intellectual property rights

To protect its technologies, the Group applies for patents for them and acquires intellectual property rights. However, if other companies infringe on the intellectual property rights of the Group, if the invalidation of intellectual property rights of the Group is sought, or if injunctions against the manufacture and sale of products are filed against the Group in association with infringements of intellectual property rights, then this may affect the Group’s production, business performance and financial conditions.

### (7) Effects of the situation

The Group deals with range of industries, including the electronics, information and telecommunications, and automobile industries. The Group pays close attention to the environment and credit risk. However, if the situation of customer, especially those with which the Group conducts large transactions, changes because of amendments to contracts, changes in the business environment, business downturns, or other factors, this may could the Group’s production, business performance, and financial situation.

### (8) Effects of natural disasters

The Group has production, selling, and service bases worldwide, and may therefore be affected by disasters that might be caused by a range of phenomena, including natural disasters, computer viruses, and terrorism.

The Group has production bases in Niigata prefecture in Japan, in Zhejiang province, China and in Oragadam, Tamil Nadu Province, India. If large natural disasters, such as earthquakes and floods, should occur, and if as a result the supply of products should become impossible or be delayed, then this may affect the Group’s production, business performance and financial situation.

3. Analysis of financial position, operating results, and cash flows by management

*Starting from the consolidated fiscal year under review (from April 1, 2018 to March 31, 2019), the Group applies IFRS in lieu of the previously applied Japan GAAP, and a comparative analysis is undertaken by changing the figures in the previous consolidated fiscal year into those under IFRS.

(1) Overview of operating results, etc.

Overview of financial position, operating results, and cash flows situation (hereinafter “operating results, etc.”) of the Group (the Company and its consolidated subsidiaries) in the consolidated fiscal year under review are as follows:

(i) Financial position and operating results

(Operating results)

During the consolidated fiscal year under review, the businesses of TSUGAMI Corporation (the “Company”) and its affiliates (the “Group”) remained firm overall in both domestic and overseas markets, although there were adjustments in the markets from the second half of the fiscal year, partly due to the U.S.-China trade friction.

In this environment, the Group sought to boost sales in a variety of sectors including automobile parts and IT. As a result, revenue for the fiscal year under review increased 20.6% year on year, to ¥68,486 million.

In terms of profit, operating profit increased 59.3% year on year, to ¥ 10,215 million, profit before tax increased 68.8% to ¥ 10,384 million, profit attributable to owners of the parent rose 57.1% to ¥6,192 million.

(Operating results by business segment)

a. In Japan, net sales stood at ¥39,740 million, up 18.8 % year on year. Operating profit was ¥2,304 million.

b. In China, net sales were ¥47,443 million, up 21.7 % year on year. Operating income was ¥7,787 million.

c. In India, net sales were ¥2,988 million, up 55.6 % year on year. Operating income was ¥173 million.

d. In South Korea, net sales were ¥1,205 million, down 3.4 % year on year. Operating income was ¥59 million.

Operating profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

(Financial position)

Assets totaled ¥69,692 million at the end of the fiscal year under review, increasing ¥2,931 million from the end of the previous fiscal year. The increase resulted primarily from increases of ¥3,529 million in inventories, ¥833 million in trade and other receivables, ¥646 million in cash and cash equivalents, and ¥468 million in intangible assets, which offset decreases of ¥2,149 million in other financial assets and ¥286 million in property, plant and equipment.

Liabilities came to ¥29,620 million, increasing ¥266 million from the end of the previous fiscal year. The result was mainly attributable to an increase of ¥3,695 million in short-term borrowings, which offset decreases of ¥1,970 million in trade and other payables, ¥634 million in deferred tax liabilities, ¥588 million in other current liabilities and ¥588 million in income taxes payable.

Net assets stood at ¥40,072 million at the end of the fiscal year under review, increasing ¥2,665 million from the end of the previous fiscal year. The increase mainly reflected an increase of ¥6,192 million in retained earnings resulting from profit attributable to owners of the parent, which offset decreases of ¥951 million in retained earnings due to the payment of dividends, ¥1,128 million due to the purchase of treasury shares and ¥1,523 million in financial assets measured at fair value.

As a result of the changes stated above, the percentage of equity attributable to owners of the parent rose from 47.3% to 47.7%.

(ii) Cash flows

Cash and cash equivalents amounted to ¥11,112 million at the end of the fiscal year under review, increasing ¥645 million from the end of the previous fiscal year. A description of each cash flow during the fiscal year was as follows:

(Cash flows from operating activities)

Cash provided by operating activities was ¥1,643 million. (provided ¥6,278 million previous year)

The result principally reflected increases in cash, including profit before tax of ¥10,384 million and depreciation of ¥1,039 million, which offset decreases in cash, such as a ¥3,915 million increase in inventories, a ¥697 million increase in trade and other receivables, a ¥1,568 million decrease in trade and other payables and ¥3,271 million in income taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was ¥1,362 million. (used ¥633 million previous year)

The cash outflow was primarily attributable to decreases in cash of ¥1,405 million for the purchase of property, plant and equipment and ¥414 million for the purchase of intangible assets, as well as increases in cash due to proceeds of ¥404 million from the sale of property, plant and equipment and proceeds of ¥214 million from subsidy income.

(Cash flows from financing activities)

Cash provided by financing activities was ¥355 million. (used ¥478 million previous year)

The cash inflow resulted mainly from an increase in cash due to a ¥3,695 million increase in short-term borrowings offsetting decreases in cash due to the purchase of treasury shares of ¥1,833 million, dividends paid of ¥951 million and dividends paid to non-controlling interests of ¥574 million.

(iii) Production, orders received, and sales

a. Production performance

The table below shows production performance by segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019) (Million yen) | Year on year (%) |
|---|---|---|
| Japan | 32,438 | 113.9 |
| China | 27,729 | 103.0 |
| India | 3,118 | 159.9 |
| South Korea | -- | -- |
| Others | -- | -- |
| Total | 63,285 | 110.3 |

(Note) 1. The amounts above are amounts before intra-Group transfers based on standard invoice prices.

2. The amounts above do not include consumption taxes.

3. In South Korea, the Group does not engage in production.

b. Orders received

Since the Group (the Company and its consolidated subsidiaries) produces based on prospects for orders, a description of orders received is omitted.

c. Sales performance

The table below show sales performance by business segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019) (Million yen) | Year on year (%) |
|---|---|---|
| Japan | 29,983 | 120.9 |
| China | 33,804 | 119.2 |
| India | 2,974 | 156.2 |
| South Korea | 1,143 | 93.9 |
| Others | 579 | 112.6 |
| Total | 68,486 | 120.6 |

(Note) 1. Transactions between the segments were canceled out.

2. The amounts above do not include consumption taxes.

(2) Analysis and consideration of operating results, etc. from the perspective of management

The recognition, analysis and consideration of operating results, etc. of the Group from the perspective of management are as follows.

Forward-looking statements in the text are judgments of the Company as of the end of the fiscal year under review.

(i) Significant accounting policies and estimates

The consolidated financial statements of the Group are prepared based on the International Financial Reporting Standards (IFRS). Individual significant accounting policies and estimates are as stated in "Section 5. Financial Status, 1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Important Matters that Become Basis of Presenting Consolidated Financial Statements."

(ii) The recognition, analysis and consideration of operating results, etc. for the consolidated fiscal year under review

a. Analysis of operating results for the consolidated fiscal year under review

(Revenue)

Net sales for the fiscal year under review increased 20.6% year on year, to ¥68,486 million.

By geographic region, net sales in Japan increased 13.2% year on year, to ¥13,662 million. Overseas increased 22.6% year on year, to ¥54,824 million. The export ratio increased 1.4 points from 78.7% for the previous fiscal year, to 80.1%.

Breakdown by region of overseas net sales in the consolidated fiscal year under review are as follows:

(Million yen)

| | Asia | America | Europe | Total |
|---|---|---|---|---|
| I Overseas revenue | 45,063 | 4,016 | 5,744 | 54,824 |
| II Consolidated revenue | | | | 68,486 |
| III Ratio of overseas revenue to consolidated revenue (%) | 65.8 | 5.9 | 8.4 | 80.1 |

(Note) 1. National or regional classifications are based on geographic proximity.
2. Major countries or regions in each classification
(1) Asia China, Thailand, South Korea, Singapore, the Philippines, and India
(2) America the United States and Mexico
(3) Europe Switzerland, Germany, France and Italy
3. Overseas revenue refer to revenue achieved by the Company and its consolidated subsidiaries in countries or regions other than Japan.

(Operating profit)

Operating profit increased 59.3% year on year, to ¥10,215 million. This was mainly due to the effect of higher sales, while fixed costs increased slightly.

(Profit attributable to owners of the parent)

Profit attributable to owners of the parent increased 57.1% year on year, to ¥6,192 million. As with operating profit, this was also due to the effect of higher sales.

(Segment)

Operating results by business segment are stated in "Section 2. Business Situation, 3. Analysis of financial position, operating results, and cash flows by management, (1) Overview of operating results, etc., (i) Financial position and operating results."

Net sales increased 21.7% year on year in China, as the strong performance in the Chinese market continued. Revenue increased 18.8% year on year in Japan because both the Japanese and the European markets remained firm. Operating profit also rose year on year in line with the increase in revenue.

b. Factors which may have a significant impact on operating results

The factors which may have a significant impact on operating results of the Group are described in "Section 2. Business Situation, 2. Business and other risks".

c. Financial source of capital and liquidity of funds

The situation of cash flows is stated in "Section 2. Business Situation, 3. Analysis of financial position, operating results, and cash flows by management, (1) Overview of operating results, etc., (ii) Cash flows."

The Group plans to make capital expenditures including the construction of a new factory in Anhui, China with cash provided by operating activities, etc., as stated in "Section 3. Facilities, 3. Equipment introduction and retirement plans."

(3) Parallel disclosure

These condensed consolidated financial statements prepared based on the Consolidated Financial Statement Regulations (excluding Chapter 7 and Chapter 8. Hereinafter "Japan GAAP") is as follows.

These condensed consolidated financial statements for the consolidated fiscal year under review prepared under Japan GAAP does not undergo audit pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

(i) Condensed consolidated balance sheets (Japan GAAP)

(Million yen)

| | Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Assets | | |
| Current assets | 43,639 | 47,132 |
| Non-current assets | 18,722 | 17,084 |
| Total assets | 62,362 | 64,217 |
| Liabilities | | |
| Current liabilities | 22,821 | 22,424 |
| Non-current liabilities | 2,024 | 1,727 |
| Total liabilities | 24,845 | 24,152 |
| Net assets | | |
| Shareholders' equity | 26,594 | 30,143 |
| Accumulated other comprehensive income | 4,489 | 2,631 |
| Share acquisition rights | 656 | 495 |
| Non-controlling interests | 5,776 | 6,794 |
| Total net assets | 37,516 | 40,065 |
| Total liabilities and net assets | 62,362 | 64,217 |

(ii) Condensed consolidated statements of income and comprehensive income (Japan GAAP)

Condensed consolidated statements of income

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Net sales | 57,576 | 67,447 |
| Cost of sales | 43,021 | 47,590 |
| Gross profit | 14,554 | 19,856 |
| Selling, general and administrative expenses | 7,612 | 9,802 |
| Operating income | 6,942 | 10,053 |
| Non-operating income | 332 | 449 |
| Non-operating expenses | 764 | 348 |
| Ordinary income | 6,510 | 10,154 |
| Extraordinary income | 308 | 72 |
| Extraordinary losses | 378 | 87 |
| Income before taxes and other adjustments | 6,440 | 10,139 |
| Total corporate and other taxes | 1,756 | 2,406 |
| Net income | 4,684 | 7,732 |
| Net income attributable to non-controlling interests | 513 | 1,699 |
| Net income attributable to owners of parent | 4,171 | 6,033 |

Condensed consolidated statements of comprehensive income

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Net income | 4,684 | 7,732 |
| Other comprehensive income | 1,128 | -1,963 |
| Comprehensive income | 5,813 | 5,768 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 5,367 | 4,175 |
| Comprehensive income attributable to non-controlling interests | 445 | 1,593 |

(iii) Condensed consolidated statements of changes in net assets (Japan GAAP)

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | Shareholders' equity | Accumulated other comprehensive income | Share acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|
| Balance as of April 1, 2017 | 27,087 | 3,533 | 842 | — | 31,462 |
| Total change during the fiscal year | -492 | 956 | -185 | 5,776 | 6,054 |
| Balance as of March 31, 2018 | 26,594 | 4,489 | 656 | 5,776 | 37,516 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | Shareholders' equity | Accumulated other comprehensive income | Share acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|
| Balance as of April 1, 2018 | 26,594 | 4,489 | 656 | 5,776 | 37,516 |
| Total change during the fiscal year | 3,549 | -1,858 | -160 | 1,017 | 2,548 |
| Balance as of March 31, 2019 | 30,143 | 2,631 | 495 | 6,794 | 40,065 |

(iv) Condensed consolidated statements of cash flows (Japan GAAP)

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Cash flows from operating activities | 6,832 | 2,428 |
| Cash flows from investing activities | -615 | -1,286 |
| Cash flows from financing activities | -1,002 | -539 |
| Effect of exchange rate change on cash and cash equivalents | -144 | -4 |
| Net increase (decrease) in cash and cash equivalents | 5,070 | 597 |
| Cash and cash equivalents at the beginning of the term | 4,561 | 10,181 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 549 | -- |
| Cash and cash equivalents at the end of the term | 10,181 | 10,778 |

(v) Changes in important matters that become the basis of preparing the condensed consolidated financial statements (Japan GAAP)

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Change in method of depreciation for property, plant and equipment)

The Company and its domestic consolidated subsidiaries previously used the declining-balance method for the depreciation of property, plant and equipment (excluding leased assets). (Please note that the straight-line method was used for buildings (excluding facilities attached to buildings) purchased on or after April 1, 1998 and facilities attached to buildings and structures purchased on or after April 1, 2016.) Starting from the consolidated fiscal year under review, however, the depreciation method is changed to the straight-line method.

The manufacturing bases of the Group are located within the Company and its subsidiaries in China. Associated with the expansion of the Chinese market, the Company has been shifting manufacturing to its subsidiaries in China. In addition, in the previous fiscal year, the Company integrated the domestic manufacturing function in the Nagaoka Factory, sold its other plants and conducted a review of its other domestic bases. In the fiscal year under review and thereafter, the Nagaoka Factory takes on the role of the headquarters for the Group’s manufacturing and development, and the Company expects stable operation that is more resistant to order trends.

As a result, the Company has changed the method of depreciation from the declining-balance method to the straight-line method in order to carry out a cost allocation for property, plant and equipment that reflects the actual conditions of the Company and its domestic consolidated subsidiaries.

Compared with the previous depreciation method, operating income, ordinary income and income before income taxes in the fiscal year under review each increased by ¥23 million.

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.)

Starting from the beginning of the consolidated fiscal year under review, the Company applies the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 dated February 16, 2018), etc. and presents deferred tax assets in investments and other assets and deferred tax liabilities in non-current liabilities.

(4) Information on differences in major items pertaining to the overview of operating results

Matters concerning differences between major items in the consolidated financial statements prepared under IFRS and the corresponding items in those prepared under Japan GAAP are as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)
As stated in "Section 5. Financial Status, 1. Consolidated Financial Statements, etc., (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 39. First-time adoption."

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(i) Adjustment to revenue

Under Japan GAAP, some goods sales transactions are recognized on a shipping basis. Under IFRS, however, the time when the customer recognizes that he or she has gained control over the product by checking it against the contractual conditions is the time of the fulfillment of the contract's performance obligation. Revenue is recognized upon the arrival of the product at the customer, based mainly on inspection and trade conditions. In addition, some rebates were presented in selling, general and administrative expenses under Japan GAAP, but are deducted from revenue under IFRS.
As a result of the above, inventories increased ¥743 million, while retained earnings decreased ¥71 million under IFRS in comparison with those under Japan GAAP.

(ii) Accounting for net defined benefit liability

Under Japan GAAP, actuarial differences are recognized in other comprehensive income as they occur, and they are expensed from the year after their occurrence, proportionally divided by a certain number of years within the average remaining service period of employees. Under IFRS, however, they are recognized in other comprehensive income when they occur and are immediately transferred to retained earnings.
As a result of the above, retained earnings decreased ¥114 million under IFRS in comparison with those under Japan GAAP.

4. Significant management contracts

Not applicable.

5. Research and development activities

The Group is focusing on product development activities to quickly meet the needs of customers and develop high-precision, high-speed and high-rigidity machines promptly based on precision processing technologies that the Group has cultivated in product development and technology development for many years.
Total R&D expenses in the entire Group in the consolidated fiscal year under review were ¥2,701 million.
The R&D are mainly conducted in the Company (Japan).
The Company plays a central role in developing small, high-speed, high-precision machines that can be used for processing auto parts that are environmentally friendly, safe, and energy saving (electric power steering, next-generation brakes, environmentally-friendly engines) and high-precision products in the information and communications industries, especially personal computer-related products, such as hard disk drives (HDDs), parts for small information terminals, such as mobile phones and digital cameras, and super high-precision parts such as parts for medical equipment.
During the consolidated fiscal year under review, the Company developed the B026/32-III CNC precision automatic lathe, the M06JC-II and M08JL8-II CNC lathe and the VA4 High speed vertical machining center.

## Section 3. Facilities

1. Overview of capital investment

Capital expenditures of the Group were ¥2,297 million.

Capital expenditures by business segment are as follows:

Capital expenditures in Japan were ¥689 million, which was allocated primarily to the construction of a new operating system.

Capital expenditures in China were ¥1,383 million, which was allocated primarily to production facilities at PRECISION TSUGAMI (CHINA) CORPORATION and Precision Tsugami (Anhui) Corporation, a subsidiary.

Capital expenditures in India were ¥122 million, which was allocated primarily to facilities at TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED, a subsidiary.

Capital expenditures in South Korea were ¥101 million, which was allocated primarily to facilities at TSUGAMI KOREA Co., Ltd., a subsidiary.

The Group's own funds for the capital expenditures.

2. Major facilities

The table below shows major facilities of the Group.

(1) Submitting company

As of March 31, 2019

| Factory (location) | Business segment | Facilities | Book value (Million yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|
| | | | Buildings | Machinery and equipment | Land ($m^2$) | Leased assets | Other | Total | |
| Nagaoka factory (Nagaoka-shi, Niigata) | Japan | Equipment for producing machine tools | 1,757 | 264 | 241 (87,527) | 20 | 168 | 2,452 | 449 (81) |

(2) Overseas subsidiary

As of March 31, 2019

| Corporate name | Factory (location) | Business segment | Facilities | Book value (Million yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings | Machinery and equipment | Land ($m^2$) | Leased assets | Other | Total | |
| PRECISION TSUGAMI (CHINA) CORPORATION | China factory (Zhejiang, China) | China | Equipment for producing machine tools | 2,785 | 2,207 | -- | -- | 95 | 5,088 | 1,502 (--) |
| Shinagawa Precision Machinery (Zhejiang) Co., Ltd | China factory (Zhejiang, China) | China | Equipment for producing machine tools | 314 | 98 | -- | -- | 13 | 426 | 70 (--) |
| TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED | India factory (Dt. Tamil Nadu, India) | India | Equipment for producing machine tools | 332 | 127 | -- | -- | 48 | 508 | 209 (--) |

(Note) 1. The book value in the "Other" column is a total value of tools, and equipment and fixtures and does not include construction in progress.
2. The number in parentheses in the number of employee's column is the number of temporary employees.

3. Equipment introduction and retirement plans

The Group develops capital expenditure plans, taking into comprehensive consideration business forecasts, industry trends, and financial efficiency.

In principle, each consolidated company develops an equipment plan, which is adjusted primarily by the submitting company.

The table below shows plans for the introduction of important equipment as of the end of the fiscal year under review.

| Corporate name, factory | Location | Business segment | Facilities | Planned investments (Million yen) | | Financing method | Planned start and completion date | |
|---|---|---|---|---|---|---|---|---|
| | | | | Total | Amount paid | | Start | Completion |
| Nagaoka factory of the Company | Nagaoka-shi, Niigata | Japan | Software and buildings | 780 | -- | Self-financing | April 2019 | March 2020 |
| Precision Tsugami (Anhui) Corporation | Anhui, China | China | Buildings, machinery and equipment | 3,298 | 184 | Self-financing | May 2018 | October 2020 |
| TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED | Dt. Tamil Nadu, India | India | Buildings, machinery and equipment | 1,400 | -- | Self-financing | April 2019 | March 2020 |

## Section 4. Situation of Submitting Company

1. Shares of the Company

(1) Total number of shares and other information

(i) Total number of shares

| Type | Number of shares issuable |
|---|---|
| Common stock | 320,000,000 |
| Total | 320,000,000 |

(ii) Shares issued

| Type | Number of shares issued at end of fiscal year (March 31, 2019) | Number of shares issued on the date of the submission of the report (June 25, 2019) | Stock exchange or registered financial instruments dealers association | Remarks |
|---|---|---|---|---|
| Common stock | 55,000,000 | 55,000,000 | The First Section of the Tokyo Stock Exchange | Number of shares per unit: 100 |
| Total | 55,000,000 | 55,000,000 | -- | -- |

(Note) The figures in the number of shares issued on the date of the submission of the report column do not include shares issued through the exercise of share acquisition rights from June 1, 2019 through the date of the submission of the report.

(2) Share acquisition rights

(i) Stock option system

| Date of relevant resolution | June 24, 2005 | June 23, 2006 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 4<br>Statutory auditors 4<br>Titled executive officers 7 | Titled executive officers 4<br>Employees with similar positions 4 |
| Number of share acquisition rights (Note 1) | 35 | 22 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>35,000 | Common stock<br>22,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 1, 2005 to June 30, 2025 | From July 21, 2006 to July 20, 2026 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 1<br>Amount per share to be credited to capital: 1 | Issue price: 609<br>Amount per share to be credited to capital: 305 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | (Note 3) |

| Date of relevant resolution | June 22, 2007 | June 20, 2008 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 4<br>Statutory auditors 4 | Titled executive officers 7<br>Employees with similar positions 4 |
| Number of share acquisition rights (Note 1) | 29 | 24 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>29,000 | Common stock<br>24,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 10, 2007 to July 9, 2027 | From July 8, 2008 to July 7, 2028 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 514<br>Amount per share to be credited to capital: 257 | Issue price: 280<br>Amount per share to be credited to capital: 140 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | (Note 3) | (Note 3) |

| Date of relevant resolution | June 19, 2009 |
|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 7<br>Statutory auditors 4 |
| Number of share acquisition rights (Note 1) | 52 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>52,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 |
| Exercise period (Note 1) | From July 7, 2009 to July 6, 2029 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 124<br>Amount per share to be credited to capital: 62 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- |

| Date of relevant resolution | June 18, 2010 | June 18, 2010 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 7<br>Statutory auditors 4 | Titled executive officers and employees with similar positions 20 |
| Number of share acquisition rights (Note 1) | 29 | 3 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>29,000 | Common stock<br>3,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 6, 2010 to July 5, 2030 | From July 6, 2010 to July 5, 2030 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 533<br>Amount per share to be credited to capital: 267 | Issue price: 533<br>Amount per share to be credited to capital: 267 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| | | |
|---|---|---|
| Date of relevant resolution | June 17, 2011 | June 17, 2011 |
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 4 | Titled executive officers and employees with similar positions 14 |
| Number of share acquisition rights (Note 1) | 57 | 16 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>57,000 | Common stock<br>16,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 5, 2011 to July 4, 2031 | From July 5, 2011 to July 4, 2031 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 409<br>Amount per share to be credited to capital: 205 | Issue price: 409<br>Amount per share to be credited to capital: 205 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| | | |
|---|---|---|
| Date of relevant resolution | June 15, 2012 | June 15, 2012 |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 4 | Titled executive officers and employees with similar positions 19 |
| Number of share acquisition rights (Note 1) | 60 | 14 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>60,000 | Common stock<br>14,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 3, 2012 to July 2, 2032 | From July 3, 2012 to July 2, 2032 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 460<br>Amount per share to be credited to capital: 230 | Issue price: 460<br>Amount per share to be credited to capital: 230 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| Date of relevant resolution | June 21, 2013 | June 21, 2013 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 4 | Titled executive officers and employees with similar positions 23 |
| Number of share acquisition rights (Note 1) | 71 | 37<br>[33] |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>71,000 | Common stock<br>37,000<br>[33,000] |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 9, 2013 to July 8, 2033 | From July 9, 2013 to July 8, 2033 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 446<br>Amount per share to be credited to capital: 223 | Issue price: 446<br>Amount per share to be credited to capital: 223 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| Date of relevant resolution | June 20, 2014 |
|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 5 |
| Number of share acquisition rights (Note 1) | 71 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>71,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 |
| Exercise period (Note 1) | From July 8, 2014 to July 7, 2034 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 453<br>Amount per share to be credited to capital: 227 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- |

| Date of relevant resolution | June 20, 2014 | June 20, 2014 |
|---|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers and employees with similar positions 19 | Employees of the Company 63 |
| Number of share acquisition rights (Note 1) | 42<br>[37] | 28 |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>42,000<br>[37,000] | Common stock<br>28,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 584 |
| Exercise period (Note 1) | From July 8, 2014 to July 7, 2034 | From July 8, 2016 to June 30, 2019 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 453<br>Amount per share to be credited to capital: 227 | Issue price: 750<br>Amount per share to be credited to capital: 375 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| Date of relevant resolution | June 18, 2015 | June 18, 2015 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 5 | Titled executive officers and employees with similar positions 25 |
| Number of share acquisition rights (Note 1) | 56 | 54<br>[48] |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>56,000 | Common stock<br>54,000<br>[48,000] |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 7, 2015 to July 6, 2035 | From July 7, 2015 to July 6, 2035 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 527<br>Amount per share to be credited to capital: 264 | Issue price: 527<br>Amount per share to be credited to capital: 264 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| | | |
|---|---|---|
| Date of relevant resolution | June 22, 2016 | June 22, 2016 |
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 5 | Titled executive officers and employees with similar positions 24 |
| Number of share acquisition rights (Note 1) | 75 | 92<br>[83] |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>75,000 | Common stock<br>92,000<br>[83,000] |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 8, 2016 to July 7, 2036 | From July 8, 2016 to July 7, 2036 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 273<br>Amount per share to be credited to capital: 136 | Issue price: 273<br>Amount per share to be credited to capital: 137 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| | | |
|---|---|---|
| Date of relevant resolution | June 21, 2017 | June 21, 2017 |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 5 | Titled executive officers and employees with similar positions 25 |
| Number of share acquisition rights (Note 1) | 47 | 71<br>[64] |
| Type, number and content of shares underlying share acquisition rights (Note 1) | Common stock<br>47,000 | Common stock<br>71,000<br>[64,000] |
| Amount to be paid for the exercise of share acquisition rights (yen) (Note 1) | 1 | 1 |
| Exercise period (Note 1) | From July 7, 2017 to July 6, 2037 | From July 7, 2017 to July 6, 2037 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1) | Issue price: 707<br>Amount per share to be credited to capital: 354 | Issue price: 707<br>Amount per share to be credited to capital: 354 |
| Conditions for the exercise of share acquisition rights (Note 1) | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights (Note 1) | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1) | -- | -- |

| Date of relevant resolution | June 20, 2018 | June 20, 2018 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 5 | Titled executive officers and employees with similar positions 29 |
| Number of share acquisition rights | 540 | 860<br>[750] |
| Type, number and content of shares underlying share acquisition rights | Common stock<br>54,000 | Common stock<br>86,000<br>[75,000] |
| Amount to be paid for the exercise of share acquisition rights (yen) | 1 | 1 |
| Exercise period | From July 7, 2018 to July 6, 2038 | From July 7, 2018 to July 6, 2038 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) | Issue price: 772<br>Amount per share to be credited to capital: 386 | Issue price: 772<br>Amount per share to be credited to capital: 386 |
| Conditions for the exercise of share acquisition rights | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts | -- | -- |

| Date of relevant resolution | June 19, 2019 | June 20, 2018 |
|---|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 5 | Titled executive officers and employees with similar positions 26 |
| Number of share acquisition rights | 560 | 900 |
| Type, number and content of shares underlying share acquisition rights | Common stock<br>56,000 | Common stock<br>90,000 |
| Amount to be paid for the exercise of share acquisition rights (yen) | 1 | 1 |
| Exercise period | From July 7, 2019 to July 6, 2039 | From July 7, 2019 to July 6, 2039 |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) | Issue price: --<br>Amount per share to be credited to capital: -- | Issue price: --<br>Amount per share to be credited to capital: -- |
| Conditions for the exercise of share acquisition rights | (Note 2) | (Note 2) |
| Matters relating to the transfer of share acquisition rights | The approval of the Board of Directors is required for the transfer of share acquisition rights. | The approval of the Board of Directors is required for the transfer of share acquisition rights. |
| Matters relating to the delivery of share acquisition rights in association with reorganization acts | -- | -- |

(Note) 1. The contents at end of fiscal year under review (March 31, 2019) are stated. For the matters that were changed from the last day of the fiscal year under review to the last day of the month preceding the date of submission (May 31, 2019), their contents as of the last day of the month preceding the date of submission are stated in [ ]. For other matters, there is no change from the contents on the last day of the fiscal year under review.

2. The conditions for the exercise of share acquisition rights shall be stipulated in a resolution of the Board of Directors, of the Company and the "Subscription Rights to Share Allocation Agreement" concluded between the Company and the recipients of share acquisition rights, based on the resolution.
3. In the event of a stock swap or a stock transfer in which the Company will become a wholly owned subsidiary, obligations relating to share acquisition rights that are not exercised or canceled shall be able to be transferred to the company that will become the parent company through the stock swap or stock transfer under certain conditions. Details shall be specified in the invitation to issuing of subscription.

(ii) Features of rights plan
Not applicable

(iii) Other Important Matters on Share acquisition rights, etc.
Not applicable

(3) Exercise of bonds with share acquisition rights with an amended exercise price

Not applicable.

(4) Changes in the number of shares outstanding and capital

| Date | Change in number of shares outstanding (shares) | Number of shares outstanding (shares) | Change in capital stock (Million yen) | Capital stock (Million yen) | Change in Legal capital surplus (Million yen) | Legal capital surplus (Million yen) |
|---|---|---|---|---|---|---|
| August 1, 2016 (Note 1) | -- | 74,919,379 | -- | 12,345 | -5,884 | -- |
| August 10, 2016 (Note 2) | -10,000,000 | 64,919,379 | -- | 12,345 | -- | -- |
| October 20, 2017 (Note 2) | -9,919,379 | 55,000,000 | -- | 12,345 | -- | -- |

(Note) 1. In accordance with Article 448, Paragraph 1 of the Companies Act, it reduced and transfer the legal capital surplus to other capital surplus.

2. The decrease of outstanding shares was due to the retirement of treasury shares.

(5) Ownership of shares by owner

As of March 31, 2019

| Classification | Ownership of shares (one unit is 1,000 shares) | | | | | | | | Fractional shares (shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Government and local governments | Financial institutions | Securities companies | Other corporations | Foreign corporations and individuals | | Individuals and others | Total | |
| | | | | | Entities other than individuals | Individuals | | | |
| Number of shareholders | -- | 38 | 64 | 129 | 131 | 10 | 8,506 | 8,878 | -- |
| Number of shares held (unit) | -- | 191,581 | 13,761 | 38,503 | 114,223 | 251 | 190,899 | 549,218 | 78,200 |
| Holdings (%) | -- | 34.9 | 2.5 | 7.0 | 20.8 | 0.1 | 34.7 | 100.0 | -- |

(Note) 1. Treasury shares (3,192,312 shares) includes 31,923 units in the individuals and others category and 12 fractional shares.

2. Shares in the other corporations' column include 120 units of shares under the name of the Japan Securities Depository Center.

3. The unit of trading at the Tokyo Stock Exchange changes from 1,000 shares to 100 shares effective as of October 1, 2018 based on the resolution of the 115th Annual Shereholders Meeting held on June 20, 2018.

(6) Major shareholders

As of March 31, 2018

| Name | Address | Number of shares held (thousand shares) | Ratio of holdings to the number of shares issued (%) |
|---|---|---|---|
| Japan Trustee Services Bank, Ltd. (trust account) | 1-8-11, Harumi, Chuo-ku, Tokyo | 5,156 | 9.95 |
| Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) | 1-8-12, Harumi, Chuo-ku, Tokyo | 2,592 | 5.00 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 2-11-3, Hamamatsu-cho, Minato-ku, Tokyo | 2,179 | 4.20 |
| The Dai-ichi Life Insurance Company, Limited | 1-13-1, Yurakucho, Chiyoda-ku, Tokyo | 2,103 | 4.06 |
| J.P.MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SETT ACCT (Standing proxy: Tokyo branch of Citibank, N.A.) | 25 BANK STREET, CANARY WHARF LONDON E145JP UK (6-27-30, Shinjuku, Shinjuku-ku, Tokyo) | 1,741 | 3.36 |
| Sumitomo Mitsui Banking Corporation | 1-1-2, Marunouchi, Chiyoda-ku, Tokyo | 1,516 | 2.92 |
| The Hokuetsu Bank, Ltd. | 2-2-14, Otedori, Nagaoka-shi, Niigata | 1,484 | 2.86 |
| Tsugami Customers' Shareholding Association | 1-1-1, Higashi-Zao, Nagaoka-shi, Niigata | 1,151 | 2.22 |
| J.P.MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SEGR ACCT (Standing proxy: Tokyo branch of Citibank, N.A.) | 25 BANK STREET, CANARY WHARF LONDON E145JP UK (6-27-30, Shinjuku, Shinjuku-ku, Tokyo) | 998 | 1.92 |
| GOLDMAN SACHS INTERNATIONAL(Standing proxy: Goldman Sachs Japan Co., Ltd.) | 133 FLEET STREET LONDON EC4A 2BB U.K. (6-10-1, Roppongi, Minato-ku, Tokyo) | 922 | 1.78 |
| Total | -- | 19,846 | 38.30 |

(Note)
1. All shares held by Japan Trustee Services Bank, Ltd. relate to the trust service.
2. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.
3. All shares held by Mizuho Trust & Banking Co., Ltd. relate to the trust service.
4. The number of shares held by The Dai-ichi Life Insurance Company, Limited 3 thousand shares in separate pension accounts.
5. The Company received a report from Sumitomo Mitsui DS Asset Management Company Limited (former company name: Sumitomo Mitsui Asset Management Company Limited) in its change report of the statement of large-value holdings submitted on January 10, 2019 that the company holds shares as described below as of December 31, 2018. However, the Company does not include the company in the major shareholders above because the Company has yet to confirm the substantive number of shares held as of the end of the fiscal year under review.

| Name | Address | Number of shares held (shares) | Ratio of shares held (%) |
|---|---|---|---|
| Sumitomo Mitsui DS Asset Management Company, Limited | Atago Green Hills MORI Tower 28F, 2-5-1 Atago, Minato-ku, Tokyo | Shares 1,616,700 | 2.94 |
| Sumitomo Mitsui Banking Corporation | 1-1-2, Marunouchi, Chiyoda-ku, Tokyo | Shares 1,516,413 | 2.76 |

(7) Voting rights

(i) Shares issued

As of March 31, 2019

| Classification | Number of shares | Number of voting rights | Remarks |
|---|---|---|---|
| Nonvoting shares | -- | -- | -- |
| Shares with limited voting rights (Treasury shares) | -- | -- | -- |
| Shares with limited voting rights (other shares) | -- | -- | -- |
| Shares with complete voting rights (Treasury shares) | Common stock 3,192,300 | -- | -- |
| Shares with complete voting rights (other shares) | Common stock 51,729,500 | 517,295 | -- |
| Fractional shares | Common stock 78,200 | -- | -- |
| Total number of shares issued | 55,000,000 | -- | -- |
| Number of voting rights of all shareholders | -- | 52,715 | -- |

(Note) Shares with complete voting rights (other shares) include 12,000 shares (120 voting rights) under the name of the Japan Securities Depository Center.

(ii) Treasury shares

As of March 31, 2019

| Owner | Address of owner | Number of shares held under the owner's own name (shares) | Number of shares held under the name of any other person (shares) | Total number of shares held (shares) | Ratio of holdings to the number of shares issued (%) |
|---|---|---|---|---|---|
| Tsugami Corporation | 12-20, Tomizawa-cho Nihonbashi, Chuo-ku, Tokyo | 3,192,300 | -- | 3,192,300 | 5.8 |
| Total | -- | 3,192,300 | -- | 3,192,300 | 5.8 |

2. Acquisition of Treasury shares

Type of stock The acquisition of common stock under Article 155, Item 3 of the Companies Act and the acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition based on resolutions at the shareholders meeting

Not applicable.

(2) Acquisition based on resolutions at Board of Directors meeting

| Classification | Number of shares | Total value (yen) |
|---|---|---|
| Resolution at a Board of Directors meeting held on March 12, 2018 (Acquisition period: from March 12, 2018 to September 13, 2018) | 1,000,000 | 1,350,000,000 |
| Treasury shares acquired before the fiscal year under review | 126,000 | 163,704,000 |
| Treasury shares acquired in the fiscal year under review | 578,000 | 717,969,000 |
| Number and total value of remaining Treasury shares | 296,000 | 468,327,000 |
| Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%) | 29.6 | 34.7 |
| Treasury shares acquired in the current fiscal year | -- | -- |
| Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%) | 29.6 | 34.7 |

| Classification | Number of shares | Total value (yen) |
|---|---|---|
| Resolution at a Board of Directors meeting held on June 20, 2018 (Acquisition period: from June 20, 2018 to November 9, 2018) | 1,000,000 | 1,200,000,000 |
| Treasury shares acquired before the fiscal year under review | -- | -- |
| Treasury shares acquired in the fiscal year under review | 496,000 | 479,583,000 |
| Number and total value of remaining Treasury shares | 504,000 | 720,417,000 |
| Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%) | 50.4 | 60.0 |
| Treasury shares acquired in the current fiscal year | -- | -- |
| Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%) | 50.4 | 60.0 |

| Classification | Number of shares | Total value (yen) |
|---|---|---|
| Resolution at a Board of Directors meeting held on November 9, 2018 (Acquisition period: from November 12, 2018 to May 13, 2019) | 1,000,000 | 1,100,000,000 |
| Treasury shares acquired before the fiscal year under review | -- | -- |
| Treasury shares acquired in the fiscal year under review | 891,300 | 630,525,300 |
| Number and total value of remaining Treasury shares | 108,700 | 469,474,700 |
| Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%) | 10.9 | 42.7 |
| Treasury shares acquired in the current fiscal year | -- | -- |
| Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%) | 10.9 | 42.7 |

| Classification | Number of shares | Total value (yen) |
|---|---|---|
| Resolution at a Board of Directors meeting held on January 22, 2019 (Acquisition period: from January 22, 2019 to June 18, 2019) | 1,000,000 | 700,000,000 |
| Treasury shares acquired before the fiscal year under review | -- | -- |
| Treasury shares acquired in the fiscal year under review | -- | -- |
| Number and total value of remaining Treasury shares | 1,000,000 | 700,000,000 |
| Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%) | 100 | 100 |
| Treasury shares acquired in the current fiscal year | -- | -- |
| Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%) | 100 | 100 |

(3) Acquisition not based on resolutions at the shareholders meeting or Board of Directors meetings

| Classification | Number of shares | Total value (yen) |
|---|---|---|
| Treasury shares acquired in the fiscal year under review | 2,711 | 3,369,128 |
| Treasury shares acquired in the current fiscal year | 35 | 36,820 |

(Note) The Treasury shares acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2019 to the date of the submission of the report.

(4) Treatment of acquired Treasury shares and Treasury shares held

| Classification | Fiscal year under review | | Current fiscal year | |
|---|---|---|---|---|
| | Number of shares | Total value disposed of (yen) | Number of shares | Total value disposed of (yen) |
| Acquired Treasury shares offered to prospective underwriters | -- | -- | -- | -- |
| Acquired Treasury shares cancelled | -- | -- | -- | -- |
| Acquired Treasury shares transferred in relation to mergers, stock swaps, and company splits | -- | -- | -- | -- |
| Other (Note 1,2) | 693,800 | 703,139,000 | 39,300 | 36,195,300 |
| Treasury shares held(Note 3) | 3,192,312 | -- | 3,153,047 | -- |

(Note)
1. Exercise of share acquisition rights (693,800 shares, disposal of ¥703,139,000) in the fiscal year under review. Exercise of share acquisition rights (39,300 shares, disposal of ¥36,195,300) in the current fiscal year.
2. The Treasury shares disposed of in the current fiscal year does not include fractional shares transferred from June 1, 2019 to the date of the submission of the report.
3. The Treasury shares held in the current fiscal year does not include fractional shares repurchased or transferred from June 1, 2019 to the date of the submission of the report.

3. Dividend Policy

The Group adopts the basic policy of increasing its collective capabilities and returning profits to shareholders by sustaining aggressive investment in development projects in response to changing social demands and continuing its efforts to enhance competitiveness and streamline management.

Based on the policy, the Group will make united efforts to strengthen business structure and secure stable dividends.

As part of its returns to shareholders, the Company acquires Treasury shares for flexible capital policy, comprehensively considering the need for Treasury shares acquisitions, the financial standing of the Company, and the trends of prices of the Company’s stock.

For the year ended March 31, 2019, the Company has decided to pay annual dividends of 21 yen per share including interim dividends of 9 yen per share and a year-end dividends of 12 yen per share.

Dividends are determined by the Board of Directors.

The Articles of Incorporation stipulate that the Company may pay dividends by resolution of the Board of Directors under the provisions of Article 459, Paragraph 1 of the Companies Act.

For the fiscal year ending March 31, 2020 the Company plans to pay annual dividends of 24 yen per share, including interim dividends of 12 yen per share and year-end dividends of 12 yen per share.

The Articles of Incorporation specifies that the Company may pay interim dividends whose record date is September 30 of every year by resolution of the Board of Directors.

The table below shows dividends for the fiscal year ended of March 31, 2018

| Resolution | Total amount of dividend (Million yen) | Dividend per share (yen) |
|---|---|---|
| Resolution of Board of Directors on November 12, 2018 | 473 | 9.00 |
| Resolution of Board of Directors on May 14, 2019 | 621 | 12.00 |

## 4. Corporate Governance

### (1) Corporate governance

#### (i) Basic policy on corporate governance

The Company is committed to fulfilling the expectations of its shareholders and fulfilling its corporate social responsibility as a member of the international community by making quick and appropriate management judgments that facilitate continued growth in corporate value and maintaining sound management through the building and reinforcement of an internal control system and its effective operation.

In addition, the Company made the shift to a company with an audit and supervisory committee with the approval of the shareholders' meeting held in June 2018. The Company will strengthen the governance system of the Board of Directors by audits conducted by the audit and supervisory committee members with voting rights at the Board of Directors meetings on the legality and adequacy of the execution of business and increase the mobility of the execution of business by delegating some of the business execution authority of the Board of Directors to directors.

#### (ii) Outline of the corporate governance system and reason for the establishment of the system

The Company is a company with an audit and supervisory committee, and four audit and supervisory committee members including three outside directors (three independent directors) who are the audit and supervisory committee members audit the execution of duties of directors.

The number of directors (excluding directors who are the audit and supervisory committee members) is seven consisting of five inside directors and two outside directors.

The Company believes that it has created a system in which appropriate judgments are made because the Company is able to incorporate extensive insight and knowledge into important matters for company management, including the development of company-wide management strategies from an independent position that does not give rise to a conflict of interest with general shareholders, as a result of the election of outside directors.

The Company positions the Board of Directors as key organs for corporate governance and makes decisions through comprehensive discussions and studies of management challenges and significant matters to address.

The Company has also established the corporate management meeting, which consists of the CEO and major executive officers as an organ for reporting and discussing matters concerning the consensual decision making of important business execution issues including those submitted to the Board of Directors for discussion and other important operations and their execution.

To enhance corporate governance, the Company has placed the Audit Office (three officers) under the direct control of the CEO and has established a Risk Management Committee and an Information Security Committee.

#### (iii) Development of internal control system

The Company's Board of Directors has adopted the following basic policies for building internal control systems:

i. Systems for ensuring the execution of the duties of directors and employees are in compliance with laws and ordinances and the Articles of Incorporation

a. Given that compliance is one of its key management issues, the Board of Directors shall establish the Tsugami Group Code of Conduct and develop a compliance policy to ensure that the Company operates based on sound social practices.

b. The Company shall establish a "whistle-blowing system," an internal reporting system through which activities that apparently violate the laws and ordinances, the Articles of Incorporation, any other internal rules, or social norms carried out by directors or employees are reported. Whistle blowers shall be protected.

c. The Company shall have an Audit Office, an organization under the direct control of the CEO, and shall conduct internal audits of compliance.

d. The Company has an audit and supervisory committee. The directors' execution of their duties shall be in accordance with the standards on audits by the audit and supervisory committee established by the audit and supervisory committee.

ii. Systems for the storage and management of information concerning directors' execution of duties

The Company shall appropriately maintain and manage the minutes of the Board of Directors, approval documents, documents associated with the directors' executions of their duties, and other related information in accordance with internal rules, such as the document management rules and information security management rules.

iii. Rules and systems concerning risk management

To manage the diverse risks associated with its business activities, and to prevent such risks from materializing, the Company shall have a risk management committee through which it will collect and analyze information about risks to identify any indications that risks are emerging at an early stage. The Company shall also establish a risk management system by developing rules and manuals so that it can promptly and accurately respond to the situation if risks have materialized.

iv. Systems for securing efficiency of directors' execution of duties

a. The Company shall hold regular meetings of the Board of Directors once a month in principle, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors.

b. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.

v. System for ensuring the appropriateness of business in the corporate group consisting of the Company and its subsidiaries

a. A system for reporting to the Company matters related to the execution of duties by the Directors of subsidiaries, and the like shall be put into operation.

The Company shall set the Group Companies Management Regulations, and its subsidiaries shall report their monthly results, financial position and other important information at the Executive Committee in order for the Company to accurately understand the details of the subsidiaries' management.

b. Regulations and other systems relating to the management of risk loss at subsidiaries

The Company shall hold meetings of the Risk Management Committee as needed, understand the risks and take appropriate measures for preventing or minimizing various risks that surround Group operations in compliance with risk management rules and essential risk management execution rules.

c. System for ensuring efficient execution of duties by the Directors of subsidiaries, and the like

The Company shall respect the management independence of its subsidiaries. At the same time, the Company shall ensure efficiency by discussing important matters with the subsidiaries in advance at regular management meetings, and the like, and by asking the subsidiaries to resolve such matters at the meetings of their Board of Directors.

d. Systems for ensuring the conformity of the execution of duties by the Directors, and the like, and the employees of subsidiaries with laws, regulations and Articles of Incorporation

1) The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.

2) The Directors, etc., of the Company's subsidiaries shall take part in regular management meetings and advance discussions on internal control.

3) The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.

vi. Matters concerning applicable employees in cases where the audit and supervisory committee request the assignment of employees who should assist them in their duties

a. The Company may assign employees (auxiliary employees) who should assist the audit and supervisory committee in cases where the audit and supervisory committee request their assignment.

b. The Company shall work to strengthen its system of auxiliary employees from the viewpoint of ensuring the effectiveness of the audit, taking into account corporate size, business type, management risks and other company-specific circumstances.

vii. Matters concerning the independence of employees from Directors (other than directors who are members of the audit and supervisory committee) stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions the audit and supervisory committee provide to the concerned employees

a. The Company shall work to ensure the independence of auxiliary employees from Directors (other than directors who are members of the audit and supervisory committee).

b. The Company shall address issues, including clarification of the following items necessary for ensuring the independence of auxiliary employees.

1) The authority that auxiliary employees have

2) Organizations which auxiliary employees belong to

3) Elimination of the chain of command Directors (other than directors who are members of the audit and supervisory committee) have over auxiliary employees

4) Granting of consent rights to the audit and supervisory committee regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees

viii. System concerning reports to the audit and supervisory committee

a. A system that enables the directors and employees of the Company to submit reports to the audit and supervisory committee.

The directors (other than directors who are members of the audit and supervisory committee) and employees of the Company shall report the following items without delay to the audit and supervisory committee concerning the execution of their duties.

1) Items concerning important facts that may affect the Company significantly when such facts are found

2) Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found

3) Results of internal audits performed by the internal audit division (the Audit Office)

4) The operational status for the Whistle-blowing System and the details of reports

b. A system that enables the Directors, an audit and supervisory committee and employees of subsidiaries or individuals who received reports from them to submit reports to the audit and supervisory committee of the Company

1) The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the audit and supervisory committee of the Company without delay when they find such acts or facts.

2) The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the audit and supervisory committee of the Company.

ix. System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to the audit and supervisory committee for the reason of having submitted such reports

The Company shall work to establish a system that prevents the unfavorable treatment of individuals who submitted the reports stated in the foregoing paragraph to the audit and supervisory committee for the reason for having submitted such reports.

x. Matters concerning procedures for the advance payment or the refunding of expenses that arise in connection with duty execution by the audit and supervisory committee or policies on processing expenses or debts that arise in connection with the execution of other concerned duties

The Company shall promptly comply with the concerned request when the audit and supervisory committee requests the advance payment of expenses, etc., in connection with the execution of his or her duties unless the requested expenses, etc., could be proven as unnecessary for the execution of the duties by the concerned the audit and supervisory committee.

xi. Other systems for ensuring the effectiveness of audits performed by the audit and supervisory committee

a. The audit and supervisory committee shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.

b. The audit and supervisory committee shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.

c. The audit and supervisory committee shall stay in close cooperation with the internal audit division (the Audit Office). The audit and supervisory committee may ask the internal audit division to perform investigations as needed.

xii. System for ensuring the reliability of financial reports

a. The Company shall establish the Internal Control Reporting System for ensuring the reliability of financial reports and submitting internal control reports effectively and appropriately as prescribed in the Financial Instruments and Exchange Act.

b. The Company shall continually evaluate internal control systems and take the necessary steps in order to correct them in order to ensure the compliance of such systems with the Financial Instruments and Exchange Act, other laws and regulations.

c. The internal audit division (the Audit Office), as a responsible division, shall implement monitoring, evaluation and assist in improving the operation of internal control systems.

xiii. Systems for excluding antisocial forces

a. The Company shall systematically deal with antisocial forces that threaten social order and sound corporate activities with a resolute attitude.

b. The Company shall deal with antisocial forces in cooperation with police, lawyers and external specialized agencies, such as corporate defense councils, when cases of unreasonable demand by such forces, and the like emerge.

(iv) Other matters concerning corporate governance

a. Outline of contracts for limitation of liability

Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company and the outside directors (other than directors who have executive authority over operations) have concluded contracts to limit liability for damages stipulated in Article 423, Paragraph 1 of the Companies Act.

The minimum liability amount under the contracts is the minimum liability amount specified by laws and ordinances.

b. Decision-making body of dividends etc.

The Articles of Incorporation of the Company stipulate that the matters specified in each item of Article 459, Paragraph

1 of the Companies Act, including dividends, may be determined not by resolution of a shareholders meeting but by resolution of the Board of Directors, unless otherwise specified in laws and ordinances. This is intended to facilitate the flexible distribution of profits by making the determination of dividends the authority of the Board of Directors.

The Articles of Incorporation also stipulate that interim dividends whose record date is September 30 of each year can be paid through a resolution of the Board of Directors.

c. Number of directors

The Articles of Incorporation stipulate that the number of the Company's directors (other than directors who are members of the audit and supervisory committee) is 10 at maximum and the number of the Company's directors who are members of the audit and supervisory committee is five at maximum.

d. Requirements for a resolution to elect directors

The Articles of Incorporation stipulate that a resolution of a shareholders meeting to elect directors shall be made by a majority of the votes of the shareholders present at a meeting where shareholders holding one third or more of the votes of shareholders who are entitled to exercise their votes are present. The Articles of Incorporation also stipulate that cumulative votes shall not be cast for a resolution to elect directors.

e. Requirements for a special resolution in shareholders meeting

To ensure that a quorum is constituted for a special resolution in a shareholders meeting, the Articles of Incorporation stipulate that the resolutions specified in Article 309, Paragraph 2 of the Companies Act shall be made by a majority of two-thirds of the votes of the shareholders present at a meeting where shareholders holding a majority of one-third of the votes of the shareholders entitled to exercise their votes are present.

(2) Officers

(i) Executive list

Male: 11 Female: -- (The ratio of female among the officers: -- % )

| Title | Name | Date of birth | Career summary | | Term of office | Number of shares held (thousand shares) |
|---|---|---|---|---|---|---|
| Representative Director (Chairman and CEO) | Takao Nishijima | December 14, 1947 | May 1999<br>Jun. 2000<br>Apr. 2003<br>Apr. 2006<br>Apr. 2012<br>Jun. 2019 | General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.<br>Director and General Manager of the Sales Development Division, Control Headquarters<br>Representative Director, Chairman and CEO<br>Representative Director, Chairman and CEO<br>Representative Director, Chairman and CEO<br>Representative Director, Chairman and CEO (current positions) | (Note 4) | 10 |
| Representative Director (President and Co-COO) | Hiroaki Kazama | October 19, 1974 | Apr. 1997<br>Dec. 2014<br>Apr. 2015<br>Apr. 2017<br>Apr. 2018<br>Apr. 2019<br>Jun. 2019 | Joined the Company<br>Executive Officer and General Manager of the Sales Planning Division of the Company<br>Director, PRECISION TSUGAMI (CHINA) CORPORATION (current position)<br>COO and Domestic Sales Manager of the Company<br>Co-CTO and General Manager of Technology Division II<br>Co-CTO in charge of development Director, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position)<br>Representative Director, Co-COO Technology (current positions) | (Note 4) | 1 |
| Director and Senior Advisor, President of TSUGAMI KOREA Co., Ltd., | Byun Jae-Hyun | July 10, 1956 | Oct. 1982<br>Jul. 2000<br>Jan. 2007<br>Jan. 2010<br>Apr. 2012<br>Jun. 2012<br>Jun. 2013<br>Sep. 2014 | General Manager of the Import Business Division of Samsung C&T Corporation<br>CEO of DI Corporation<br>Vice President of Exicon Co., Ltd.<br>President of TSUGAMI KOREA Co., Ltd.<br>Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.<br>Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.<br>Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd.<br>Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (current positions) | (Note 4) | -- |
| Director and Senior Advisor, President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. | Kameswaran Balasubramanian | March 28, 1960 | 1983<br><br><br>Apr. 2013<br>Apr. 2014<br>Jun. 2018 | Master of Science (physics), Indian Institutes of Technology Delhi<br>Founder and President of PROTECK MACHINERY LTD. (current position)<br>Director of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.<br>President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position)<br>Director of the Company (current position) | (Note 4) | -- |

| Title | Name | Date of birth | Career summary | | Term of office | Number of shares held (thousand shares) |
|---|---|---|---|---|---|---|
| Director and Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION | Donglei TANG | November 27, 1962 | Nov. 2005<br>Jun. 2010<br><br>Feb. 2017<br><br><br><br>Jun. 2018 | Joined the Company<br>Director, Managing Executive Officer in charge of China Operations of the Company<br>Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION<br>Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION<br>Director of Precision Tsugami (Hong Kong) Limited<br>Executive director of Precision Tsugami (China) Corporation Limited (current position)<br>Director of the Company (current position) | (Note 4) | -- |
| Director | Shigeru Nishiyama | March 4, 1948 | Jun. 1971<br><br>Jun. 2006<br><br>Dec. 2008<br><br>Jun. 2010<br>Jun. 2013<br>Jun. 2013 | Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)<br>Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.<br>Representative Director, President of HORAI Co., Ltd.<br>Representative Director, CEO of HORAI Co., Ltd.<br>Director of the Company (current position)<br>Auditor at Mitsui Sugar Co., Ltd. (current position) | (Note 4) | -- |
| Director | Hitoshi Yoshida | November 26, 1959 | Apr. 1983<br>Apr. 2002<br><br>Apr. 2005<br><br>Jun. 2005<br>Oct. 2007<br><br>Jun. 2011<br><br>Apr. 2015<br><br>Jun. 2015<br>Jun. 2018 | Joined TOKYO SEIMITSU CO., LTD.<br>Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD.<br>Managing Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD<br>Director of TOKYO SEIMITSU CO., LTD.<br>President of the Metrology Company of TOKYO SEIMITSU CO., LTD.<br>Representative Director of TOKYO SEIMITSU CO., LTD.<br>President and CEO of TOKYO SEIMITSU CO., LTD. (current position)<br>Statutory Auditor of the Company<br>Director of the Company (current position) | (Note 4) | -- |
| Director (Members of the Audit and Supervisory Committee) | Kenji Yoneyama | March 7, 1965 | Apr. 1988<br>Apr. 2011<br><br>Apr. 2013<br><br>Apr. 2015<br>Oct. 2015<br>Apr. 2016<br>Apr. 2017<br>Jun. 2017<br>Jun. 2018 | Joined The Hokuetsu Bank, Ltd.<br>Manager of the Ishiyama Branch of The Hokuetsu Bank, Ltd.<br>Manager of the Kanda Branch of The Hokuetsu Bank, Ltd.<br>Advisor of Accounting of the Company<br>General Manager of Finance and Administration<br>General Manager of Accounting<br>Senior Advisor of Accounting<br>Standing Statutory Auditor of the Company<br>Director of the Company (Members of the Audit and Supervisory Committee) (current position) | (Note 5) | -- |

| Title | Name | Date of birth | Career summary | Term of office | Number of shares held (thousand shares) |
|---|---|---|---|---|---|
| Director (Members of the Audit and Supervisory Committee) | Takeo Nakagawa | October 12, 1938 | May 1999 Professor Emeritus at the University of Tokyo (current post)<br>Oct. 2000 CEO of Fine Tech Corporation<br>Jun. 2002 Director of Nippon Pillar Packing Co., Ltd.<br>Jun. 2007 Advisor of FANUC CORPORATION (current position)<br>Jun. 2008 Director of the Company<br>Feb. 2014 Director of OSG CORPORATION (Members of the Audit and Supervisory Committee) (current position)<br>Apr. 2015 CEO of Fine Tech Corporation (current position)<br>Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position) | (Note 5) | 20 |
| Director (Members of the Audit and Supervisory Committee) | Koichi Maruno | July 29, 1956 | Apr. 1980 Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited)<br>Mar. 2015 Outside auditor of SHIZUOKA GAS Co., Ltd. (current position)<br>Oct. 2016 Senior Managing Executive Officer of Daiichi Life Holdings, Inc.<br>Oct. 2016 Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited<br>Apr. 2017 Representative Director, President of The Dai-ichi Life Research Institute INC (current position)<br>Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position) | (Note 5) | -- |
| Director (Members of the Audit and Supervisory Committee) | Kunio Shimada | August 16, 1959 | Apr. 1986 Registered as an attorney (current position)<br>Oct. 1991 Registered as an attorney in New York State<br>Jun. 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position)<br>Jul. 2010 Representative partner at Shimada Hamba & Osajima (current position)<br>Jun. 2011 Director of the Company<br>Nov. 2013 Supervisory Officer of Hulic Reit, Inc. (current position)<br>Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position) | (Note 5) | -- |
| Total | | | | | 31 |

(Note) 1. At the 115th annual shareholders' meeting held on June 20, 2018, a resolution on changes to the Articles of Incorporation was passed. As a result, the Company made a transition to a company with an audit and supervisory committee as of this date.
2. Directors Shigeru Nishiyama and Hitoshi Yoshida are outside directors.
3. Directors who are members of the audit and supervisory committee Takeo Nakagawa, Koichi Maruno and Kunio Shimada are outside directors.
4. One year from the closing of the annual shareholders meeting held on June 19, 2019
5. Four years from the closing of the annual shareholders meeting held on June 20, 2018

(ii) Outside officers

The Company has five outside directors.

Outside Director Shigeru Nishiyama was Representative Director, CEO of HORAI Co., Ltd. until December 2012. There are no trading relationships between HORAI Co., Ltd. and the Company. Mr. Shigeru Nishiyama was also Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc. until June 2008. Sumitomo Mitsui Banking Corporation, a company of the Sumitomo Mitsui Financial Group, is the main financial institution of the Company. Sumitomo Mitsui Banking Corporation has 1,516,000 shares in the Company.

Outside Director Hitoshi Yoshida is President and CEO of TOKYO SEIMITSU CO., LTD., which has 2,592,000 shares in the

Company. The Company has 1,033,000 shares in Tokyo Seimitsu. Tokyo Seimitsu and the Company trade products.
Outside Director Takeo Nakagawa is a professor emeritus at the University of Tokyo and the CEO of Fine Tech Corporation. The Company trade products with Fine Tech. Mr. Takeo Nakagawa holds the position of Outside Statutory Auditor of FANUC CORPORATION, which has 327,000 shares in the Company. The Company has 50,000 shares in FANUC. The Company trade products with FANUC. Mr. Takeo Nakagawa is registered as an independent officer with the Tokyo Stock Exchange.
Outside Director Koichi Maruno is Representative Director, President of The Dai-ichi Life Research Institute INC. The Company has 38,700 shares in Dai-ichi Life Holdings, Inc. The Dai-ichi Life Insurance Company, Limited has 2.1 million shares in the Company. Mr. Koichi Maruno is registered as an independent officer with the Tokyo Stock Exchange.
Outside Director Kunio Shimada is a representative partner at Shimada Hamba & Osajima. There are no trading relationships between Shimada Hamba & Osajima and the Company. Mr. Kunio Shimada is registered as an independent officer with the Tokyo Stock Exchange.
The outside directors deliver expert and appropriate opinions and advice on the overall management of the Company based on their considerable business experience and extensive insight and perform the function of supervising the decision-making of the Board of Directors and the execution of the duties of directors.
The Company does not have any clearly defined standards or policies for the independence of outside directors. However, when appointing outside directors, the Company checks their backgrounds and its relationships with them to ensure that each can remain independent and that conflicts of interest that may affect general shareholders are unlikely to occur.

(iii) Supervision and audits by outside directors and their collaboration with the internal audit division, the audit and supervisory committee and independent auditors, and their relationships with the internal control division

In supervising and auditing, the outside directors enhance collaboration with the internal audit division, the audit and supervisory committee, independent auditors, and internal control division by asking questions about reports and resolutions and expressing opinions from the perspective of people outside the Company as needed.

(3) Audits

(i) Audits by the audit and supervisory committee

The Company is a company with an audit and supervisory committee, and four audit and supervisory committee members including three independent directors audit the execution of the duties of the directors based on the audit standards set by the audit and supervisory committee.

The audit and supervisory committee members attend important meetings, including those of the Board of Directors, exchange opinions with the representative directors, interview the directors, executive officers and other employees regarding the status of their execution of operations and exchange information with the internal audit division and the accounting auditor to supervise the execution of the duties of the directors and perform the function of supervising management.

(ii) Internal audits

In the Company, internal audits are conducted based on the internal audit regulations to check whether the business activities of the Company and its subsidiaries are conducted appropriately and efficiently in accordance with laws, regulations, internal regulations and management policies from an independent position by establishing the Audit Office under the direct control of the CEO.

The Audit Office regularly reports the results of internal audits to the audit and supervisory committee and regularly exchanges information with the accounting auditor to enhance collaboration among internal audits, audits by the audit and supervisory committee and accounting audits. In addition, the Audit Office also exchanges information with the internal control division as needed to secure the appropriateness of operations and the reliability of financial reporting through audits of the development and operation status of internal control.

(iii) Accounting auditor

a. Name of accounting auditor
Ernst & Young ShinNihon LLC

b. Certified public accountants who executed operations
Operating Partners Kazunari Tsukada, Eishi Daikoku

c. Composition of assistants of audit operations
11 certified public accountants and 12 other members

d. Policy and reason for appointment of accounting auditor
With respect to the appointment of the accounting auditor, the Company decides on the appropriateness of reappointment, taking into comprehensive consideration whether or not the status of the execution of duties (including the status of the execution of duties in prior fiscal years), the audit system, independence and expertise are appropriate.

The audit and supervisory committee will determine the content of a proposal for the dismissal or refusal of the reappointment of the accounting auditor to be submitted to a shareholders' meeting if the committee has decided that it is necessary or if there are any issues in the execution of the duties of the accounting auditor. The audit and supervisory committee will also dismiss the accounting auditor based on the consent of all the audit and supervisory committee members if it is deemed that the accounting auditor falls under any of the items of Article 340, Paragraph 1 of the Companies Act. In this case, an audit and supervisory committee member appointed by the audit and supervisory committee will report the fact the audit and supervisory committee has dismissed the accounting auditor and its reason at the first shareholders' meeting held after the dismissal.

In addition, the Board of Directors will ask the audit and supervisory committee to make the dismissal or the refusal to reappoint the accounting auditor the subject of a shareholders' meeting if the Board of Directors has decided that it is necessary or if there are any issues in the execution of the duties of the accounting auditor. The audit and supervisory committee will determine the content of a proposal to be submitted to the shareholders' meeting after deciding whether or not it is appropriate.

e. Evaluation of the accounting auditor by the audit and supervisory committee
The audit and supervisory committee discussed and evaluated the adequacy of the audit activities of the accounting auditor in the fiscal year under review and confirmed that there were no issues by directly interviewing the accounting auditor regarding its audit activities and listening to the opinions of the management execution divisions such as the accounting division.

(iv) Audit fees

The Company applies transitional measures to the provisions from i to iii of (56) d (f) of the points in attention concerning preparation of document of Form 2 in the Cabinet Office Order on Disclosure of Corporate Affairs after its amendment based on the Cabinet Office Order to Amend Part of the Cabinet Office Order on Disclosure of Corporate Affairs (Cabinet Office Order No. 3 dated January 31, 2019).

a. Compensation for auditing certified public accountants

| Classification | Previous fiscal year | | Fiscal year under review | |
|---|---|---|---|---|
| | Compensation for audit certification work (million yen) | Compensation for non-audit work (million yen) | Compensation for audit certification work (million yen) | Compensation for non-audit work (million yen) |
| Submitting company | 33 | 3 | 43 | 4 |
| Consolidated subsidiaries | -- | -- | -- | -- |
| Total | 33 | 3 | 43 | 4 |

The content of the non-audit work in the Company is preliminary work for the transition to the preparation of financial statements under IFRS for both the previous fiscal year and the fiscal year under review.

b. Other important compensation

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, paid a fee of ¥58 million for audit certification work, outsourcing of accounting audit and internal governance support in relation to listing on stock markets in Asia, to Ernst & Young Hua Ming LLP, which belongs to the same network as the accounting auditor for the Company.

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, paid a fee of ¥39 million for audit certification work and IFRS related consulting to Ernst & Young Hua Ming LLP, which belongs to the same network as the accounting auditor for the Company. It also paid a fee of ¥3 million for internal governance support to Ernest & Young (China) Advisory Limited.

c. Policy for determining audit fees

Not applicable.

d. Reason for agreement of the audit and supervisory committee on compensation for the accounting auditor

The audit and supervisory committee has agreed on compensation for the accounting auditor in light of the adequacy of its audit activities in the fiscal year under review and internal control evaluation items in the next fiscal year.

(4) Compensation for officers

(i) Matters concerning policy for deciding the amount of compensation for officers and the calculation method thereof

The maximum amount of compensation for directors (excluding the directors who are an audit and supervisory committee member) is set by resolution of a shareholders meeting, and compensation for each director is decided based on resolution of a Board of Directors meeting, taking into consideration the importance of their role, the area of their responsibility and operations of their position. The date of resolution of the shareholders meeting above is June 20, 2018, and it has been resolved that the maximum amount of cash compensation is not more than ¥250 million per annum and that, in addition to the cash compensation, the maximum amount of compensation associated with share acquisition rights to be allocated as stock options for a stock-linked compensation plan is not more ¥80 million per annum (the number of directors in the Articles of Incorporation is not more than 10). The maximum amount of compensation for directors (excluding directors who are an audit and supervisory committee member) for the fiscal year under review was discussed and decided at the meeting of the Board of Directors held on June 20, 2018.

For the purpose of increasing the motivation and morale of directors for raising the share price and improving the business performance of the Company by sharing with shareholders the benefits of a rise in the share price as well as the risks involved in a fall in the share price, the Company grants stock options for a stock-linked compensation plan, which are performance-based compensation, to inside directors (excluding the directors who are an audit and supervisory committee member). The details of stock options to be granted to each director are resolved by a Board of Directors meeting within the range of the maximum amount of compensation resolved by the shareholders meeting as stated above, and a policy for deciding the payment ratio and target indicators are not set.

In addition, the maximum amount of compensation for the directors who are an audit and supervisory committee member is set by resolution of a shareholders meeting and decided through discussion among the audit and supervisory committee members, taking into consideration whether they are standing or not standing and how their audit operations are divided. The date of resolution of the shareholders meeting on this matter is June 20, 2018, and the maximum amount of cash compensation has been resolved to be not more than ¥80 million per annum (the number of directors who are an audit and supervisory committee member in the articles of incorporation is not more than five). The maximum amount of compensation for the directors who are an audit and supervisory committee member for the fiscal year under review was discussed and resolved at the audit and supervisory committee held on June 20, 2018.

(ii) Maximum amount of compensation by post of officers and the type of compensation and the number of officers for compensation

| Post | Total compensation (Million yen) | Breakdown of compensation (Million yen) | | | | Number of officers |
|---|---|---|---|---|---|---|
| | | Basic compensation | Stock option | Bonus | Compensation benefit | |
| Director (excluding members of the audit and supervisory committee and Outside Director) | 168 | 124 | 44 | -- | -- | 9 |
| Director (members of the audit and supervisory committee) (excluding Outside Director) | 11 | 11 | -- | -- | -- | 1 |
| Statutory Auditor (excluding Outside Auditor) | 9 | 6 | 2 | -- | -- | 2 |
| Outside officer | 48 | 45 | 3 | -- | -- | 10 |

(Note) 1. The above figures include four directors and five statutory auditors who retired on June 21, 2017.

(4) Share holding

(i) Standards and concepts of categories of stocks held

Of the stocks held, “stocks held for the purpose of pure investment” mean stocks held solely for the purpose of receiving benefits from fluctuations in the value of stocks and dividends from stocks, and “stocks held for purposes other than pure investment” mean stocks held for the purpose of strengthening the relationship of trust with important business partners and contributing to the medium- to long-term growth and enhancement of corporate value of the Company.

(ii) Stocks held for purposes other than pure investment

a. Holding policy, the method of verifying the rationality of holding and the content of verification of appropriateness of holding individual stocks by the Board of Directors

The Company will hold specific stocks invested if the Company has decided that doing so will strengthen trust with important business partners and contribute to the medium- to long-term growth and enhancement of corporate value of the Company, and closely examines economic rationality including the significance, benefits and risks of holding individual stocks every year at the corporate management meeting that consists of major executive officers and verifies them by consulting with the Board of Directors as needed.

b. Number of stocks and balance sheet amount

| | Number of stocks (stocks) | Balance sheet amount (million yen) |
|---|---|---|
| Non-listed stocks | 5 | 1 |
| Stocks other than non-listed stocks | 13 | 6,096 |

(Stocks whose number of shares increased in the fiscal year under review)

| | Number of stocks (stocks) | Total acquisition value pertaining to the increase in the number of shares (million yen) | Reason for the increase in the number of shares |
|---|---|---|---|
| Non-listed stocks | -- | -- | -- |
| Stocks other than non-listed stocks | 2 | 2 | Cumulative stock investment |

(Stocks whose number of shares decreased in the fiscal year under review)

| | Number of stocks (stocks) | Total sales value pertaining to the decrease in the number of shares (million yen) |
|---|---|---|
| Non-listed stocks | -- | -- |
| Stocks other than non-listed stocks | -- | -- |

a. Information on the number of shares and balance sheet amount for each specific stock held

Specific stocks held

| Stock | At end of the fiscal year under review | At end of the previous fiscal year | Purpose of holding, quantitative effect of holding and reason for the increase in the number of shares (Note 2) | Whether the Company's stock is held or not |
|---|---|---|---|---|
| | Number of shares | Number of shares | | |
| | Balance sheet amount (million yen) | Balance sheet amount (million yen) | | |
| Tokyo Seimitsu Co., Ltd. | 1,033,000 | 1,033,000 | To strengthen the business relationship | Yes |
| | 2,908 | 4,436 | | |
| FANUC CORPORATION | 50,000 | 50,000 | To strengthen the business relationship | Yes |
| | 944 | 1,348 | | |
| YAMAZEN CORPORATION | 500,000 | 500,000 | To strengthen the business relationship | Yes |
| | 583 | 555 | | |
| DAIKIN INDUSTRIES, LTD | 46,700 | 46,700 | To strengthen the business relationship | Yes |
| | 605 | 548 | | |
| YUASA TRADING CO., LTD. | 100,000 | 100,000 | To strengthen the business relationship | Yes |
| | 312 | 351 | | |
| THK CO., LTD. | 59,000 | 59,000 | To strengthen the business relationship | Yes |
| | 161 | 259 | | |
| MinebeaMitsumi Inc. | 100,000 | 100,000 | To strengthen the business relationship | Yes |
| | 166 | 227 | | |
| Daishi Hokuetsu Financial Group, Inc. (Note)1 | 51,019 | 77,345 | To strengthen the business relationship Acquiring shares by cumulative stock investment. | Yes |
| | 159 | 236 | | |
| The Hachijuni Bank, Ltd. | 196,000 | 196,000 | To strengthen the business relationship | Yes |
| | 89 | 111 | | |
| Mitsubishi UFJ Financial Group, Inc. | 134,800 | 134,800 | To strengthen the business relationship | Yes |
| | 74 | 93 | | |
| Dai-ichi Life Holdings, Inc. | 38,700 | 38,700 | To strengthen the business relationship | Yes |
| | 59 | 75 | | |
| Teikoku Tsushin Kogyo Co., Ltd. | 16,000 | 16,000 | To strengthen the business relationship | Yes |
| | 19 | 20 | | |
| TOMITA CO., LTD. | 11,819 | 10,996 | To strengthen the business relationship Acquiring shares by cumulative stock investment. | No |
| | 11 | 13 | | |

(Note)1. This company is a joint holding company of The Hokuetsu Bank and Daishi Bank that was established on October 1, 2018, and at that time, one share and 0.5 share of the company were allotted to one share of Daishi Bank and one share of The Hokuetsu Bank, respectively (for the previous fiscal year, the sum of shares of The Hokuetsu Bank and Daishi Bank held is stated).

(Note)2. "Quantitative effect of holing" is not stated from the standpoint of confidentiality.

(iii) Stocks held for the purpose of pure investment

Not applicable.

## Section 5. Financial Status

1. Preparation of consolidated financial statements and non-consolidated financial statements

(1) Consolidated financial statements of the Company are prepared in compliance with the International Financial Reporting Standards (hereinafter "IFRS") pursuant to the provisions of Article 93 of "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976).

(2) The Company's non-consolidated financial statements are prepared under the Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Ordinance No. 59 of 1963; hereinafter the "Regulations for non-consolidated Financial Statements").

The company is required to submit special-purpose financial statements. Therefore, the non-consolidated financial statements are prepared in accordance with Article 127 of "Regulations for non-consolidated Financial Statements".

2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year under review (from April 1, 2018 to March 31, 2019) and the financial statements for The 116th fiscal year (from April 1, 2018 to March 31, 2019) were audited by Ernst & Young ShinNihon LLC.

3. Special efforts to ensure the adequacy of consolidated financial statements and the development of system to properly prepare consolidated financial statements under IFRS

The Company is making special efforts to ensure the adequacy of consolidated financial statements and developing a system that enables to properly prepare consolidated financial statements under IFRS. Its details are as follows.

(1) To develop a system that enables to properly comprehend the content of accounting standards or accurately respond to changes in accounting standards, the Company has joined the Financial Accounting Standards Foundation (FASF) and participates in seminars and other events hosted by FASF and audit corporations.

(2) With respect to the application of IFRS, the Company comprehends the latest standards by obtaining press releases and statements published by the International Accounting Standards Board (IASB) as needed. In addition, to prepare adequate consolidated financial statements under IFRS, the Company prepares the Group accounting policies and guidelines in compliance with IFRS and performs accounting based on them.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

(Million yen)

| | Note | Transition Date (April 1, 2017) | Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 7 | 5,432 | 10,466 | 11,112 |
| Trade and other receivables | 8 | 11,437 | 16,781 | 17,150 |
| Other financial assets | 9 | 105 | 104 | 30 |
| Inventories | 10 | 18,019 | 18,933 | 22,462 |
| Other current assets | 11 | 1,592 | 1,515 | 1,737 |
| Total current assets | | 36,588 | 47,802 | 52,493 |
| Non-current assets | | | | |
| Property, plant and equipment | 12 | 8,722 | 9,158 | 8,871 |
| Intangible assets | 13 | 85 | 88 | 557 |
| Retirement benefit asset | 19 | 178 | 145 | 104 |
| Other financial assets | 9 | 7,637 | 8,594 | 6,444 |
| Deferred tax assets | 16 | 177 | 211 | 233 |
| Other non-current assets | 11 | 763 | 762 | 988 |
| Total non-current assets | | 17,565 | 18,959 | 17,199 |
| Total assets | | 54,153 | 66,761 | 69,692 |

(Million yen)

| | Note | Transition Date (April 1, 2017) | Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|---|
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 15 | 10,609 | 15,447 | 13,476 |
| Borrowings | 17 | 7,947 | 7,426 | 11,121 |
| Other financial liabilities | 17,18 | 8 | 6 | 6 |
| Income taxes payable | | 518 | 1,066 | 477 |
| Provisions | 20 | 325 | 457 | 576 |
| Contract liabilities | 25 | 939 | 2,218 | 1,630 |
| Other current liabilities | 21,22 | 460 | 668 | 645 |
| Total current liabilities | | 20,809 | 27,290 | 27,933 |
| Non-current liabilities | | | | |
| Other financial liabilities | 17,18 | 10 | 4 | 15 |
| Retirement benefit liability | 19 | 859 | 883 | 914 |
| Deferred tax liabilities | 16 | 811 | 1,145 | 511 |
| Other non-current liabilities | 21,22 | 30 | 30 | 244 |
| Total non-current liabilities | | 1,711 | 2,063 | 1,686 |
| Total liabilities | | 22,520 | 29,354 | 29,620 |
| Equity | | | | |
| Share capital | 23 | 12,345 | 12,345 | 12,345 |
| Capital surplus | 23 | 1,321 | 3,378 | 3,214 |
| Treasury shares | 23 | -2,986 | -1,814 | -2,943 |
| Other components of equity | 23 | 3,492 | 4,427 | 2,576 |
| Retained earnings | 23 | 17,345 | 13,254 | 18,052 |
| Equity attributable to owners of the parent | | 31,517 | 31,591 | 33,244 |
| Non-controlling interests | 34 | 115 | 5,815 | 6,827 |
| Total equity | | 31,632 | 37,407 | 40,072 |
| Total liabilities and net equity | | 54,153 | 66,761 | 69,692 |

(ii) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

| | Note | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018) |
|---|---|---|---|
| Revenue | 6,25 | 56,794 | 68,486 |
| Cost of sales | | -42,302 | -48,507 |
| Gross profit | | 14,492 | 19,978 |
| Selling, general and administrative expenses | 26 | -7,592 | -9,803 |
| Other income | 27 | 245 | 193 |
| Other expenses | 27 | -732 | -154 |
| Operating profit | | 6,412 | 10,215 |
| Finance income | 28 | 217 | 340 |
| Finance costs | 28 | -477 | -171 |
| Profit before tax | | 6,151 | 10,384 |
| Income tax expense | 16 | -1,691 | -2,476 |
| Profit | | 4,460 | 7,907 |
| | | | |
| Profit for the year attributable to: | | | |
| Owners of the parent | | 3,942 | 6,192 |
| Non-controlling interests | | 517 | 1,714 |
| Profit | | 4,460 | 7,907 |
| | | | |
| Earnings per share | | | |
| Basic earnings per share (yen) | 30 | 70.62 | 117.98 |
| Diluted earnings per share (yen) | 30 | 68.01 | 115.22 |

Consolidated Statements of Comprehensive Income

(Million yen)

| | Note | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018) |
|---|---|---|---|
| Profit | | 4,460 | 7,907 |
| | | | |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Financial assets measured at fair value through other comprehensive income | 29 | 924 | -1,523 |
| Remeasurement of defined benefit pension plans | 29 | -18 | -43 |
| Total items that will not be reclassified to profit or loss | | 905 | -1,567 |
| | | | |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | 29 | 226 | -458 |
| Total items that may be reclassified to profit or loss | | 226 | -458 |
| Total other comprehensive income | | 1,132 | -2,026 |
| Comprehensive income | | 5,592 | 5,881 |
| | | | |
| Total comprehensive income for the year attributable to: | | | |
| Owners of parent | | 5,158 | 4,297 |
| Non-controlling interests | | 434 | 1,583 |
| Comprehensive income | | 5,592 | 5,881 |

(iii) Consolidated statement of changes in equity

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | Note | Equity attributable to owners of the parent | | | | |
|---|---|---|---|---|---|---|
| | | | | | Other components of equity | |
| | | Share capital | Capital surplus | Treasury shares | Exchange differences on translation of foreign operations | Financial assets measured at fair value through other comprehensive income |
| Balance as of April 1, 2017 | | 12,345 | 1,321 | -2,986 | -- | 3,492 |
| Profit | | | | | | |
| Other comprehensive income | | | | | 309 | 924 |
| Total comprehensive income for the year | | -- | -- | -- | 309 | 924 |
| Purchase of treasury shares | 23 | | | -6,842 | | |
| Disposal of treasury shares | 23 | | -139 | 376 | | |
| Cancellation of treasury shares | 23 | | -478 | 7,637 | | |
| Dividends | 24 | | | | | |
| Changes in share-based payment transactions | 32 | | 127 | | | |
| Transfer to retained earnings | | | | | | -147 |
| Equity transactions with non-controlling interests | 34 | | 2,547 | | -150 | |
| Share-based payment transactions | | -- | 2,057 | 1,171 | -150 | -147 |
| Balance as of March 31, 2018 | | 12,345 | 3,378 | -1,814 | 158 | 4,269 |

| | Note | Equity attributable to owners of parent | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| | | Other components of equity | | | | | |
| | | Remeasurements of defined benefit plans | Total | Retained earnings | Total | | |
| Balance as of April 1, 2017 | | -- | 3,492 | 17,345 | 31,517 | 115 | 31,632 |
| Profit | | | | 3,942 | 3,942 | 517 | 4,460 |
| Other comprehensive income | | -18 | 1,215 | | 1,215 | -82 | 1,132 |
| Total comprehensive income for the year | | -18 | 1,215 | 3,942 | 5,158 | 434 | 5,592 |
| Purchase of treasury shares | 23 | | | | -6,842 | | -6,842 |
| Disposal of treasury shares | 23 | | | -25 | 211 | | 211 |
| Cancellation of treasury shares | 23 | | | -7,159 | -- | | -- |
| Dividends | 24 | | | -978 | -978 | | -978 |
| Changes in share-based payment transactions | 32 | | | | 127 | | 127 |
| Transfer to retained earnings | | 18 | -129 | 129 | -- | | -- |
| Equity transactions with non-controlling interests | 34 | | -150 | | 2,396 | 5,266 | 7,662 |
| Share-based payment transactions | | 18 | -280 | -8,034 | -5,084 | 5,266 | 181 |
| Balance as of March 31, 2018 | | -- | 4,427 | 13,254 | 31,591 | 5,815 | 37,407 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | Note | Equity attributable to owners of the parent | | | | |
|---|---|---|---|---|---|---|
| | | | | | Other components of equity | |
| | | Share capital | Capital surplus | Treasury shares | Exchange differences on translation of foreign operations | Financial assets measured at fair value through other comprehensive income |
| Balance as of April 1, 2018 | | 12,345 | 3,378 | -1,814 | 158 | 4,269 |
| Profit | | | | | | |
| Other comprehensive income | | | | | -327 | -1,523 |
| Total comprehensive income for the year | | -- | -- | -- | -327 | -1,523 |
| Purchase of treasury shares | 23 | | | -1,831 | | |
| Disposal of treasury shares | 23 | | -277 | 703 | | |
| Dividends | 24 | | | | | |
| Changes in share-based payment transactions | 32 | | 116 | | | |
| Transfer to retained earnings | | | | | | |
| Equity transactions with non-controlling interests | | | -4 | | -0 | |
| Share-based payment transactions | | -- | -164 | -1,128 | -0 | -- |
| Balance as of March 31, 2019 | | 12,345 | 3,214 | -2,943 | -169 | 2,745 |

| | Note | Equity attributable to owners of parent | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| | | Other components of equity | | Retained earnings | Total | | |
| | | Remeasurements of defined benefit plans | Total | | | | |
| Balance as of April 1, 2018 | | -- | 4,427 | 13,254 | 31,591 | 5,815 | 37,407 |
| Profit | | | | 6,192 | 6,192 | 1,714 | 7,907 |
| Other comprehensive income | | -43 | -1,895 | | -1,895 | -130 | -2,026 |
| Total comprehensive income for the year | | -43 | -1,895 | 6,192 | 4,297 | 1,583 | 5,881 |
| Purchase of treasury shares | 23 | | | | -1,831 | | -1,831 |
| Disposal of treasury shares | 23 | | | -399 | 26 | | 26 |
| Dividends | 24 | | | -951 | -951 | -574 | -1,525 |
| Changes in share-based payment transactions | 32 | | | | 116 | | 116 |
| Transfer to retained earnings | | 43 | 43 | -43 | -- | | -- |
| Equity transactions with non-controlling interests | | | -0 | | -4 | 1 | -2 |
| Share-based payment transactions | | 43 | 43 | -1,394 | -2,643 | -572 | -3,216 |
| Balance as of March 31, 2019 | | -- | 2,576 | 18,052 | 33,244 | 6,827 | 40,072 |

(iv) Consolidated Statements of Cash Flows

(Million yen)

| | Note | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit before tax | | 6,151 | 10,384 |
| Depreciation and amortization | | 1,013 | 1,039 |
| Impairment losses (reversal of impairment losses) | | -- | 40 |
| Finance income | | -217 | -330 |
| Finance costs | | 121 | 68 |
| Loss on retirement of fixed assets | | 344 | 42 |
| Loss (gain) on sale of fixed assets | | -30 | -2 |
| Decrease (increase) in inventories | | -980 | -3,915 |
| Decrease (increase) in trade and other receivables | | -5,323 | -697 |
| Increase (decrease) in trade and other payables | | 4,582 | -1,568 |
| Increase (decrease) in contract liabilities | | 1,266 | -562 |
| Increase or decrease in retirement benefit asset or liability | | 55 | 72 |
| Increase (decrease) in provisions | | 186 | 193 |
| Other | | 512 | -180 |
| Subtotal | | 7,688 | 4,587 |
| Interest and dividends received | | 191 | 330 |
| Interest paid | | -137 | -68 |
| Proceeds from subsidy income | | 91 | 66 |
| Payments for performance of warranty against defects | | -12 | -- |
| Income taxes paid | | -1,542 | -3,271 |
| Net cash provided by (used in) operating activities | | 6,278 | 1,643 |
| Cash flows from investing activities | | | |
| Payments into time deposits | | -124 | -51 |
| Proceeds from withdrawal of time deposits | | 124 | 124 |
| Proceeds from withdraw of deposit | | 270 | -- |
| Purchase of property, plant and equipment | | -1,272 | -1,405 |
| Proceeds from sale of property, plant and equipment | | 122 | 404 |
| Payments for retirement of property, plant and equipment | | -56 | -1 |
| Purchase of intangible assets | | -30 | -414 |
| Purchase of long-term prepaid expenses | | -- | -253 |
| Proceeds from sale and redemption of investments | | 183 | -- |
| Collection of investments in capital | | 152 | -- |
| Proceeds from subsidy income | | -- | 214 |
| Other | | -2 | 20 |
| Cash flows from investing activities | | -633 | -1,362 |

(Million yen)

| | Note | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|---|
| Cash flows from investing activities | | | |
| Net increase (decrease) in short-term borrowings | 31 | -612 | 3,695 |
| Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation | | 2,288 | -- |
| Proceeds from share issuance to non-controlling shareholders | | 5,837 | -- |
| Proceeds from sale of treasury shares | | 211 | 26 |
| Purchase of treasury shares | | -6,848 | -1,833 |
| Dividends paid | 24 | -978 | -951 |
| Dividends paid to non-controlling interests | | -- | -574 |
| Payment for commission fee | | -367 | -- |
| Repayments of lease obligations | 31 | -8 | -7 |
| Net cash provided by (used in) financing activities | | -478 | 355 |
| Effect of exchange rate changes on cash and cash equivalents | | -133 | 9 |
| Net increase (decrease) in cash and cash equivalents | | 5,034 | 645 |
| Cash and cash equivalents at beginning of period | | 5,432 | 10,466 |
| Cash and cash equivalents at end of period | 7 | 10,466 | 11,112 |

## Notes to Consolidated Financial Statements

### 1. Reporting entity

TSUGAMI CORPORATION is a stock company located in Japan. The addresses of its registered head office and major factories are disclosed on its website (http://www.tsugami.co.jp/). The Company's consolidated financial statements consist of the Company and its subsidiaries (hereinafter the "Group") with March 31, 2019 as the fiscal year end.
The business activity of the Group is the manufacture and sale of machine tools. Details of its businesses are stated in "Chapter 1. Corporate Information, Section 1. Overview of the Company's Situation, 3. Businesses."

### 2. Basis of preparation

#### (1) Compliance with IFRS and matters concerning the first-time adoption of IFRS

The consolidated financial statements of the Group are prepared in compliance with IFRS pursuant to the provisions of Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976) because they have satisfied the requirements for a "specified company complying with designated international accounting standards" set forth in the Article 1-2 of the said regulation.
The consolidated financial statements are approved by Takao Nishijima, Representative Director, Chairman and CEO of the Company, on June 25, 2019.
Starting from the consolidated fiscal year ended March 31, 2019, the Group first applies IFRS, and the date of transition to IFRS is April 1, 2017. The impact of transition to IFRS on the financial position, operating results and cash flows of the Group on the date of transition and in a comparative period is stated in Note "39. First-time adoption."
Except for exemptions authorized by the provisions of IFRS that is not adopted early and those of "IFRS 1 First-Time Adoption of International Financial Reporting Standards" (hereinafter "IFRS 1"), the accounting policies of the Group are in compliance with IFRS that is effective as of March 31, 2019.
The adopted exemptions are stated in Note "39. First-time adoption."

#### (2) Basis of measurement

As stated in Note "3. Significant accounting policies," the consolidated financial statements of the Group are prepared based on acquisition costs, except for specified financial instruments that are measured at fair value.

#### (3) Functional currency and the currency of denomination

The consolidated financial statements of the Group are denominated in the Japanese yen, which is the functional currency of the Company, and presented by rounding off amounts to a million yen.

#### (4) Early adoption of new standards

Not applicable.

3. Significant accounting policies

(1) Basis of consolidation

A subsidiary refers to a company that is controlled by the Group. When the Group is exposed, or has rights, to variable returns from its involvement with a company and has an ability to affect those returns through its power over the company, the Group decides that it controls the company.

The financial statements of a subsidiary are included in consolidation from the day when the Group gains control until the day when the Group loses control.

If accounting policies applied by a subsidiary are different from those applied by the Group, the Group makes adjustments to the financial statements of the subsidiary as required. The balances of receivables and payables between the Group companies, intra-group transactions and unrealized gains or losses arising from intra-group transactions are eliminated when the consolidated financial statements are prepared.

The comprehensive income of a subsidiary is attributed to owners of the parent and non-controlling interests even if the balance of non-controlling interests will become negative.

If control over a subsidiary continues even when part of the interest in the subsidiary is disposed of, it is accounted for as a capital transaction. Any difference between the amount of adjustments to non-controlling interests and the fair value of consideration is directly recognized in equity as equity attributable to owners of the parent.

If control has been lost, gains or losses arising from the loss of control are recognized as profit or loss.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Consideration for acquisition is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred in exchange for control over the acquiree, the liabilities assumed, and the equity instruments issued by the Company. If the consideration exceeds the fair value of identifiable assets and liabilities, it is posted as goodwill in the consolidated statement of financial position. If, on the other hand, the consideration falls below the fair value of identifiable assets and liabilities, it is immediately posted as profit or loss in the consolidated statement of income.

In the case of a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the fair value on the day when control is gained and recognizes gains or losses that have arisen as profit or loss.

(3) Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each company of the Group at the foreign exchange rate on the date of the transaction or at a rate that approximates the foreign exchange rate.

Monetary assets and monetary liabilities in foreign currency on the closing date are translated into the functional currency at the foreign exchange rate on the closing date.

Non-monetary assets and non-monetary liabilities in foreign currency that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date of calculation of the fair value.

Exchange differences arising from translation or settlement are recognized as profit or loss. However, financial assets that are measured through other comprehensive income are recognized as other comprehensive income.

(ii) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen by using the foreign exchange rate on the closing date, and their revenue and expenses are translated into Japanese yen by using an average foreign exchange rate, unless there is a significant fluctuation. Exchange differences arising from the translation of financial statements of foreign operations are recognized as other comprehensive income. Exchange differences of a foreign operation are recognized as profit or loss in the period when the foreign operation is disposed of.

(4) Financial instruments

(i) Financial assets

i. Initial recognition and measurement

The Group classifies financial assets into those that are measured at fair value through profit or loss or other comprehensive income and those that are measured at amortized cost. This classification is decided at the time of initial recognition.

The Group recognizes relevant financial instruments when it becomes a party to the contract of the financial assets. Unless financial assets are classified into the category in which they are measured at fair value through profit or loss, the Group measures all financial assets at an amount that is obtained by adding transaction costs to the fair value.

A financial asset is classified into the category in which it is measured at amortized cost if it satisfies both of the following requirements:

- The financial asset is held based on a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those that are measured at amortized cost are classified into the category in which they are measured at fair value.

As for equity financial assets that are measured at fair value, except for equity financial assets held for trading that must be measured at fair value through profit or loss, the Group designates each equity financial asset as a financial asset that is measured at fair value through profit or loss or measured at fair value through other comprehensive income and applies the designation continuously.

ii. Subsequent measurement

After initial recognition, financial assets are measured as follows according to their classification.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

The amount of change in the fair value of financial assets measured at fair value is recognized as profit or loss.

Of equity financial assets, however, the amount of change in the fair value of those that are designated to be measured at fair value through other comprehensive income is recognized as other comprehensive income. In addition, if they are derecognized or their fair value falls significantly, accumulated other comprehensive income is directly transferred to retained earnings. Dividends from the said financial assets are recognized as profit or loss for the period as part of financial income.

iii. Derecognition of financial assets

The Group derecognizes a financial asset if the contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control over the transferred financial asset, the Group continues to recognize the asset and related liability to the extent of its continuing involvement in the financial asset.

iv. Impairment of financial assets

For financial assets measured at amortized cost, the Group recognizes an allowance account for credit losses for expected credit losses.

The Group assesses whether the credit risk of each financial asset has increased significantly from the time of initial recognition on the closing date and, if the credit risk has not increased significantly from the time of initial recognition, the Group recognizes an allowance account for credit losses for expected credit losses for 12 months. On the other hand, if the credit risk has increased significantly from the time of initial recognition, the Group recognizes an amount equal to the lifetime expected credit losses as an allowance account for credit losses.

If contractual payments are more than 30 days past due, the Group deems that the credit risk has increased significantly, in principle. However, when the Group assesses whether or not the credit risk has increased significantly, the Group takes into consideration reasonable and supportable information that is available (such as internal rating and external rating), in addition to information on payments past due.

If it is decided that the credit risk on a financial asset is low as of the closing date, the Group assesses that the credit risk on the financial asset has not increased significantly since initial recognition.

However, for trade receivables that do not contain a significant financing component, the Group always recognizes an allowance account for credit losses at an amount equal to the lifetime expected credit losses, regardless of whether the credit risk has increased significantly from the time of initial recognition.

The Group estimates the expected credit losses of a financial asset in a manner that reflects the following:

・an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
・the time value of money, and
・reasonable and supportable information that is available without undue cost or effort on the reporting date regarding past events, current conditions and forecasts of future economic conditions.

If significant economic fluctuations have an impact, the necessary adjustments will be made to the expected credit losses measured in the manner stated above.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Provision of allowance account for credit losses is recognized in profit or loss. If any event that will reduce an allowance account for credit losses arises, the reversal of the allowance account for credit losses is recognized in profit or loss.

(ii) Financial liabilities

i. Initial recognition and measurement

The Group classifies financial liabilities into those that are measured at fair value through profit or loss and those that are measured at amortized cost. This classification is decided at the time of initial recognition.

The Group initially recognizes all financial liabilities on the date of transactions when the Group becomes a party to the contract of the relevant financial instruments.

While all financial liabilities are initially measured at fair value, financial liabilities that are measured at amortized cost are measured at an amount that is obtained by deducting directly attributable transaction costs.

ii. Subsequent measurement

After initial recognition, financial liabilities are measured as follows according to their classification:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities that are designated to be measured at fair value through profit or loss at the time of initial recognition. They are measured at fair value after initial recognition, and the changes thereof are recognized as profit or loss for the period.

(b) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method after initial recognition.

When the amortization and recognition by the effective interest method are discontinued, gains and losses are recognized as profit or loss for the period as part of financial expenses.

iii. Derecognition of financial liabilities

The Group derecognizes a financial liability when the financial liability is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(iii) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are offset in the consolidated statement of financial position and are presented in net amount only if the Group has a legal right to offset their balances and has the intention to settle them in net amount or realize the assets and settle the liabilities at the same time.

(iv) Derivatives and hedge accounting

The Group uses derivatives of forward exchange contracts to hedge the foreign currency risk of foreign currency receivables. These derivatives are initially recognized at fair value when the contract is concluded and are subsequently remeasured at fair value. There are no derivatives to which hedge accounting is applied.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments that are both readily convertible to cash and present a minimal risk of changes in value and that will mature within three months from the date of acquisition.

(6) Inventories

Inventories are measured at acquisition cost or net realizable value, whichever is lower. The net realizable value is an amount that is obtained by deducting the estimated costs required until completion and the estimated selling expenses from an estimated selling price in the normal business process. The acquisition cost is calculated primarily based on the moving average method and includes the cost of purchase, the processing cost and all costs required until the present location and state is reached.

(7) Property, plant and equipment

Property, plant and equipment is presented at a value that is obtained by deducting accumulated depreciation and accumulated impairment loss from the acquisition cost.

The acquisition cost includes costs directly related to the acquisition of an asset, costs for demolition and removal and restoring land to the original state and borrowing costs that should be capitalized.

Depreciation of each asset other than land and construction in progress is posted using the straight-line method over its estimated useful life. The estimated useful life by major asset item is as follows:

- Buildings and structures 15 – 38 years
- Machinery and vehicles 9 years
- Tools, furniture and fixtures 2 – 20 years

The estimated useful life, the residual value and the depreciation method are reviewed at the end of each fiscal year, and if there is a change, it is applied prospectively as a change in accounting estimates.

(8) Intangible assets

Intangible assets acquired individually are measured at the acquisition cost at the time of initial recognition.

Intangible assets are amortized by the straight-line method over their estimated useful life after initial recognition, and they are presented at a value that is obtained by deducting accumulated amortization and accumulated impairment loss from the acquisition cost. The estimated useful life of a major intangible asset is as follows:

- Software 5 years

The estimated useful life, the residual value and the amortization method are reviewed at the end of each fiscal year, and if there is a change, it is applied prospectively as a change in accounting estimates.

(9) Leases

An assessment of whether a contract is, or contains, a lease is made based on the actual conditions of the arrangement when the lease commences.

The Group classifies a lease as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the Group and classifies other lease transactions as an operating lease.

A lease asset in finance lease transactions is initially recognized at the fair value of leased property determined on the commencement date of the lease or the present value of the minimum lease payment, whichever is lower. After initial recognition, the lease asset is depreciated using the straight-line method over the estimated useful life or the lease term, whichever is shorter, based on the accounting policy applied to the lease asset.

In operating lease transactions, lease payments are recognized as an expense based on the straight-line method over the lease term in the consolidated statement of income.

(10) Impairment of non-financial assets

For the carrying amount of non-financial assets of the Group other than inventories and deferred tax assets, the Group decides whether there are any signs of impairment on the closing date. If there are signs of impairment, the Group estimates the recoverable amount of the assets. For intangible assets whose useful life cannot be fixed or that cannot yet be used, the Group estimates the recoverable amount at the same time every year, regardless of whether or not there are any signs of impairment.

The recoverable amount of an asset or a cash-generating unit is set to be its value in use or its fair value after deducting the cost of sales, whichever is larger. In determining the value in use, estimated future cash flows are discounted to the present value by using a pre-tax discount rate that reflects the time value of money and risks inherent in the asset. Assets that are not tested individually in an impairment test are integrated into the minimal cash-generating unit that generates cash inflows that are largely independent from cash inflows from other assets or groups of assets due to their continuous use.

The company-wide assets of the Group do not generate independent cash inflows. If there are any signs of impairment in Company-wide assets, the Group determines the recoverable amount of cash-generating units to which Company-wide assets are attributable.

If the carrying amount of an asset or a cash-generating unit exceeds the estimated recoverable amount, an impairment loss is recognized as profit or loss. An impairment loss recognized in relation to the cash-generating unit is first allocated in such a way as to reduce the carrying amount of goodwill allocated to the unit, and then the carrying amount of other assets in the cash-generating unit is reduced proportionally.

(11) Employee benefits

The Group adopts funded and unfunded defined benefit plans and defined contribution plans as an employee benefit plan.

The Group determines the present value of the defined benefit obligation and related current service costs and past service costs using the projected unit credit method.

The discount rate is determined based on the market yields of good-quality corporate bonds as of the closing date corresponding to the discount period by setting the discount period based on the period until the expected payment date of benefits every fiscal year in the future.

Liabilities or assets of the defined benefit plans are determined by deducting the fair value of the plan assets from the present value of defined benefit obligations.

The amount of remeasurements of defined benefit plans is recognized collectively as other comprehensive income in the period when the remeasuments occurred and immediately transferred to retained earnings from other components of equity.

Past service cost is accounted for as profit or loss for the period when the cost was generated.

If the defined benefit plan is overfunded, the present value of available future economic benefits such as return from the plan or the reduction of contributions in the future is set to be an asset ceiling.

Expenses for defined contribution retirement plans are recognized as an expense at the time of contribution.

(12) Share-based payment

The Company adopts a stock option plan as an equity-settled share-based payment plan. Stock options are estimated at fair value on the date of grant and recognized as an expense over the vesting period in the consolidated statement of profit or loss after giving consideration to the number of stock options that are expected to be finally vested, and the same amount is recognized as an increase in equity in the consolidated statement of financial position. The fair value of options granted is determined using the Black-Scholes model, taking the various conditions of the options into consideration. In addition, the conditions are reviewed regularly, and an estimate of the number of stock options vested is revised as required.

(13) Provisions

Provisions are recognized if the Group has a current legal or constructive obligation as a result of a past event, if an outflow of economic resources is likely to settle the obligation, and if the amount of the obligation can be estimated with sufficient reliability. If the time value of money is significant, estimated future cash flows are discounted to the present value by using a pre-tax interest rate that reflects the time value of money and risks inherent in the obligation. The rebate of the discounted amount associated with the passage of time is recognized as a financial expense.

(14) Revenue

The Group recognizes revenue from contracts with customers, except for interest and dividend income based on financial instruments in IFRS 9, by applying the following steps:

Step 1: Identify a contract with a customer.
Step 2: Identify the performance obligation in the contract.
Step 3: Determine the acquisition price.
Step 4: Allocate the acquisition price to the performance obligation in the contract.
Step 5: Recognize revenue when the performance obligation has been satisfied (or as the performance obligation is satisfied).

The Group manufactures and sells machine tools and provides services such as maintenance and repair. In the sale of machine tools and related parts, the time when a customer is deemed to have obtained control over a product in light of the terms of the contract is the time when the performance obligation of the contract has been satisfied, and the Group recognizes revenue when the product arrives at the customer based on the conditions at the time of the acceptance inspection and trade conditions. For services related to machine tools, the time when the provision of services has been completed is the time when the performance obligation has been satisfied, and the Group recognizes revenue at this time. Revenue is presented by deducting rebates, etc. from consideration promised in the contract with the customer.

(15) Government grants

Government grants are recognized at fair value when the incidental conditions for delivering grants have been met and when reasonable assurance of receiving grants has been obtained.

If government grants are related to expense items, they are recognized systematically as revenue over the period when the related costs that are intended to be covered by the grants are recognized as an expense. Grants related to assets are recognized as deferred income and are recognized systematically as profit or loss over the estimated useful life of the related assets.

(16) Income taxes

Income tax expenses consist of current tax and deferred tax. These taxes are recognized as profit or loss unless they arise from an item that is directly recognized in other comprehensive income or equity, or unless they arise from a business combination.

Current tax is measured in an amount in which a payment to or refund from tax authorities is expected. A tax rate and tax law used for determining the tax amount are those that have been established or substantively established by the closing date.

Deferred tax is recognized for temporary differences, which are differences between the carrying amount of an asset or a liability and its tax base on the closing date, unused tax losses and unused tax credits.

A deferred tax asset or a deferred tax liability is not posted for the following temporary differences.

- Temporary differences arising from the initial recognition of an asset or a liability that arises from a transaction that affects neither accounting profit nor taxable income (loss), except for business combinations.
- As for deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, in cases where the said temporary differences are unlikely to be reversed in the foreseeable future, or in cases where taxable income that will be subject to the use of the said temporary differences is unlikely to be earned.
- As for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, in cases where the said temporary differences are unlikely to be reversed in the foreseeable future because it is possible to control the time for reversing temporary differences.

A deferred tax liability is recognized for all taxable temporary differences, in principle, and the Group recognizes a deferred tax asset for all deductible temporary differences to the extent that sufficient taxable income to use deductible temporary differences is likely to be earned.
The carrying amount of deferred tax assets is reviewed every fiscal year, and the carrying amount is reduced for the portion for which it cannot be decided that sufficient taxable income to use all or part of deferred tax assets is likely to be earned.
Unrecognized deferred tax assets are reviewed every fiscal year, and the Group recognizes a deferred tax asset to the extent that the deferred tax asset becomes likely to be recovered by future taxable income.
Deferred tax assets and liabilities are measured based on a tax rate and tax law that are expected to be applied to the period when the assets will be realized or liabilities will be settled based on the tax rate and tax law that have been established or substantively established on the closing date.
Deferred tax assets and liabilities are offset if taxes are imposed on the same taxable entity by the same tax authority and there is a legally enforceable right to offset tax assets for the period and tax liabilities for the period, or if it is intended to settle tax assets for the period and tax liabilities for the period in a net amount or intended to realize assets and settle liabilities at the same time even if the taxable entities are different.

(17) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to common shareholders of the parent by the weighted average number of outstanding common shares adjusted for treasury shares for the period. Diluted earnings per share are calculated by making an adjustment to the impact of all potentially dilutive shares.

(18) Segment information

A business segment is a constituent unit of business activities that will earn revenue and give rise to expenses, including transactions with other business segments. Financial information for the outcomes of the businesses of all business segments is available individually and is reviewed by the Board of Directors of the Company regularly to allocate management resources to each segment and evaluate their performance.

(19) Treasury shares

Treasury shares are valued at acquisition cost and deducted from equity. Gains or losses are not recognized in the purchase, sale or cancellation of treasury shares of the Company. Differences between the carrying amount and consideration at the time of sale are recognized as capital surplus.

4. Significant accounting estimates and decisions with estimates

In the preparation of consolidated financial statements in compliance with IFRS, management is required to apply accounting policies and make decisions, estimates and assumptions that could have an impact on the amount of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and assumptions that form the basis for estimates are reviewed on a continuing basis. The impact of the review of accounting estimates will be recognized in the accounting period when the estimates are reviewed and subsequent accounting periods.

Major decisions and estimates made by management that could have a significant impact on the amounts in the consolidated financial statements are as follows:

- Matters concerning financial instruments (Note "33. Financial instruments")
- Valuation of inventories (Note "10. Inventories")
- Impairment of non-financial assets (Note "14. Impairment of non-financial assets")
- Recoverability of deferred tax assets (Note "16. Income taxes")
- Accounting and valuation of provisions (Note "20. Provisions")
- Measurement of defined benefit obligation (Note "19. Employee benefits")
- Fair value of stock options (Note "32. Share-based payment")

5. New standards not yet applied

While the new establishment or revision of the following statements and interpretations have been published by the date of approval of the consolidated financial statements, the Group does not apply them early.

| IFRS | | Mandatory application time (Subsequent starting year) | Application time for the Group | Overview of new establishment and revision |
|---|---|---|---|---|
| IFRS 16 | Leases | January 1, 2019 | Fiscal year ending March 31, 2020 | Revision of lease accounting |
| IFRIC 23 | Uncertainty over Income Tax Treatments | January 1, 2019 | Fiscal year ending March 31, 2020 | Clarification of methods that reflect uncertainty over income tax treatments |

IFRS 16 Leases (hereinafter "IFRS 16") will be applied in a fiscal year starting in or after January 2019. This standard will replace IAS 17 Leases (hereinafter "IAS 17") and related implementation guidance that are currently applied.

IFRS 16 introduces a single accounting model for the lessee's leases, instead of classifying them into a finance lease and an operating lease, and requires all leases to recognize a right-of-use asset that represents a right to use the underlying asset and a lease liability that represents an obligation to make lease payments, in principle. However, if a lease is a short-term lease or a lease of low-value assets, it is possible to choose not to apply the request of this standard. After recognizing the right-of-use asset and the lease liability, the depreciation of the right-of-use asset and the financial expenses for the lease liability will be posted. In addition, when applying IFRS 16, it is possible to choose either a method of retroactively applying IFRS 16 to comparative periods to be presented or a method of recognizing the cumulative effect of initially applying IFRS 16 upon the date of initial application.

In the Group, right-of-use assets such as leased offices and lease liabilities will increase as a result of applying a single accounting model to operating leases of the lessee. As such, rent expenses that were recorded under IAS 17 will be posted as depreciation and financial expenses.

The Group plans not to apply the request of IFRS 16 for short-term leases and leases of low-value assets. In addition, when applying IFRS, the Group also plans to choose the method of recognizing the cumulative effect of initially applying IFRS upon the date of initial application.

The impact of applying IFRS 16 on the consolidated financial statements is currently under review.

The application of the statement of IFRIC 23 "Uncertainty over Income Tax Treatments" is not expected to have a significant impact on the consolidated financial statements of the Group.

6. Segment information

(1) Summary of reportable segments

The Company's reportable segments are its constituent business units for which the Company is able to obtain respective financial information separately. They fall under the scope of periodic review performed by the Company's Board of Directors to determine the distribution of its management resources and assess its operating results.

The Group runs a business for manufacturing and selling machine tools in Japan and abroad. In Japan, the Company and its subsidiaries as well as overseas local subsidiaries are conducting business activities. Therefore, reportable segments are geographical segments based on the Group's manufacturing and sales structure. The reporting segments are Japan, China, India, Korea and Other, where Group companies are located.

(2) Segment revenues and operating results

The accounting policies for the reportable segments are the same as the Group's accounting policies stated in Note "3. Significant accounting policies."

Inter-segment revenues are based on market prices.

Revenues and operating results of the Group's reportable segments are as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | Reportable segment | | | | | | Adjustment | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Japan | China | India | South Korea | Other | Total | | |
| Revenue | | | | | | | | |
| Revenue from external customers | 24,793 | 28,363 | 1,904 | 1,218 | 514 | 56,794 | — | 56,794 |
| Inter-segment | 8,645 | 10,624 | 16 | 28 | 133 | 19,448 | -19,448 | — |
| Total | 33,439 | 38,988 | 1,920 | 1,247 | 647 | 76,243 | -19,448 | 56,794 |
| Segment profit (loss) | 1,512 | 5,266 | 81 | 13 | -14 | 6,859 | 40 | 6,900 |
| Other income and expenses, net | | | | | | | | -487 |
| Operating profit | | | | | | | | 6,412 |
| Finance income and expenses, net | | | | | | | | -260 |
| Profit before tax | | | | | | | | 6,151 |
| Other items | | | | | | | | |
| Depreciation and amortization | 224 | 721 | 32 | 42 | 4 | 1,025 | -11 | 1,013 |
| Segment assets | 24,688 | 31,128 | 2,835 | 940 | 542 | 60,135 | 6,625 | 66,761 |
| Capital expenditure | 689 | 768 | 70 | 155 | 0 | 1,683 | — | 1,683 |

(Note) 1. Segment profit is calculated by deducting the cost of sales and selling, general and administrative expenses from revenue.

2. The adjustment of ¥40 million for segment profit is an adjustment of unrealized profit.

3. Adjustments for segment assets of ¥6,625 million include company assets of ¥11,754 million and the impact of consolidation adjustments between segments of ¥-5,128 million.

4. While the accounting of reportable segments disclosed in the previous consolidated fiscal year complied with Japan GAAP, the accounting of reportable segments disclosed in the consolidated fiscal year under review complies with IFRS. For this reason, IFRS is retrospectively applied to the accounting of reportable segments in the previous consolidated fiscal year.

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | Reportable segment | | | | | | Adjustment | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Japan | China | India | South Korea | Other | Total | | |
| Revenue | | | | | | | | |
| Revenue from external customers | 29,983 | 33,804 | 2,974 | 1,143 | 579 | 68,486 | -- | 68,486 |
| Inter-segment | 9,756 | 13,638 | 13 | 61 | 123 | 23,593 | -23,593 | -- |
| Total | 39,740 | 47,443 | 2,988 | 1,205 | 702 | 92,080 | -23,593 | 68,486 |
| Segment profit (loss) | 2,304 | 7,787 | 173 | 59 | -13 | 10,310 | -135 | 10,175 |
| Other income and expenses, net | | | | | | | | 39 |
| Operating profit | | | | | | | | 10,215 |
| Finance income and expenses, net | | | | | | | | 168 |
| Profit before tax | | | | | | | | 10,384 |
| Other items | | | | | | | | |
| Depreciation and amortization | 258 | 735 | 34 | 20 | 2 | 1,050 | -11 | 1,039 |
| Impairment loss | 40 | -- | -- | -- | -- | 40 | -- | 40 |
| Segment assets | 28,243 | 32,588 | 4,666 | 1,445 | 552 | 67,497 | 2,195 | 69,692 |
| Capital expenditure | 689 | 1,383 | 122 | 101 | 0 | 2,297 | -- | 2,297 |

(Note) 1. Segment profit is calculated by deducting the cost of sales and selling, general and administrative expenses from revenue.
2. The adjustment of ¥-135 million for segment profit is an adjustment of unrealized profit.
3. Adjustments for segment assets of ¥2,195 million include company assets of ¥8,570 million and the impact of consolidation adjustments between segments of ¥-6,375 million.

(3) Information about products and services

The same information is disclosed in Note “25. Revenue.”

(4) Regional Information

The breakdown of revenues and non-current assets by region is as follows.

Revenue from external customers

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Japan | 12,070 | 13,662 |
| China | 29,016 | 34,629 |
| Asia | 8,747 | 10,434 |
| America | 3,399 | 4,016 |
| Europe | 3,560 | 5,744 |
| Total | 56,794 | 68,486 |

(Note) Revenues are classified by country or region based on the customer's location.

Non-current assets

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Japan | 2,840 | 3,190 | 3,189 |
| China | 6,073 | 6,093 | 6,465 |
| India | 564 | 565 | 642 |
| South Korea | 80 | 152 | 114 |
| Other | 13 | 6 | 5 |
| Total | 9,572 | 10,008 | 10,416 |

(Note) Non-current assets are classified based on their locations and do not include financial instruments, deferred tax assets and assets related to retirement benefits.

(5) Information about major customers

This is omitted because there is no party that accounts for 10% or more of revenue in the consolidated statements of income among revenue to external customers.

7. Cash and cash equivalents

Cash and cash equivalents on the transition date and in the previous consolidated fiscal year and the consolidated fiscal year under review consist of cash and deposits (excluding time deposits with a maturity of more than three months).

8. Trade and other receivables

The breakdown of trade and other receivables is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Trade notes receivable | 7,225 | 10,767 | 10,899 |
| Accounts receivable | 4,111 | 5,925 | 5,960 |
| Accounts receivable – other | 154 | 159 | 375 |
| Allowance for doubtful accounts | -53 | -71 | -85 |
| Total | 11,437 | 16,781 | 17,150 |

9. Other non-current assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Financial assets measured at amortized cost | | | |
| Time deposits | 105 | 104 | 30 |
| Other | 4 | 3 | — |
| Financial assets measured at fair value through other comprehensive income | | | |
| Stocks | 7,186 | 8,310 | 6,129 |
| Investments in capital, etc. | 446 | 279 | 315 |
| Total | 7,743 | 8,698 | 6,474 |
| Current assets | 105 | 104 | 30 |
| Non-current assets | 7,637 | 8,594 | 6,444 |
| Total | 7,743 | 8,698 | 6,474 |

Stock and investments in capital, etc. are classified into financial assets measured at fair value through other comprehensive income, and time deposits and other are classified into financial assets measured at amortized cost.

(2) Financial assets measured at fair value through other comprehensive income

Major stocks and fair value of financial assets measured at fair value through other comprehensive income are as follows.

(Million yen)

| Stocks | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Tokyo Seimitsu Co., Ltd. | 3,620 | 4,436 | 2,908 |
| FANUC CORPORATION | 1,141 | 1,348 | 944 |
| Other | 2,871 | 2,805 | 2,591 |

Because the Group holds stocks mainly for the purpose of cross-shareholding, they are designated as financial assets measured at fair value through other comprehensive income.

(3) Derecognition of financial assets measured at fair value through other comprehensive income

The Group derecognizes financial assets measured at fair value through other comprehensive income by selling some of them for the purpose of streamlining assets and reviewing business relationships.

Fair value and cumulative gains or losses that were recognized as other comprehensive income at the time of selling assets in each consolidated fiscal year are as follows.

(Million yen)

| Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) | |
|---|---|---|---|
| Fair value | Cumulative gains or losses | Fair value | Cumulative gains or losses |
| 336 | 178 | — | — |

When financial assets measured at fair value through other comprehensive income are derecognized, cumulative gains or losses that were recognized as other comprehensive income are transferred to retained earnings. Cumulative gains or losses (after tax) on other comprehensive income that were transferred to retained earnings were ¥147 million in the previous consolidated fiscal year.

The breakdown of dividend income that was recognized from equity instruments is as follows.

(Million yen)

| Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) | |
|---|---|---|---|
| Investments derecognized during the period | Investments held as of the closing date | Investments derecognized during the period | Investments held as of the closing date |
| 1 | 156 | — | 216 |

10. Inventories

The breakdown of inventories is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Merchandise and finished goods | 8,590 | 8,632 | 10,756 |
| Work in process | 3,868 | 4,953 | 5,583 |
| Raw materials | 5,560 | 5,347 | 6,123 |
| Total | 18,019 | 18,933 | 22,462 |

The amount of inventories that were recognized as an expense in the previous consolidated fiscal year is almost the same as “cost of sales” in the consolidated statement of income.

In addition, the amount of inventory write-down that was recognized as an expense is ¥496 million in the previous consolidated fiscal year and ¥508 million in the consolidated fiscal year under review. The amounts of reversal of inventory write-down are ¥570 million and ¥454 million, respectively. These amounts are based on the *araigae* method (reversal method) because it is difficult to determine the amount of individual reversal of inventory write-down.

11. Other assets

The breakdown of other assets is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Other current assets | | | |
| Prepaid expenses | 108 | 125 | 149 |
| Advance payments | 216 | 199 | 123 |
| Consumption taxes receivable | 989 | 1,182 | 1,455 |
| Other | 278 | 8 | 8 |
| Total | 1,592 | 1,515 | 1,737 |
| Other non-current assets | | | |
| Long-term prepaid expenses | 608 | 617 | 851 |
| Other | 155 | 144 | 137 |
| Total | 763 | 762 | 988 |

12. Property, plant and equipment

(1) Table of increases/decreases

Increases and decreases in the acquisition cost and accumulated depreciation and impairment loss of property, plant and equipment and their carrying amount are as follows.

Acquisition cost

(Million yen)

| | Buildings and Structures | Machinery and vehicles | Tools, furniture and fixtures | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| April 1, 2017 | 9,099 | 8,417 | 1,124 | 524 | 0 | 19,167 |
| Purchase | 352 | 593 | 114 | 0 | 593 | 1,654 |
| Sales or disposal | -441 | -1,040 | -118 | -55 | — | -1,654 |
| Exchange differences on translation of foreign operations | 136 | 185 | 8 | — | -2 | 328 |
| Other | 174 | -54 | — | — | -174 | -54 |
| March 31, 2018 | 9,321 | 8,102 | 1,129 | 470 | 416 | 19,440 |
| Purchase | 171 | 402 | 145 | — | 820 | 1,540 |
| Sales or disposal | -864 | -153 | -61 | -196 | — | -1,275 |
| Exchange differences on translation of foreign operations | -100 | -134 | -26 | — | -87 | -348 |
| Other | 1,029 | -44 | — | — | -1,122 | -137 |
| March 31, 2019 | 9,557 | 8,172 | 1,187 | 273 | 27 | 19,218 |

Accumulated depreciation and impairment loss

(Million yen)

| | Buildings and Structures | Machinery and vehicles | Tools, furniture and fixtures | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| April 1, 2017 | -4,087 | -5,448 | -834 | -74 | — | -10,444 |
| Depreciation | -344 | -530 | -97 | — | — | -971 |
| Sales or disposal | 157 | 987 | 116 | 13 | — | 1,273 |
| Exchange differences on translation of foreign operations | -59 | -85 | -6 | — | — | -151 |
| Other | — | 11 | — | — | — | 11 |
| March 31, 2018 | -4,333 | -5,065 | -822 | -61 | — | -10,282 |
| Depreciation | -342 | -524 | -120 | — | — | -988 |
| Impairment loss | — | — | -40 | — | — | -40 |
| Sales or disposal | 614 | 120 | 60 | 29 | — | 824 |
| Exchange differences on translation of foreign operations | 29 | 68 | 22 | — | — | 121 |
| Other | — | 18 | — | — | — | 18 |
| March 31, 2019 | -4,032 | -5,382 | -900 | -31 | — | -10,347 |

(Note) Depreciation of property, plant and equipment is included in “cost of sales” and “selling, general and administrative

Carrying amount

(Million yen)

| | Buildings and Structures | Machinery and vehicles | Tools, furniture and fixtures | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| April 1, 2017 | 5,012 | 2,969 | 289 | 450 | 0 | 8,722 |
| March 31, 2018 | 4,987 | 3,037 | 307 | 409 | 416 | 9,158 |
| March 31, 2019 | 5,524 | 2,790 | 286 | 241 | 27 | 8,871 |

(2) Leased assets

The carrying amount of leased assets in finance leases included in property, plant and equipment is as follows.

(Million yen)

| | Tools, furniture and fixtures |
|---|---|
| April 1, 2017 | 17 |
| March 31, 2018 | 9 |
| March 31, 2019 | 20 |

13. Intangible assets

(1) Table of increases/decreases

Increases and decreases in the acquisition cost and accumulated amortization and impairment loss of intangible assets and their carrying amount are as follows.

Acquisition cost

(Million yen)

| | Intangible assets | | | |
|---|---|---|---|---|
| | Software | Software in progress | Other | Total |
| April 1, 2017 | 130 | — | 10 | 140 |
| Purchase | 28 | — | 1 | 29 |
| Sales or disposal | -3 | — | -1 | -4 |
| Exchange differences on translation of foreign operations | 1 | — | — | 1 |
| March 31, 2018 | 156 | — | 9 | 166 |
| Purchase | 94 | 409 | — | 503 |
| Sales or disposal | -5 | — | -0 | -6 |
| Exchange differences on translation of foreign operations | -1 | — | — | -1 |
| March 31, 2019 | 243 | 409 | 8 | 661 |

Accumulated amortization and impairment loss

(Million yen)

| | Intangible assets | | | |
|---|---|---|---|---|
| | Software | Software in progress | Other | Total |
| April 1, 2017 | -55 | — | — | -55 |
| Amortization | -26 | — | -0 | -26 |
| Sales or disposal | 3 | — | — | 3 |
| Exchange differences on translation of foreign operations | -0 | — | — | -0 |
| March 31, 2018 | -78 | — | -0 | -78 |
| Amortization | -32 | — | -0 | -32 |
| Sales or disposal | 5 | — | — | 5 |
| Exchange differences on translation of foreign operations | 0 | — | — | 0 |
| March 31, 2019 | -104 | — | -0 | -104 |

(Note) Amortization of intangible assets is included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income.

Carrying amount

(Million yen)

| | Intangible assets | | | |
|---|---|---|---|---|
| | Software | Software in progress | Other | Total |
| April 1, 2017 | 75 | — | 10 | 85 |
| March 31, 2018 | 78 | — | 9 | 88 |
| March 31, 2019 | 138 | 409 | 8 | 557 |

Payments for research and development activities of the Group that were recognized as an expense during the previous consolidated fiscal year and the fiscal year under review are ¥1,318 million and ¥2,701 million, respectively, and they are included in “selling, general and administrative expenses” in the consolidated statement of income.

## 14. Impairment of non-financial assets

### (1) Impairment losses

When determining impairment losses, they are grouped based on the minimum unit of asset groups that are identified as those that generate cash inflows that are largely independent.

Impairment losses are posted in “other expenses” in the consolidated statement of income.

The breakdown of impairment losses by asset type is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Property, plant and equipment | | |
| Tools, furniture and fixtures | — | 40 |
| Total | — | 40 |

In the consolidated fiscal year under review, the Group reduced the carrying amount of some paintings to their recoverable amount because they were no longer expected to be used for business. The recoverable amount is determined based on fair value.

The fair value hierarchy is Level 3. The fair value hierarchy is stated in Note “33. Financial instruments.”

## 15. Trade and other payables

The breakdown of trade and other payables is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Trade notes payable | 5,158 | 7,861 | 7,158 |
| Accounts payable | 4,504 | 6,176 | 4,748 |
| Accounts payable - other | 449 | 581 | 714 |
| Other | 496 | 827 | 855 |
| Total | 10,609 | 15,447 | 13,476 |

Trade and other payables are classified into financial liabilities measured at amortized cost.

16. Income tax expense

(1) Deferred tax assets and Deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major cause of occurrence and their increases and decreases are as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | April 1, 2017 | Recognized through profit or loss | Recognized in other comprehensive income | Other | March 31, 2018 |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Inventories | 216 | -59 | — | 13 | 169 |
| Allowance for doubtful accounts | 15 | 5 | — | -0 | 20 |
| Accrued bonuses | 59 | 13 | — | — | 72 |
| Income taxes payable | 38 | 16 | — | — | 54 |
| Provisions | 90 | 23 | — | 12 | 126 |
| Retirement benefit liability | 199 | 8 | 8 | -0 | 215 |
| Other | 218 | 20 | — | 3 | 243 |
| Total | 838 | 27 | 8 | 29 | 903 |
| Deferred tax liabilities | | | | | |
| Financial assets | -1,387 | — | -336 | — | -1,723 |
| Other | -85 | -29 | — | — | -114 |
| Total | -1,472 | -29 | -336 | — | -1,838 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | April 1, 2018 | Recognized through profit or loss | Recognized in other comprehensive income | Other | March 31, 2019 |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Inventories | 169 | 32 | — | -0 | 201 |
| Allowance for doubtful accounts | 20 | 2 | — | 0 | 23 |
| Accrued bonuses | 72 | 5 | — | — | 78 |
| Income taxes payable | 54 | -22 | — | — | 32 |
| Provisions | 126 | 33 | — | -1 | 158 |
| Retirement benefit liability | 215 | 1 | 19 | 1 | 237 |
| Other | 243 | -41 | — | -2 | 198 |
| Total | 903 | 10 | 19 | -3 | 930 |
| Deferred tax liabilities | | | | | |
| Financial assets | -1,723 | — | 623 | — | -1,099 |
| Other | -114 | 4 | — | 0 | -109 |
| Total | -1,838 | 4 | 623 | 0 | -1,208 |

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position are as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Deferred tax assets | 177 | 211 | 233 |
| Deferred tax liabilities | -811 | -1,145 | -511 |
| Net amount | -634 | -934 | -278 |

Unused tax credits and deductible temporary differences for which a deferred tax asset is not recognized are as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Unused tax credits | 17 | — | 47 |
| Deductible temporary differences | 1,339 | 1,282 | 1,247 |
| Total | 1,356 | 1,282 | 1,295 |

The scheduled expiration of unused tax credits for which a deferred tax asset is not recognized is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| First year | — | — | — |
| Second year | 8 | — | — |
| Third year | 8 | — | 47 |
| Total | 17 | — | 47 |

For the reserve profit of subsidiaries, the Company does not recognize a deferred tax liability for temporary differences if the Company can control the time for reversing the temporary differences and if the temporary differences are unlikely to be reversed in the foreseeable future.

The sums of taxable temporary differences for investments in subsidiaries, etc. for which a deferred tax liability is not recognized on the transition date and in the previous consolidated fiscal year and the consolidated fiscal year under review are ¥4,534 million, ¥4,789 million and ¥7,206 million, respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Current tax expense | 1,689 | 2,492 |
| Deferred tax expense | 1 | -15 |
| Total | 1,691 | 2,476 |

Current tax expense includes the amount of tax benefit arising from a previously unrecognized tax loss or temporary difference in a prior period. The amounts of decreases in current tax expense associated with this in the previous consolidated fiscal year and the consolidated fiscal year under review are ¥169 million and ¥160 million, respectively.

Factors for the difference between the statutory effective tax rate and the actual average tax rate are as follows.

(%)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Statutory effective tax rate | 30.7 | 30.5 |
| Expenses that are not reduced for the calculation of taxable income | 1.0 | 0.5 |
| Experimentation and research expenses | -1.9 | -1.2 |
| Deemed foreign tax credits | -3.2 | -1.7 |
| Withholding tax on dividends from overseas subsidiaries | 1.3 | 2.7 |
| Difference from tax rate applied to overseas subsidiaries | -4.0 | -6.6 |
| Consolidation adjustments for gain on sales of shares of subsidiaries | 4.0 | — |
| Other | -0.3 | -0.3 |
| Actual average tax rate | 27.5 | 23.8 |

Corporate tax, inhabitant tax and business tax are mainly imposed on the Group, and the statutory effective tax rates calculated based on these taxes are 30.7% in the previous consolidated fiscal year and 30.5% in the consolidated fiscal year under review. However, corporate tax, etc. is imposed on overseas subsidiaries in their location.

## 17. Borrowings

### Breakdown of financial liabilities

The breakdown of "borrowings" and "other financial liabilities" is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) | Average interest rate (%) | Repayment term |
|---|---|---|---|---|---|
| Short-term borrowings | 7,947 | 7,426 | 11,121 | 1.5 | — |
| Short-term lease obligations | 8 | 6 | 6 | — | — |
| Long-term lease obligations | 10 | 4 | 15 | — | From 2020 to 2024 |
| Total | 7,967 | 7,437 | 11,143 | — | — |
| Current liabilities | 7,956 | 7,432 | 11,127 | — | — |
| Non-current liabilities | 10 | 4 | 15 | — | — |
| Total | 7,967 | 7,437 | 11,143 | — | — |

(Note) 1. The average interest rate is a weighted average interest rate on the end balance of borrowings.
2. "Borrowings" and "other financial liabilities" are classified into financial liabilities measured at amortized cost.

## 18. Leases

### (1) Finance lease obligations

Total minimum lease payments based on finance lease contracts are as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Up to 1 year | 8 | 6 | 6 |
| More than 1 year, up to 5 years | 10 | 4 | 15 |
| More than 5 years | 0 | — | 0 |
| Total | 19 | 10 | 22 |

(Note) 1. The balance of total minimum lease payments is included in "other financial liabilities" in the consolidated statement of financial position.
2. The Group rents tools, furniture and fixtures as a lessee.
There are no important renewals or restrictions imposed by a purchase option, an escalation clause or a lease contract (restrictions on dividends, additional borrowings and additional leases, etc.).

### (2) Operating leases

Total minimum lease payments in the future based on non-cancellable operating leases are as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Up to 1 year | 26 | 75 | 53 |
| More than 1 year, up to 5 years | 19 | 32 | 6 |
| Total | 46 | 108 | 60 |

Total minimum lease payments recognized as an expense based on operating leases are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Total minimum lease payments | 279 | 314 |
| Total | 279 | 314 |

The Group rents assets such as tools, furniture and fixtures and leased offices as a lessee.
There are no important renewals or restrictions imposed by a purchase option, an escalation clause or a lease contract (restrictions on dividends, additional borrowings and additional leases, etc.).

## 19. Employee benefits accruals

The Company and some of its consolidated subsidiaries adopt funded and unfunded defined benefit plans and defined contribution plans to apply them to the retirement benefits of employees. The defined benefit plans of the Group are a plan proportional to final salary for Japanese employees, and they are required to make contributions to an independently managed fund. These pension plans are exposed to a general investment risk, an interest rate risk and an inflation risk, among others.
The funded defined benefit plans are managed by a pension fund that is legally separated from the Group. The board of directors of the pension fund and an organization entrusted with pension management are required by law to act by giving the highest priority to the benefits of the plan participants, and they assume the responsibility of managing the plan assets based on the predetermined policy.

(1) Defined benefit plans

(i) Reconciliation of defined benefit obligation and plan assets

The relationship between the defined benefit obligation and plan assets and the net defined benefit liability and defined benefit asset posted in the consolidated statement of financial position is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Present value of funded defined benefit obligation | 1,405 | 1,442 | 1,516 |
| Fair value of plan assets | -1,575 | -1,575 | -1,608 |
| Subtotal | -170 | -133 | -91 |
| Present value of unfunded defined benefit obligation | 851 | 871 | 902 |
| Net defined benefit liability and defined benefit asset | 681 | 738 | 810 |
| Amounts in the consolidated statement of financial position | | | |
| Retirement benefit liability | 859 | 883 | 914 |
| Retirement benefit asset | -178 | -145 | -104 |
| Net defined benefit liability and defined benefit asset posted in the consolidated statement of financial position | 681 | 738 | 810 |

(ii) Reconsolidation of the present value of defined benefit obligation

Increases and decreases in the present value of defined benefit obligation are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Beginning balance of the present value of defined benefit obligation | 2,256 | 2,313 |
| Current service cost | 146 | 142 |
| Interest cost | 11 | 10 |
| Remeasurements | | |
| Actuarial gain (loss) arising from changes in demographic assumptions | — | -26 |
| Actuarial gain (loss) arising from changes in financial assumptions | 8 | 139 |
| Actuarial gain (loss) arising from revisions to actual results | 27 | -3 |
| Benefit payments | -136 | -156 |
| Exchange differences on translation of foreign operations | 0 | -1 |
| Ending balance of the present value of defined benefit obligation | 2,313 | 2,419 |

The weighted average duration of defined benefit obligation is 10 years on the transition date and in the previous consolidated fiscal year and the consolidated fiscal year under review, respectively.

(iii) Reconciliation of the fair value of plan assets

Increases and decreases in the fair value of plan assets are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Beginning balance of the fair value of plan assets | 1,575 | 1,575 |
| Interest income | 8 | 7 |
| Remeasurement | | |
| Actuarial gain (loss) | 8 | 47 |
| Employer contributions | 56 | 65 |
| Benefit payments | -72 | -86 |
| Exchange differences on translation of foreign operations | -0 | -1 |
| Ending balance of the fair value of plan assets | 1,575 | 1,608 |

The Group plans to make contributions of ¥55 million in the next consolidated fiscal year (ending March 31, 2020).

(iv) Breakdown of plan assets by item

The breakdown of plan assets by major item is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Assets with a published price in an active market | | | |
| Stocks | 422 | 374 | 376 |
| Bonds | 456 | 758 | 788 |
| Assets without a published price in an active market | | | |
| General accounts of life insurance | 586 | 318 | 318 |
| Other | 110 | 123 | 125 |
| Total | 1,575 | 1,575 | 1,608 |

The management policy of plan assets of the Group aims to ensure stable income in the medium to long term to ensure that the defined benefit obligation is paid in the future according to company rules. Specifically, the Group sets a target rate of return and the asset composition ratio by investment asset within the range of tolerated risks that are set every fiscal year and manages the plan assets by maintaining the composition ratio. When reviewing the asset composition ratio, the Group considers the introduction of plan assets with a high linkage with changes in the defined benefit obligation each time.

In addition, the Group regularly reviews the amount of contributions, including the re-computation of contributions every three years, in order to be able to maintain the financial balance in the future based on the Defined Benefit Corporate Pension Act.

(v) Major actuarial assumptions

Major assumptions used for the actuarial computation are as follows.

(%)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Discount rate | 0.5 | 0.5 | 0.4 |

The actuarial assumptions include an anticipated rate of salary increase, a mortality rate and an anticipated rate of retirement, etc. other than the above.

(vi) Sensitivity analysis

If the discount rate used for the actuarial computation changes by 0.5%, it has an impact on the present value of the defined benefit obligation as follows. While this analysis assumes that all other variables are constant, changes in other assumptions could have an impact on the sensitivity analysis in reality.

(%)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| If the discount rate rises 0.5% | -105 | -105 | -109 |
| If the discount rate falls 0.5% | 114 | 114 | 118 |

(2) Defined contribution plans

The amounts recognized as an expense for defined contribution plans are ¥449 million in the previous consolidated fiscal year and ¥487 million in the consolidated fiscal year under review. These amounts include an amount recognized as an expense for contributions to public plans.

(3) Employee benefit expenses

The sums of employee benefit expenses included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income for the previous consolidated fiscal year and the consolidated fiscal year under review are ¥7,439 million and ¥7,882 million, respectively.

## 20. Provisions

The breakdown of provisions and their increases and decreases is as follows.

(Million yen)

| | Provision for product |
|---|---|
| April 1, 2018 | 457 |
| Amount of increase during the period | 576 |
| Amount of decrease during the period (utilization) | — |
| Amount of decrease during the period (reversal) | -457 |
| March 31, 2019 | 576 |
| Current liabilities | 576 |

In the provision for product warranties, an estimated amount of expenditure is posited for certain projects whose expenditure can be estimated specifically, in addition to an amount based on the ratio of after-sales service expenses generated to revenue in prior years, in preparation for expenditure associated with future product warranties. Most of these expenses are expected to be generated within one year.

## 21. Other liabilities

The breakdown of other liabilities is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Other current liabilities | | | |
| Accrued bonuses | 232 | 275 | 331 |
| Accrued paid leave | 150 | 165 | 172 |
| Other | 77 | 227 | 141 |
| Total | 460 | 668 | 645 |
| Other non-current liabilities | | | |
| Long-term accounts payable - other | 30 | 30 | 30 |
| Deferred income | — | — | 214 |
| Total | 30 | 30 | 244 |

22. Deferred income

The breakdown of deferred income is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Current liabilities | | | |
| Those related to government grants | — | — | — |
| Total | — | — | — |
| Non-current liabilities | | | |
| Those related to government grants | — | — | 214 |
| Total | — | — | 214 |

Deferred income related to government grants was received mainly to purchase property, plant and equipment.
There are no unfulfilled conditions or other contingencies incidental to government grants that were recognized as deferred income.

## 23. Equity and other equity items

### (1) Number of shares authorized and total number of shares issued

The number of shares authorized and the total number of shares issued are as follows.

(Thousand shares)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Number of shares authorized | | |
| Common stock | 320,000 | 320,000 |
| Total number of shares issued | | |
| Beginning balance | 64,919 | 55,000 |
| Changes during the period (Note2) | -9,919 | — |
| Ending balance | 55,000 | 55,000 |

(Note) 1. All shares issued by the Company are no-par value common shares with no limitations on rights, and the full amount has already been paid for the shares issued.

2. Changes in the total number of shares issued in the previous consolidated fiscal year represent a decrease of 9,919 thousand shares due to the cancellation of treasury shares.

### (2) Treasury shares

Changes in the number and balance of treasury shares are as follows.

| | Number of shares (thousand shares) | Amount (Million yen) |
|---|---|---|
| April 1, 2017 | 4,930 | 2,986 |
| Changes during the period | -3,012 | -1,171 |
| March 31, 2018 | 1,918 | 1,814 |
| Changes during the period | 1,274 | 1,128 |
| March 31, 2019 | 3,192 | 2,943 |

(Note) 1. Changes in treasury shares in the previous consolidated fiscal year represent an increase of 7,461 thousand shares due to the purchase of treasury shares, a decrease of 9,919 thousand shares due to the cancellation of treasury shares and a decrease of 554 thousand shares due to the exercise of stock options.

2. Changes in treasury shares in the consolidated fiscal year under review represent an increase of 1,968 thousand shares due to the purchase of treasury shares and a decrease of 693 thousand shares due to the exercise of stock options.

### (3) Capital surplus

(i) Capital surplus

The Companies Act in Japan (hereinafter the "Companies Act") stipulates that the amount of not less than half of the payment or contribution at share issue may be incorporated into stated capital, and that the remaining amount may be incorporated into capital reserves. In addition, the Companies Act says that capital reserves may be incorporated into stated capital by resolution reached at a shareholders' meeting.

(ii) Other capital surplus

Changes in ownership interests in subsidiaries that do not result in the loss of control are treated as an equity transaction, and an amount equivalent to goodwill and negative goodwill that have arisen from the changes is posted in other capital surplus.

(iii) Share acquisition rights

The Company adopts a stock option plan, and stock options are share acquisition rights issued based on the Companies Act.

(4) Other components of equity

(i) Exchange differences on translation of foreign operations

These are exchange differences that have arisen when the financial statements of foreign operations that were prepared in foreign currencies were consolidated

(ii) Financial assets measured at fair value through other comprehensive income

These represent the amount of changes in the fair value of financial assets measured at fair value through other comprehensive income.

(iii) Remeasurements of defined benefit plans

These represent the amount of changes in actuarial differences related to defined benefit obligation and income related to plan assets.

(5) Retained earnings

The Companies Act stipulates that an amount equivalent to one tenth of the amount spent as dividends of surplus must be accumulated as capital reserves or retained earnings reserves until the sum of capital reserves and retained earnings reserves reaches one fourth of the stated capital. Accumulated retained earnings reserves may be appropriated to the deficit to cover it. In addition, retained earnings reserves may be reversed by resolution reached at a shareholders' meeting.

24. Dividends

The amount of dividends paid is as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors meeting held on May 12, 2017 | Common shares | 479 | 8.00 | March 31, 2017 | May 29, 2017 |
| Board of directors meeting held on November 13, 2017 | Common shares | 498 | 9.00 | September 30, 2017 | November 30, 2017 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors meeting held on May 11, 2018 | Common shares | 477 | 9.00 | March 31, 2018 | May 28, 2018 |
| Board of directors meeting held on November 12, 2018 | Common shares | 473 | 9.00 | September 30, 2018 | November 30, 2018 |

Dividends whose effective date will be in the following consolidated fiscal year are as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors meeting held on May 11, 2018 | Common shares | 477 | 9.00 | March 31, 2018 | May 28, 2018 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors meeting held on May 14, 2019 | Common shares | 621 | 12.00 | March 31, 2019 | May 28, 2019 |

## 25. Revenue

### (1) Disaggregation of revenue

The relationship between the disaggregation of revenue based on major product lines and reportable segments is as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | Reportable segment | | | | | |
|---|---|---|---|---|---|---|
| | Japan | China | India | South Korea | Other | Total |
| Major product lines | | | | | | |
| Automatic lathes | 18,525 | 23,558 | 1,871 | 1,162 | 401 | 45,518 |
| Grinding machines | 2,100 | 1,523 | — | — | — | 3,624 |
| Machining centers, Rolling machines and specialized machines | 1,655 | 2,365 | 6 | — | — | 4,027 |
| Other | 2,512 | 916 | 26 | 55 | 113 | 3,624 |
| Total | 24,793 | 28,363 | 1,904 | 1,218 | 514 | 56,794 |

(Note) Other includes parts and services, etc.

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | Reportable segment | | | | | |
|---|---|---|---|---|---|---|
| | Japan | China | India | South Korea | Other | Total |
| Major product lines | | | | | | |
| Automatic lathes | 22,406 | 29,130 | 2,823 | 1,049 | 440 | 55,850 |
| Grinding machines | 2,844 | 2,101 | 104 | 28 | 4 | 5,084 |
| Machining centers, Rolling machines and specialized machines | 2,119 | 1,837 | — | 17 | — | 3,974 |
| Other | 2,614 | 734 | 46 | 48 | 134 | 3,577 |
| Total | 29,983 | 33,804 | 2,974 | 1,143 | 579 | 68,486 |

(Note) Other includes parts and services, etc.

### (2) Information on the satisfaction of performance obligations

In sales of machine tools (automatic lathes, grinding machines, machining centers, rolling machines, specialized machines) and related parts, the time when a customer is deemed to have obtained control over a product, etc. in light of the terms of the contract is the time when the performance obligation of the contract has been satisfied, and revenue is recognized when the product, etc. has arrived at the customer, at the time of the acceptance inspection and based on trade conditions. For services related to machine tools, the time when the provision of services has been completed is the time when the performance obligation has been satisfied, and revenue is recognized at this time. For receivables arising from the contract with the customer, the Group receives consideration mostly within six months based on separately established payment terms after the performance obligation has been satisfied. In addition, there is no significant financing component in the receivables arising from contracts with customers.

(3) Contract balances

The breakdown of receivables arising from contracts with customers and contract liabilities is as follows.

(Million yen)

| | April 1, 2017 | March 31, 2018 | March 31, 2019 |
|---|---|---|---|
| Receivables arising from contracts with customers | 11,336 | 16,693 | 16,860 |
| Contract liabilities | 939 | 2,218 | 1,630 |

With respect to revenue recognized in the previous consolidated fiscal year and the consolidated fiscal year under review, the amounts included in the beginning balance of contract liabilities are ¥939 million and ¥2,218 million, respectively. Contract liabilities are mainly related to advance payments from customers.

(4) Transaction price allocated to the remaining performance obligations

The Group does not have important transactions whose individual expected contractual period exceeds one year. In addition, there is no important amount that is not included in the transaction price in considerations arising from contracts with customers.

26. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Personnel expenses | 2,999 | 3,366 |
| Travel and transportation expenses | 420 | 430 |
| Research and development expenses | 1,318 | 2,701 |
| Depreciation | 112 | 96 |
| Rent expenses | 177 | 206 |
| Insurance expenses | 153 | 165 |
| Taxes and dues | 198 | 180 |
| Transportation costs | 508 | 588 |
| Advertising and sales promotion expenses | 209 | 293 |
| Product warranty costs | 567 | 610 |
| Commission expenses | 367 | 493 |
| Other | 559 | 669 |
| Total | 7,592 | 9,803 |
| | | |

27. Other income and expenses

The breakdown of other income is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Gain on sale of fixed assets | 36 | 5 |
| Government grant income | 91 | 66 |
| Other | 117 | 122 |
| Total | 245 | 193 |

The breakdown of other expenses is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Commission expenses | 281 | — |
| Loss on retirement of fixed assets | 344 | 42 |
| Loss on sale of fixed assets | 5 | 3 |
| Impairment losses | — | 40 |
| Other | 101 | 67 |
| Total | 732 | 154 |

## 28. Finance income and finance costs

The breakdown of financial income is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Interest income | | |
| Financial assets measured at amortized cost | 58 | 114 |
| Dividend income | | |
| Financial assets measured at fair value through other comprehensive income | 158 | 216 |
| Foreign exchange gain | — | 10 |
| Total | 217 | 340 |

The breakdown of financial costs is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Interest expenses | | |
| Financial liabilities measured at amortized cost | 287 | 171 |
| Foreign exchange loss | 190 | — |
| Total | 477 | 171 |

29. Other comprehensive income

The amount generated during the period, the amount of reclassification adjustments into profit or loss, and the impact of the tax effect of other comprehensive income by item are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Financial assets measured at fair value through other comprehensive income | | |
| Amount generated during the period | 1,291 | -2,147 |
| Amount of tax effect | -367 | 623 |
| After tax effect | 924 | -1,523 |
| Remeasurements of defined benefit plans | | |
| Amount generated during the period | -26 | -63 |
| Amount of tax effect | 8 | 19 |
| After tax effect | -18 | -43 |
| Foreign currency translation adjustments | | |
| Amount generated during the period | 226 | -458 |
| Amount of tax effect | — | — |
| After tax effect | 226 | -458 |
| Total other comprehensive income | 1,132 | -2,026 |

30. Per Share information

(1) Basis for calculation of basic earnings per share

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Profit attributable to owners of the parent (million yen) | 3,942 | 6,192 |
| Basis for calculation of basic earnings per share (million yen) | — | — |
| Profit used to calculate basic earnings per share (million yen) | 3,942 | 6,192 |
| Weighted average number of common shares (thousand shares) | 55,834 | 52,490 |
| Basic earnings per share (yen) | 70.62 | 117.98 |

(2) Basis for calculation of diluted earnings per share

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Profit used to calculate basic earnings per share (million yen) | 3,942 | 6,192 |
| Adjustment on profit (million yen) | -32 | — |
| Profit used to calculate diluted earnings per share (million yen) | 3,910 | 6,192 |
| Weighted average number of common shares (thousand shares) | 55,834 | 52,490 |
| Increase in common shares | | |
| Share acquisition rights (thousand shares) | 1,656 | 1,255 |
| Weighted average number of diluted common shares (thousand shares) | 57,491 | 53,745 |
| Diluted earnings per share (yen) | 68.01 | 115.22 |

31. Cash flow information

(1) Changes in liabilities related to financing activities

Changes in liabilities related to financing activities are as follows.

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | April 1, 2017 | Changes accompanied by cash flows | Changes not accompanied by cash flows | | March 31, 2018 |
|---|---|---|---|---|---|
| | | | Exchange differences on translation of foreign operations | Other | |
| Short-term borrowings | 7,947 | -612 | 91 | — | 7,426 |
| Lease obligations | 19 | -8 | — | — | 10 |
| Total | 7,967 | -621 | 91 | — | 7,437 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | April 1, 2018 | Changes accompanied by cash flows | Changes not accompanied by cash flows | | March 31, 2019 |
|---|---|---|---|---|---|
| | | | Exchange differences on translation of foreign operations | Other | |
| Short-term borrowings | 7,426 | 3,695 | — | — | 11,121 |
| Lease obligations | 10 | -7 | — | 17 | 22 |
| Total | 7,437 | 3,687 | — | 17 | 11,143 |

(2) Non-cash transactions

Property, plant and equipment purchased through finance leases are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Property, plant and equipment purchased through finance leases | — | 17 |

32. Share-based payment

(1) Content of the share-based payment plan

The Company adopts a stock option plan. Stock options are granted to the directors, executive officers and employees of the Company by resolution at its Board of Directors' meeting based on the content approved at its shareholders' meeting for the purpose of increasing their motivation and morale to enhance the Company's corporate value. All stock options issued by the Company are an equity-settled share-based payment. The content of stock options issued by the Company is as follows.

| | 2005<br>First compensation-type<br>Share acquisition rights<br>(Stock compensation-type stock options) | 2006<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 4<br>Statutory auditors 4<br>Employees of the Company 7 | The Company's directors 4<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 220,000 shares | Common stock 78,000 shares |
| Grant date | July 1, 2005 | July 20, 2006 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 1, 2005 to July 30, 2025 | July 21, 2006 to July 20, 2026 |

| | 2006<br>Stock compensation-type stock options Plan B | 2007<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Titled executive officers 8<br>Employees with similar positions 3 | The Company's directors 4<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 72,000 shares | Common stock 101,000 shares |
| Grant date | July 20, 2006 | July 9, 2007 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 21, 2006 to July 20, 2026 | July 10, 2007 to July 9, 2027 |

| | 2007<br>Stock compensation-type stock options Plan B | 2008<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Titled executive officers 11<br>Employee of the Company 1 | The Company's directors 7<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 89,000 shares | Common stock 100,000 shares |
| Grant date | July 9, 2007 | July 7, 2008 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 10, 2007 to July 9, 2027 | July 8, 2008 to July 7, 2028 |

| | 2008<br>Stock compensation-type stock options Plan B | 2009<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Titled executive officers 18 | The Company's directors 7<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 51,000 shares | Common stock 191,000 shares |
| Grant date | July 7, 2008 | July 6, 2009 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 8, 2008 to July 7, 2028 | July 7, 2009 to July 6, 2029 |

| | 2009<br>Stock compensation-type stock options Plan B | 2010<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 14 | The Company's directors 7<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 111,000 shares | Common stock 101,000 shares |
| Grant date | July 6, 2009 | July 5, 2010 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2009 to July 6, 2029 | July 6, 2010 to July 5, 2030 |

| | 2010<br>Stock compensation-type stock options Plan B | 2011<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 20 | The Company's directors 8<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 100,000 shares | Common stock 165,000 shares |
| Grant date | July 5, 2010 | July 4, 2011 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 6, 2010 to July 5, 2030 | July 5, 2011 to July 4, 2031 |

| | 2011<br>Stock compensation-type stock options Plan B |
|---|---|
| Company | The Company |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 14 |
| Number of stock options by share type (Note 1) | Common stock 100,000 shares |
| Grant date | July 4, 2011 |
| Vesting conditions | (Note 2) |
| Target period of service | Not applicable |
| Exercise period | July 5, 2011 to July 4, 2031 |

| | 2012<br>Stock compensation-type stock options Plan A | 2012<br>Stock compensation-type stock options Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 4 | Executive officers and employees with similar positions 19 |
| Number of stock options by share type (Note 1) | Common stock 160,000 shares | Common stock 110,000 shares |
| Grant date | July 2, 2012 | July 2, 2012 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 3, 2012 to July 2, 2032 | July 3, 2012 to July 2, 2032 |

| | 2013<br>10th general-type share acquisition rights | 2013<br>Stock compensation-type stock options Plan A |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Employees of the Company 59<br>Directors of subsidiaries of the Company 2 | The Company's directors 9<br>Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common stock 200,000 shares | Common stock 190,000 shares |
| Grant date | July 8, 2013 | July 8, 2013 |
| Vesting conditions | Not applicable | (Note 2) |
| Target period of service | July 8, 2013 to July 8, 2015 | Not applicable |
| Exercise period | July 9, 2015 to June 30, 2018 | July 9, 2033 to July 8, 2033 |

| | 2013<br>Stock compensation-type stock options<br>Plan B | 2014<br>11th general-type share acquisition rights |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | Executive officers and employees with similar positions 23 | Employees of the Company 63 |
| Number of stock options by share type (Note 1) | Common stock 120,000 shares | Common stock 200,000 shares |
| Grant date | July 8, 2013 | July 7, 2014 |
| Vesting conditions | (Note 2) | Not applicable |
| Target period of service | Not applicable | July 7, 2014 to July 7, 2016 |
| Exercise period | July 9, 2013 to July 8, 2033 | July 8, 2016 to June 30, 2019 |

| | 2014<br>Stock compensation-type stock options<br>Plan A | 2014<br>Stock compensation-type stock options<br>Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 5 | Executive officers and employees with similar positions 19 |
| Number of stock options by share type (Note 1) | Common stock 190,000 shares | Common stock 110,000 shares |
| Grant date | July 7, 2014 | July 7, 2014 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 8, 2014 to July 7, 2034 | July 8, 2014 to July 7, 2034 |

| | 2015<br>Stock compensation-type stock options<br>Plan A | 2015<br>Stock compensation-type stock options<br>Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 5 | Executive officers and employees with similar positions 25 |
| Number of stock options by share type (Note 1) | Common stock 131,000 shares | Common stock 122,000 shares |
| Grant date | July 6, 2015 | July 6, 2015 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2015 to July 6, 2035 | July 7, 2015 to July 6, 2035 |

| | 2016<br>Stock compensation-type stock options<br>Plan A | 2016<br>Stock compensation-type stock options<br>Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 8<br>Statutory auditors 5 | Executive officers and employees with similar positions 24 |
| Number of stock options by share type (Note 1) | Common stock 175,000 shares | Common stock 150,000 shares |
| Grant date | July 7, 2016 | July 7, 2016 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 8, 2016 to July 7, 2036 | July 8, 2016 to July 7, 2036 |

| | 2017<br>Stock compensation-type stock options<br>Plan A | 2017<br>Stock compensation-type stock options<br>Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 9<br>Statutory auditors 5 | Executive officers and employees with similar positions 25 |
| Number of stock options by share type (Note 1) | Common stock 107,000 shares | Common stock 86,000 shares |
| Grant date | July 6, 2017 | July 6, 2017 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2017 to July 6, 2037 | July 7, 2017 to July 6, 2037 |

| | 2018<br>Stock compensation-type stock options<br>Plan A | 2018<br>Stock compensation-type stock options<br>Plan B |
|---|---|---|
| Company | The Company | The Company |
| Positions and numbers of officers to receive stock options | The Company's directors 5 | Executive officers and employees with similar positions 25 |
| Number of stock options by share type (Note 1) | Common stock 54,000 shares | Common stock 97,000 shares |
| Grant date | July 6, 2018 | July 6, 2018 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2018 to July 6, 2038 | July 7, 2018 to July 6, 2038 |

(Note) 1. The number of stock options is converted to the number of shares.

2. In principle, share acquisition rights can be exercised only when either the status of a director (excluding a director who is an audit and supervisory committee member), a director who is an audit and supervisory committee member, an executive officer or an employee equivalent to this of the Company has been lost. In this case, however, the holders of share acquisition rights can exercise their share acquisition rights only during the period until the day on which seven business days have elapsed from the day following the day on which the status has been lost.
If the retirement date of the officer, etc. has occurred by June 30 in the year following the grant date, the holders of share acquisition rights will continue to hold the number of share acquisition rights that is obtained by

dividing the number obtained by multiplying the number of allotted share acquisition rights by the number of months of service as an officer, etc. from the month that includes the day of allotment to the month that includes the retirement date of the officer, etc. by 12, and the remaining share acquisition rights of the number of allotted share acquisition rights will be unable to be exercised.

(2) Number and weighted average exercise price of stock options

(i) Stock compensation-type stock options Plan A and Plan B

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) | |
|---|---|---|---|---|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| | Shares | Yen | Shares | Yen |
| Beginning balance of unexercised stock options | 1,607,000 | 1 | 1,603,000 | 1 |
| Granted | 193,000 | 1 | 151,000 | 1 |
| Exercised | -191,000 | 1 | -648,800 | 1 |
| Expired | -6,000 | 1 | -8,200 | 1 |
| Ending balance of unexercised stock options | 1,603,000 | 1 | 1,097,000 | 1 |
| Ending balance of exercisable stock options | 1,576,000 | 1 | 1,062,400 | 1 |

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥810 in the previous consolidated fiscal year and ¥1,012 in the consolidated fiscal year under review.

2. The exercise price of unexercised stock options of the submitting company at the end of the period is ¥1 in both the previous consolidated fiscal year and the consolidated fiscal year under review.

3. The weighted average remaining contractual life of unexercised stock options of the submitting company at the end of the period is 15 years in the previous consolidated fiscal year and 14 years in the consolidated fiscal year under review.

(ii) General share acquisition rights

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) | |
|---|---|---|---|---|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| | Shares | Yen | Shares | Yen |
| Beginning balance of unexercised stock options | 451,000 | 582 | 73,000 | 580 |
| Granted | — | — | — | — |
| Exercised | -363,000 | 582 | -45,000 | 578 |
| Expired | -15,000 | 589 | — | — |
| Ending balance of unexercised stock options | 73,000 | 580 | 28,000 | 584 |
| Ending balance of exercisable stock options | 73,000 | 580 | 28,000 | 584 |

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥962 in the previous consolidated fiscal year and ¥1,039 in the consolidated fiscal year under review.

2. The weighted average exercise price of unexercised stock options of the submitting company at the end of the period is ¥580 in the previous consolidated fiscal year and ¥584 in the consolidated fiscal year under review.

3. The weighted average remaining contractual life of unexercised stock options of the submitting company at the end of the period is less than 1 year in both the previous consolidated fiscal year and the consolidated fiscal year under review.

(3) Fair value and assumptions of stock options granted during the period

The weighted average fair value of stock options granted during the period is valued using the Black-Scholes model based on the following assumptions.

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| | 2017 Stock compensation-type stock options Plan A and Plan B | 2018 Stock compensation-type stock options Plan A and Plan B |
| Weighted average fair value on the grant date (yen) | 706 | 771 |
| Share price on the grant date (yen) | 853 | 936 |
| Exercise price (yen) | 1 | 1 |
| Expected volatility (%) (Note) | 46.063 | 46.690 |
| Expected remaining life (years) | 10 | 10 |
| Expected dividend (yen) | 16 | 18 |
| Risk free rate (%) | 0.095 | 0.025 |

(Note) The expected volatility is determined based on the most recent actual share price corresponding to the expected remaining life.

(4) Share-based payment expenses

The amount of share-based payment expenses included in “selling, general and administrative expenses” in the consolidated statement of income is ¥127 million in the previous consolidated fiscal year and ¥116 million in the consolidated fiscal year under review.

33. Financial instruments

(1) Capital management

The Group's basic policy for capital management is to work to strengthen its business structure and aim to increase shareholder returns through sustainable growth.

The major indicators used by the Group for its capital management are the percentage of equity attributable to owners of the parent and the return on equity attributable to owners of the parent.

There are no significant capital regulations that the Group is subject to.

(2) Management of financial risks

The Group is exposed to financial risks (credit risk, liquidity risk, currency risk, interest rate risk, and market price volatility risk) in the process of conducting management activities. It manages risks based on specific policies to reduce these financial risks.

(3) Credit risk management

Credit risk is a risk that could cause a financial loss to the Group if the other party to a financial asset held by the Group defaults on the contractual debt.

The Group uses a system to manage due dates and the outstanding balance for each business partner and to regularly ascertain the credit standing of major business partners to detect the credit risk at an early stage and reduce it.

The Group does not have any excessively concentrated credit risk against a certain party or a group to which the party belongs.

The carrying amount of financial assets presented in the consolidated financial statements is the maximum exposure of the Group to the credit risk of the financial assets.

With regard to the exposure to these credit risks, the Group does not have any property that it holds as security or any other tool for credit enhancement.

The Group classifies its receivables into "trade receivables" and "receivables other than trade receivables" and determines the allowance for doubtful accounts for them as follows.

The Group classifies "trade receivables" into three categories, namely receivables from a "debtor who does not have any serious problems in its business conditions," receivables from a "debtor who has serious problems in the repayment of debt" and receivables from a "debtor who is experiencing business failure" according to the business conditions and financial position of the debtor on the closing date, and always recognizes the allowance for doubtful accounts in the same amount as the lifetime expected credit losses in each category.

A "debtor who does not have any serious problems in its business conditions" refers to a debtor who does not show any signs of problems in the repayment of debt and who does not have any problems with its debt-paying ability. For receivables from these debtors, the allowance for doubtful accounts is posted collectively by using a provision ratio that adds the future situation to the past credit loss ratio.

A "debtor who has serious problems in the repayment of debt" refers to a debtor who has yet to experience business failure but has or could have a serious problem in the repayment of debt. For receivables from these debtors, the allowance for doubtful accounts is posted by estimating the recoverable amount of the relevant assets individually.

A "debtor who is experiencing business failure" refers to a debtor for whom legal and formal business failure has arisen or who is in deep financial trouble and is deemed not to have any prospect of restoration. For receivables from these debtors, the allowance for doubtful accounts is posted for the entire amount of receivables, excluding assets that have been accepted as security or credit enhancement.

For "receivables other than trade receivables," either an amount equal to expected credit losses for 12 months if the credit risk has not increased significantly or an amount equal to expected credit losses for the entire period if the credit risk has increased significantly is recognized as an allowance for doubtful accounts by undertaking an assessment on the last day of each reporting period as to whether the credit risk has increased significantly from the time of initial recognition.

A case where the credit risk has increased significantly refers to a situation where a serious problem has arisen in terms of the recoverability of receivables on the closing date in comparison with the time of initial recognition. When the Group assesses whether or not the credit risk has increased significantly, it considers reasonable and supportable information that is available, such as the debtor's business performance in the past and its business improvement plans, in addition to information on payments past due.

For "receivables other than trade receivables," the allowance for doubtful accounts is recognized by using methods of estimating the credit losses collectively or estimating the credit losses individually according to the degree of credit risk of the debtor. However, if the debtor is in deep financial trouble or if a legal and formal fact of business failure has arisen, the allowance for doubtful accounts is recognized by using the method of estimating credit losses individually by regarding the receivables as credit-impaired financial assets.

For all receivables, if it is decided that it is impossible or extremely difficult to recover all or some of them, the receivables are deemed to have defaulted.
If it is decided that payments past due are not caused by a temporary demand for funds but are attributable to a serious financial difficulty of the debtor and that the recoverability of receivables is of particular concern, the Group assesses that credit impairment has arisen.

Information on allowance for doubtful accounts
The carrying amount of financial assets subject to the recognition of the allowance for doubtful accounts is as follows.

(Million yen)

| Trade receivables | Debtors who do not have any serious problems in their business conditions | Debtors who have serious problems in the repayment of debt | Debtors who are experiencing business failure | Total |
|---|---|---|---|---|
| Transition date (April 1, 2017) | 11,320 | 16 | — | 11,336 |
| Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | 16,668 | 25 | — | 16,693 |
| Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) | 16,831 | 29 | — | 16,860 |

(Million yen)

| Receivables other than trade receivables | Credit risk has not increased significantly | Financial assets whose credit risk has increased significantly since initial recognition | Credit-impaired financial assets | Total |
|---|---|---|---|---|
| Transition date (April 1, 2017) | 154 | — | — | 154 |
| Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | 159 | — | — | 159 |
| Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) | 375 | — | — | 375 |

Increases and decreases in the allowance for doubtful accounts for the financial assets above are as follows.

(Million yen)

| | Trade receivables | Receivables other than trade receivables | | | Total |
|---|---|---|---|---|---|
| | | Credit risk has not increased significantly | Financial assets whose credit risk has increased significantly since initial recognition | Credit-impaired financial assets | |
| Balance on April 1, 2017 | 52 | 0 | — | — | 53 |
| Amount of increase during the period | 70 | 0 | — | — | 71 |
| Amount of decrease during the period (reversal) | 52 | 0 | — | — | 53 |

| | | | | | |
|---|---|---|---|---|---|
| Balance on March 31, 2018 | 70 | 0 | — | — | 71 |
| Amount of increase during the period | 84 | 0 | — | — | 85 |
| Amount of decrease during the period (reversal) | 70 | 0 | — | — | 71 |
| Balance on March 31, 2019 | 84 | 0 | — | — | 85 |

(4) Liquidity risk management

Liquidity risk is the risk that the Group may become unable to make a payment on its due date when the Group performs a repayment obligation for financial liabilities that become due.

The Group manages liquidity risk by continuously monitoring its cash flow plan and the result thereof by preparing appropriate funds for repayment and securing credit lines that are available as needed from financial institutions.

The balance of financial liabilities by due date is as follows.

Derivative financial liabilities are not applicable on the transition date (April 1, 2017) or in the previous consolidated fiscal year (as of March 31, 2018) or in the consolidated fiscal year under review (as of March 31, 2019).

Transition date (April 1, 2017)

(Million yen)

| | Carrying amount | Contractual cash flows | Within 1 year | More than 1 year |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Short-term borrowings | 7,947 | 7,947 | 7,947 | — |
| Trade and other receivables | 10,609 | 10,609 | 10,609 | — |
| Total | 18,556 | 18,556 | 18,556 | — |

Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)

(Million yen)

| | Carrying amount | Contractual cash flows | Within 1 year | More than 1 year |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Short-term borrowings | 7,426 | 7,426 | 7,426 | — |
| Trade and other receivables | 15,447 | 15,447 | 15,447 | — |
| Total | 22,873 | 22,873 | 22,873 | — |

Figures at the end of the consolidated fiscal year under review (As of March 31, 2019)

(Million yen)

| | Carrying amount | Contractual cash flows | Within 1 year | More than 1 year |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Short-term borrowings | 11,121 | 11,121 | 11,121 | — |
| Trade and other receivables | 13,476 | 13,476 | 13,476 | — |
| Total | 24,597 | 24,597 | 24,597 | — |

(5) Currency risk management

The Group develops business internationally, and exchange rate fluctuations of the yuan could have an impact on its business performance as the weight of production and sales of Chinese subsidiaries increases, in particular.

In principle, the Group engages in exports to foreign countries in yen, and overseas subsidiaries conduct purchases and sales locally in local currency. In addition, accounts payable in foreign currency are within the range of accounts receivable in the same foreign currency, and the Group generally recognizes that they can cope with the currency risk. The Group will continue to address the currency risk by seeking to balance receivables and payables in foreign currencies and by considering hedging the risk using forward exchange contracts, depending on the situation.

Foreign exchange sensitivity analysis

The impact of cases where the yen appreciates 1% against the yuan on profit before tax in the consolidated statement of income in each reporting period is as follows.

In this analysis, however, it is assumed that other factors for changes (outstanding balance, interest rates, etc.) are constant.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Profit before tax | -46 | -78 |

(6) Interest rate risk management

The Group is exposed to a range of interest volatility risks in its business activities, and fluctuations in interest rates will have a particularly large impact on borrowing costs.

To reduce the interest volatility risks, the Group works to properly manage the balance of borrowings and considers using an interest rate swap as needed.

Interest rate sensitivity analysis

The impact of cases where interest rates rise 1% on profit before tax in the consolidated statement of income in each reporting period is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Profit before tax | -80 | -90 |

(7) Market price volatility risk management

The Group holds listed stocks for the purpose of cross shareholding, including the efficient implementation of business alliances. Because the market prices of listed stocks are decided based on market mechanisms, their value could be changed as a result of trends in the market economy. The Group regularly checks the market prices of listed stocks and the financial position of issuers and continuously reviews the shareholding situation, taking the relationship with business partners into account.

The impact of cases where the market prices of equity instruments held fall 1% on other comprehensive income (before tax effect) in the consolidated statement of comprehensive income in each reporting period is as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Other comprehensive income (before tax effect) | -82 | -60 |

(8) Hedging activities

Not applicable.

(9) Fair value of financial instruments

(i) Fair value hierarchy

For financial instruments measured at fair value, the amount of fair value measurement is classified into three levels from Level 1 through Level 3 according to the observability and significance of the inputs used for the measurement. Transfers among Level 1, Level 2 and Level 3 of the fair value hierarchy are recognized on the date of the event or the change in circumstances that resulted in the transfer.

Level 1: Market prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Fair value determined using observable prices other than those in Level 1, either directly or indirectly
Level 3: Fair value determined using an assessment technique that includes unobservable inputs

(ii) Financial instruments measured at fair value

The method of determining the fair value is as follows.

(Stocks, investments in capital, etc.)

The fair value of listed stocks is determined by the market price on the closing date. The fair value of unlisted stocks and investments in capital, etc. is determined by an appropriate method that takes into comprehensive consideration quantitative information such as the net asset value and major assets held by the investee.

The fair value hierarchy of financial instruments measured at fair value is as follows.
Significant transfers among the levels of fair value are not made during the fiscal years.

Transition date (April 1, 2017)

(Million yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Stocks | 7,156 | — | 30 | 7,186 |
| Investments in capital, etc. | — | — | 446 | 446 |
| Total | 7,156 | — | 476 | 7,633 |

Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)

(Million yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Other financial assets | | | | |
| Stocks | 8,277 | — | 33 | 8,310 |
| Investments in capital, etc. | — | — | 279 | 279 |
| Total | 8,277 | — | 312 | 8,590 |

Figures at the end of the consolidated fiscal year under review (As of March 31, 2019)

(Million yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Stocks | 6,096 | — | 33 | 6,129 |
| Investments in capital, etc. | — | — | 315 | 315 |
| Total | 6,096 | — | 348 | 6,444 |

Valuation process

Financial instruments classified as Level 3 are mainly unlisted stocks and investments in capital, etc., and their fair value is determined by an appropriate method that takes into comprehensive consideration quantitative information such as the net asset value and major assets held by the investee.

The reasonability of the valuation is verified by a department in charge of accounting and approved by the department head.

Reconciliation of financial instruments classified as Level 3 from their beginning balance to their ending balance

Changes in financial instruments classified as Level 3 from their beginning balance to their ending balance are as follows.

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Beginning balance | 476 | 312 |
| Total gains and losses | -11 | 36 |
| Other comprehensive income | -11 | 36 |
| Sales | -152 | — |
| Ending balance | 312 | 348 |

(iii) Financial instruments measured at amortized cost

The method of determining the fair value of major financial instruments measured at amortized cost is as follows. The fair value hierarchy of financial instruments measured at amortized cost is not stated because they are financial instruments whose carrying amount is a reasonable approximation of the fair value as well as immaterial financial instruments.

(Cash and cash equivalents, trade and other receivables and trade and other payables)

The carrying amount is used as the fair value because the fair value of these financial instruments is almost equal to their carrying amount because they are settled within a short period of time.

(Other financial assets)

The carrying amount is used as the fair value because the fair value of time deposits and others included in other financial assets is almost equal to their carrying amount because they are settled within a short period of time.

(Borrowings)

The carrying amount is used as the fair value because the fair value of short-term borrowings is almost equal to their carrying amount because they are settled within a short period of time.

(10) Transfer of financial assets

The Group liquidates some trade receivables by discounting bills. However, of these liquidated receivables, there are those that will give rise to payment obligations to the Group retroactively if the debtor does not make payment, and the Group does not derecognize such liquidated receivables because they do not meet the requirements for the derecognition of financial assets.

The carrying amount of assets that were transferred in a way that does not meet the requirements for derecognition and related liabilities is as follows, and the transferred assets are posted in “trade and other receivables,” while related liabilities are posted in “borrowings” in the consolidated statement of financial position. Their fair value is reasonably approximate to their carrying amount.

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Carrying amount of transferred assets | 3,763 | 4,226 | 5,121 |
| Carrying amount of related liabilities | 3,763 | 4,226 | 5,121 |
| (Breakdown) Purchase of export bills | 2,333 | 2,692 | 3,250 |
| Discounted bills, etc. | 1,429 | 1,533 | 1,870 |

34. Significant subsidiaries

(1) Composition of the group

The situation of major subsidiaries at the end of the consolidated fiscal year under review is as stated in "Section 1. Overview of the Company's Situation, 4. Situation of affiliates."

(2) Consolidated subsidiaries with significant non-controlling interests

The condensed consolidated financial information of consolidated subsidiaries for which the Company recognizes significant non-controlling interests is as follows. The condensed financial information shows amounts before eliminating intra-group transactions.

Precision Tsugami (China) Corporation Limited (this company and its subsidiaries)

(i) Percentage interest owned by non-controlling interests

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Percentage interest owned by non-controlling interests (%) | — | 29.2 | 29.2 |

Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018)

Precision Tsugami (China) Corporation Limited, a consolidated subsidiary of the Company, was listed on the Main Board of The Stock Exchange of Hong Kong Limited and issued new shares and made a secondary offering of some of its shares owned by the parent company. As a result, the Company's ownership interests in the Precision Tsugami (China) Corporation group decreased from 100.0% to 70.8%, but the Company controls Precision Tsugami (China) Corporation Limited even after the issuance and sales of new shares.

The amount of increase in capital surplus and non-controlling interests associated with this series of transactions is as follows.

(Million yen)

| | Amount |
|---|---|
| Amount of increase in non-controlling interests | 5,266 |
| Amount of increase in capital surplus | 2,547 |

(ii) Condensed consolidated financial information

i) Condensed consolidated statement of financial position

(Million yen)

| | Transition Date (April 1, 2017) | Previous consolidated fiscal year (As of March 31, 2018) | Consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Current assets | 16,499 | 24,868 | 25,986 |
| Non-current assets | 6,255 | 6,238 | 6,611 |
| Current liabilities | 12,101 | 11,349 | 8,998 |
| Non-current liabilities | 40 | 66 | 249 |
| Equity | 10,612 | 19,691 | 23,350 |
| Accumulated amount of non-controlling interests | — | 5,710 | 6,716 |

Major items of current assets are "cash and cash equivalents," "trade and other receivables" and "inventories," while the major item of non-current assets is "property, plant and equipment," and the major item of current liabilities is "trade and other payables."

ii) Condensed Consolidated Statements of Income and Comprehensive Income

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Revenue | 38,763 | 47,153 |
| Profit | 3,251 | 6,080 |
| Other comprehensive income | — | — |
| Comprehensive income | 3,251 | 6,080 |
| Profit allocated to non-controlling interests | 526 | 1,710 |
| Dividends paid to non-controlling interests | — | 574 |

iii) Condensed Consolidated Statements of Cash Flows

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Cash flows from operating activities | 3,418 | 4,514 |
| Cash flows from investing activities | -654 | -1,229 |
| Cash flows from financing activities | 549 | -1,986 |
| Net increase (decrease) in cash and cash equivalents | 3,314 | 1,298 |

35. Related party

(1) Transaction with the Company's directors and major shareholders

While the subsidiaries of the Group are the related parties of the Company, they are not disclosed because transactions with the subsidiaries are eliminated in the consolidated financial statements. There are no significant transactions between the Company and its consolidated subsidiaries and other related parties.

(2) Compensation for major executives

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2017 to March 31, 2018) | Consolidated fiscal year under review (From April 1, 2018 to March 31, 2019) |
|---|---|---|
| Short-term compensation | 164 | 144 |
| Share-based payment | 51 | 45 |
| Total | 215 | 189 |

Compensation for major executives is compensation for the directors (excluding the audit and supervisory committee members) of the Company.

36. Commitment

The commitment concerning expenditure after the closing date is as follows.

(Million yen)

| | Transition Date (April 1, 2017) | Figures at the end of the previous consolidated fiscal year (As of March 31, 2018) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2019) |
|---|---|---|---|
| Purchase of property, plant and equipment | 41 | 1,341 | 29 |
| Purchase of intangible assets | — | — | 338 |
| Total | 41 | 1,341 | 368 |

37. Contingent liabilities

No corresponding item existed.

38. Subsequent events

1. Resolution on stock option

The company resolved to issue share acquisition rights at The 116th annual shareholders meeting and at the Board of Directors meeting, held on June 19, 2019 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (2) Share acquisition rights, (i) Stock option system.

2. Acquisition of treasury shares

At a meeting of the Board of Directors held on June 19, 2019, the Company resolved to acquire treasury shares under Paragraph

1 of Article 459 of the Companies Act and has acquired treasury shares. Details are as follows:

Board of Directors' resolution on the acquisition of treasury shares

(i) Reason of the acquisition of treasury shares: To implement flexible capital policy in response to changes in the management environment

(ii) Class of stock to be acquired: Common stock

(iii) Number of shares that can be acquired: 1,000 thousand shares (maximum)
(Ratio to the number of issued shares (excluding treasury stock): 1.93%)

(iv) Value of shares to be acquired: ¥850 million (maximum)

(v) Acquisition period: From June 19, 2019 to November 11, 2019

(vi) Method of acquisition: Acquisition on the Tokyo Stock Exchange

## 39. First-time adoption

The Group discloses its consolidated financial statements in accordance with IFRS from the end of the current consolidated fiscal year. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are for the fiscal year ending March 31, 2018, and the transition date to IFRS is April 1, 2017.

### (1) IFRS 1 exemptions

In principle, IFRS requires entities that are adopting IFRS for the first time (hereinafter referred to as "first-time adopters") to adopt the standards required by IFRS retrospectively. However, IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1") stipulates some of the standards for which exemptions are mandatory and voluntary. The impact of applying these exemptions is adjusted with retained earnings or other components of equity as of the IFRS transition date. The Group adopted the following exemptions when transitioning from Japanese GAAP to IFRS.

・Business combinations

First-time adopters are permitted to choose not to apply IFRS 3 "Business Combinations" (hereinafter referred to as "IFRS 3") retroactively to business combinations conducted before the IFRS transition date. The Group has adopted this exemption, and has elected not to apply IFRS 3 retrospectively to business combinations made before the transition date.

・Exchange differences of foreign operations

IFRS 1 permits first-time adopters to choose to regard the accumulated exchange differences of foreign operations as of the IFRS transition date as zero. The Group has elected to regard the accumulated exchange differences of overseas operations as zero as of the transition date.

・Share-based payment

IFRS 1 recommends that first-time adopters apply IFRS 2 to share-based payments granted on or after November 7, 2002 and vested before the IFRS transition date, but this is not required. The Group has elected not to apply IFRS 2 to share-based payments vested before the transition date.

・Lease

IFRS 1 permits first-time adopters to make an assessment of whether the contract includes a lease as at the IFRS transition date. The Group applies this exemption and determines whether the contract contains a lease based on the facts and circumstances existing as at the transition date.

・Borrowing costs

IFRS 1 permits first-time adopters to regard the start date of capitalization of borrowing costs for eligible assets as the transition date. The Group has adopted this exemption.

・Designation of financial instruments recognized before the transition date

IFRS 1 permits first-time adopters to judge classification under IFRS 9 based on the facts and circumstances as at the transition date, not the facts and circumstances existing at the time of initial recognition. In addition, based on this judgment, it is permitted to designate equity financial assets as financial assets to be measured at fair value through other comprehensive income. The Group applies this exemption and designates some equity financial assets as financial assets to be measured at fair value through other comprehensive income.

(2) Mandatory exception of IFRS 1

IFRS 1 prohibits the retrospective application of IFRS in items such as "estimate," "derecognition of financial assets and financial liabilities," "hedge accounting," "non-controlling interests" and "classification and measurement of financial assets." The Group applies the exception to these items from the transition date onward.

(3) Reconciliations

The reconciliations required for the first-time application of IFRS are as follows.

"Reclassified presentation" and "differences in recognition and measurement" in the table below include items that do not affect retained earnings and comprehensive income and items that affect retained earnings and comprehensive income, respectively.

Adjustments to Capital as of April 1, 2017 (IFRS transition date)

(Million yen)

| Japan GAAP line item | Japan GAAP | Reclassified presentation | Differences in recognition and measurement | IFRS | Note | IFRS line item |
|---|---|---|---|---|---|---|
| Assets | | | | | | Assets |
| Current assets | | | | | | Current assets |
| Cash and deposits | 4,666 | -105 | 871 | 5,432 | A,I | Cash and cash equivalents |
| Notes and accounts receivable - trade | 9,846 | 47 | 1,543 | 11,437 | B,C,I J,K | Trade and other receivables |
| | — | 105 | — | 105 | A | Other financial assets |
| Inventories | 16,114 | — | 1,905 | 18,019 | I,J | Inventories |
| Consumption taxes receivable | 718 | -718 | — | — | B | |
| Deferred tax assets | 488 | -488 | — | — | G,O | |
| Other | 676 | 629 | 287 | 1,592 | B,I | Other current assets |
| Allowance for doubtful accounts | -41 | 41 | — | — | C | |
| Total current assets | 32,468 | -488 | 4,607 | 36,588 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property, plant and equipment | 8,196 | — | 526 | 8,722 | I | Property, plant and equipment |
| Intangible assets | 649 | -603 | 39 | 85 | F,I | Intangible assets |
| Investments and other assets | | | | | | |
| Investment securities | 7,157 | 803 | -322 | 7,637 | E,I,N | Other financial assets |
| Shares of subsidiaries and associates | 11 | — | -11 | — | I | |
| Investments in capital of subsidiaries and associates | 915 | -209 | -706 | — | I | |
| Long-term loans receivable | 593 | -593 | — | — | E | |
| Deferred tax assets | 2 | 488 | -313 | 177 | G,O | Deferred tax assets |
| | — | — | 178 | 178 | P | Retirement benefit asset |
| Other | 131 | 602 | 29 | 763 | E,F,I | Other non-current assets |
| Total non-current assets | 17,659 | 488 | -582 | 17,565 | | Total non-current assets |
| Total assets | 50,127 | — | 4,025 | 54,153 | | Total assets |

(Million yen)

| Japan GAAP line item | Japan GAAP | Reclassified presentation | Differences in recognition and measurement | IFRS | Note | IFRS line item |
|---|---|---|---|---|---|---|
| | | | | | | Liabilities and equity |
| Liabilities | | | | | | Liabilities |
| Current liabilities | | | | | | Current liabilities |
| Notes and accounts payable - trade | 9,606 | 881 | 121 | 10,609 | B,I,M | Trade and other payables |
| Short-term borrowings | 4,183 | — | 3,763 | 7,947 | K | Borrowings |
| | — | 8 | — | 8 | E | Other financial liabilities |
| Income taxes payable | 525 | — | -6 | 518 | I | Income taxes payable |
| Provision for bonuses | 232 | -232 | — | — | D | |
| Advances received | 905 | — | 33 | 939 | B,I | Contract liabilities |
| Provision for product warranties | 322 | — | 3 | 325 | D,I | Provisions |
| Other | 986 | -657 | 131 | 460 | B,L,I | Other current liabilities |
| Total current liabilities | 16,762 | — | 4,046 | 20,809 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| | — | 10 | — | 10 | E | Other financial liabilities |
| Retirement benefit liability | 718 | 22 | 117 | 859 | P | Retirement benefit liability |
| Provision for retirement benefits for directors (and other officers) | 22 | -22 | — | — | D | |
| Deferred tax liabilities | 1,125 | — | -314 | 811 | G,O | Deferred tax liabilities |
| Other | 36 | -10 | 5 | 30 | E,I | Other non-current liabilities |
| Total non-current liabilities | 1,902 | — | -191 | 1,711 | | Total non-current liabilities |
| Total liabilities | 18,665 | — | 3,855 | 22,520 | | Total Liabilities |
| Net assets | | | | | | Equity |
| Share capital | 12,345 | — | — | 12,345 | | Share capital |
| Capital surplus | 478 | 842 | — | 1,321 | H | Capital surplus |
| Treasury shares | -2,986 | — | — | -2,986 | | Treasury shares |
| Total accumulated other comprehensive income | 3,533 | — | -40 | 3,492 | I,N,P Q | Other components of equity |
| Retained earnings | 17,250 | — | 95 | 17,345 | R | Retained earnings |
| | 30,620 | 842 | 54 | 31,517 | | Total equity attributable to owners of parent |
| Share acquisition rights | 842 | -842 | — | — | H | |
| | — | — | 115 | 115 | I | Non-controlling interests |
| Total net assets | 31,462 | — | 170 | 31,632 | | Total equity |
| Total liabilities and net assets | 50,127 | — | 4,025 | 54,153 | | Total liabilities and equity |

Adjustments to Capital as of March 31, 2018 (Date of most recent Japan GAAP financial statements)

(Million yen)

| Japan GAAP line item | Japan GAAP | Reclassified presentation | Differences in recognition and measurement | IFRS | Note | IFRS line item |
|---|---|---|---|---|---|---|
| Assets | | | | | | Assets |
| Current assets | | | | | | Current assets |
| Cash and deposits | 10,286 | -104 | 285 | 10,466 | A,I | Cash and cash equivalents |
| Notes and accounts receivable - trade | 14,482 | 135 | 2,163 | 16,781 | B,C,I J,K | Trade and other receivables |
| | — | 104 | — | 104 | A | Other financial assets |
| Inventories | 17,364 | — | 1,568 | 18,933 | I,J | Inventories |
| Consumption taxes receivable | 1,046 | -1,046 | — | — | B | |
| Deferred tax assets | 525 | -525 | — | — | G,O | |
| Other | 516 | 853 | 145 | 1,515 | B,I | Other current assets |
| Allowance for doubtful accounts | -56 | 56 | — | — | C | |
| Total current assets | 44,165 | -525 | 4,162 | 47,802 | | Total current assets |
| Non-current assets | | | | | | Non-current assets |
| Property, plant and equipment | 9,145 | — | 12 | 9,158 | I | Property, plant and equipment |
| Intangible assets | 696 | -608 | — | 88 | F,I | Intangible assets |
| Investments and other assets | | | | | | |
| Investment securities | 8,278 | 142 | 172 | 8,594 | E,I,N | Other financial assets |
| Shares of subsidiaries and associates | 11 | — | -11 | — | I | |
| Investments in capital of subsidiaries and associates | 67 | -0 | -67 | — | I | |
| Long-term loans receivable | 3 | -3 | — | — | E | |
| Deferred tax assets | 3 | 525 | -318 | 211 | G,O | Deferred tax assets |
| | — | — | 145 | 145 | P | Retirement benefit asset |
| Other | 282 | 469 | 10 | 762 | E,F,I | Other non-current assets |
| Total non-current assets | 18,490 | 525 | -57 | 18,959 | | Total non-current assets |
| Total assets | 62,656 | — | 4,104 | 66,761 | | Total assets |

(Million yen)

| Japan GAAP line item | Japan GAAP | Reclassified presentation | Differences in recognition and measurement | IFRS | Note | IFRS line item |
|---|---|---|---|---|---|---|
| | | | | | | Liabilities and equity |
| Liabilities | | | | | | Liabilities |
| Current liabilities | | | | | | Current liabilities |
| Notes and accounts payable - trade | 14,035 | 1,365 | 46 | 15,447 | B,I,M | Trade and other payables |
| Short-term borrowings | 3,200 | — | 4,226 | 7,426 | K | Borrowings |
| | — | 6 | — | 6 | E | Other financial liabilities |
| Income taxes payable | 1,068 | — | -2 | 1,066 | I | Income taxes payable |
| Provision for bonuses | 275 | -275 | — | — | D | |
| Advances received | 2,166 | — | 52 | 2,218 | B,I | Contract liabilities |
| Provision for product warranties | 457 | — | — | 457 | D,I | Provisions |
| Other | 1,618 | -1,096 | 145 | 668 | B,L,I | Other current liabilities |
| Total current liabilities | 22,821 | — | 4,469 | 27,290 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| | — | 4 | — | 4 | E | Other financial liabilities |
| Retirement benefit liability | 716 | 21 | 145 | 883 | P | Retirement benefit liability |
| Provision for retirement benefits for directors (and other officers) | 21 | -21 | — | — | D | |
| Deferred tax liabilities | 1,550 | — | -405 | 1,145 | G,O | Deferred tax liabilities |
| Other | 29 | -4 | 5 | 30 | E,I | Other non-current liabilities |
| Total non-current liabilities | 2,318 | — | -254 | 2,063 | | Total non-current liabilities |
| Total liabilities | 25,139 | — | 4,214 | 29,354 | | Total Liabilities |
| Net assets | | | | | | Equity |
| Share capital | 12,345 | — | — | 12,345 | | Share capital |
| Capital surplus | 2,806 | 656 | -83 | 3,378 | H | Capital surplus |
| Treasury shares | -1,814 | — | — | -1,814 | | Treasury shares |
| Total accumulated other comprehensive income | 4,489 | — | -61 | 4,427 | I,N,P Q | Other components of equity |
| Retained earnings | 13,257 | — | -3 | 13,254 | R | Retained earnings |
| | 31,083 | 656 | -149 | 31,591 | | Total equity attributable to owners of parent |
| Share acquisition rights | 656 | -656 | — | — | H | |
| Non-controlling interests | 5,776 | — | 39 | 5,815 | I | Non-controlling interests |
| Total net assets | 37,516 | — | -109 | 37,407 | | Total equity |
| Total liabilities and net assets | 62,656 | — | 4,104 | 66,761 | | Total liabilities and equity |

Note on adjustments to equity

i) Reclassification of line items

A. Transfer of cash and deposits

Time deposits with a deposit term of more than 3 months included in “cash and deposits” under Japanese GAAP are presented as “other financial assets (current)” under IFRS.

B. Transfer of accounts receivable, payables, accrued expenses and advances received

Accounts receivable included in “other” of current assets under Japanese GAAP are presented as “trade and other receivables” under IFRS, and “consumption taxes receivable” presented separately under Japanese GAAP are presented as “other current assets” under IFRS. In addition, payables and accrued expenses included in “other” of current liabilities under Japanese GAAP are presented as “trade and other payables” under IFRS, and “advances received” presented separately under Japanese GAAP are presented as “contract liabilities” under IFRS.

C. Transfer of allowance for doubtful accounts

“Allowance for doubtful accounts (current),” which was presented separately under Japanese GAAP, is presented as a net amount by deducting it directly from “trade and other receivables” under IFRS.

D. Transfer of reserves

“Provisions for bonuses” and “provision for retirement benefits for directors,” which were presented separately under Japanese GAAP, are presented as “other current liabilities” and “retirement benefit liability,” respectively, under IFRS. In addition, “provision for product warranties,” which was presented separately under Japanese GAAP, is presented as “provisions (current)” under IFRS.

E. Transfer of other financial assets and financial liabilities

Separately presented “investment securities” and “long-term loans receivable” and funds included in “other” under Japanese GAAP are presented as “other financial assets (non-current)” under IFRS. In addition, lease obligations included in “other” of current liabilities and “other” of non-current liabilities under Japanese GAAP are shown as “other financial liabilities (current)” and “other financial liabilities (non-current)” under IFRS, respectively.

F. Transfer of leasehold interests in land

“Leasehold interests in land” included in intangible assets under Japanese GAAP is shown in “other non-current assets” as long-term prepaid expenses under IFRS.

G. Adjustment for deferred tax assets and deferred tax liabilities

Under Japanese GAAP, deferred tax assets and deferred tax liabilities were presented as current assets, non-current assets and non-current liabilities. Under IFRS, however, all amounts are shown as non-current assets and non-current liabilities.

H. Transfer of stock acquisition rights

“Share acquisition rights” stated separately under Japanese GAAP are presented as “capital surplus” under IFRS.

ii) Differences in recognition and measurement

I. Review of scope of consolidation

Under Japanese GAAP, certain subsidiaries, which had been designated as non-consolidated subsidiaries, have been reviewed as consolidated subsidiaries under IFRS.

J. Adjustment of trade receivables and inventories in conjunction with changes at the time of revenue recognition

Under Japanese GAAP, some goods sales transactions are recognized on a shipping basis. Under IFRS, however, the time when the customer recognizes that he or she has gained control over the product, etc. by checking them against the contractual conditions is the fulfillment timing of the contract's performance obligation. Revenue is recognized upon the arrival of the product, etc. at the customer, based mainly on inspection and trade conditions.

K. Transfer of financial assets

Among the liquidation claims such as discounted notes that have been derecognized due to transfer under Japanese GAAP, those that require the Group to pay retroactively if the obligor does not pay are included in "trade and other receivables" and "borrowings (current)" because they do not meet the requirements of financial assets derecognition under IFRS.

L. Unused paid leave

Unused paid leave that was not accounted for under Japanese GAAP is recognized as "other current liabilities" under IFRS.

M. Levies

As for fixed asset tax levied in Japan, under Japanese GAAP, expenses were recognized for the fiscal year in which tax was paid, but under IFRS, liabilities and expenses are recognized collectively when an obligating event occurs.

N. Financial assets measured at fair value through other comprehensive income

Under Japanese GAAP, non-marketable equity financial assets were measured at the acquisition price and impaired as necessary. Under IFRS, they are measured at fair value, in principle.

O. Adjustment for deferred tax assets and deferred tax liabilities

For the tax effect of the elimination of internal unrealized gains, the deferral method was used under Japanese GAAP, but now the asset and liability method is used under IFRS. In addition, with the adoption of IFRS, the Company is reconsidering the recoverability of deferred tax assets.

Moreover, under Japanese GAAP, deferred tax assets and deferred tax liabilities were offset in each of the current and non-current categories, but under IFRS, the offsets have increased due to reclassification, and deferred tax assets and deferred items have decreased.

P. Adjustment of net defined benefit liability

Under Japanese GAAP, actuarial differences are recognized in other comprehensive income as they occur, and they are expensed from the year after the occurrence, proportionally divided by a certain number of years within the average remaining service period of employees. Under IFRS, however, they are recognized in other comprehensive income when they occur and are immediately transferred to retained earnings.

Q. Transfer of accumulated exchange differences related to overseas subsidiaries

When applying IFRS for the first time, the Company selected the exemptions specified in IFRS 1 and transferred all accumulated exchange differences on the transition date to retained earnings.

R. Adjustments to retained earnings

(Million yen)

| | Transition date (April 1, 2017) | Previous consolidated fiscal year (March 31, 2018) |
|---|---|---|
| Adjustment by changing the scope of consolidation | 46 | 49 |
| Adjustment to revenue | -131 | -194 |
| Adjustment to employee benefits | -149 | -164 |
| Adjustment to levies | -38 | -38 |
| Transfer of accumulated exchange differences related to | 329 | 329 |

| | | |
|---|---|---|
| overseas subsidiaries<br>Other | 37 | 14 |
| Total | 95 | -3 |

Adjustments to profit and loss and comprehensive income in the previous consolidated fiscal year (April 1, 2017 to March 31, 2018) (the most recent fiscal year of Japanese GAAP consolidated financial statements)

(Million yen)

| Japan GAAP line item | Japan GAAP | Reclassified presentation | Differences in recognition and measurement | IFRS | Note | IFRS line item |
|---|---|---|---|---|---|---|
| Net sales | 57,576 | — | -781 | 56,794 | A | Revenue |
| Cost of sales | -43,021 | — | 719 | -42,302 | B | Cost of sales |
| Gross profit | 14,554 | — | -62 | 14,492 | | Gross profit |
| Selling, general and administrative expenses | -7,612 | — | 20 | -7,592 | A,B | Selling, general and administrative expenses |
| | — | 424 | -178 | 245 | C,D | Other income |
| | — | -718 | -14 | -732 | D | Other expenses |
| Operating profit | 6,942 | -294 | -235 | 6,412 | | Operating profit |
| Non-operating income | 332 | -332 | — | — | D | |
| Non-operating expenses | -764 | 764 | — | — | D | |
| Extraordinary income | 308 | -308 | — | — | D | |
| Extraordinary losses | -378 | 378 | — | — | D | |
| | — | 217 | 0 | 217 | D | Finance income |
| | — | -424 | -53 | -477 | D | Finance costs |
| Profit before income taxes | 6,440 | — | -288 | 6,151 | | Profit before tax |
| Total income taxes | -1,756 | — | 64 | -1,691 | | Income tax expense |
| Profit | 4,684 | — | -223 | 4,460 | | Profit |
| | | | | | | Profit attributable to |
| Profit attributable to owners of parent | 4,171 | — | -228 | 3,942 | | Owners of parent |
| Profit attributable to non-controlling interests | 513 | — | 4 | 517 | | Non-controlling interests |
| Accumulated other comprehensive income | | | | | | Other comprehensive income |
| | | | | | | Items that will not be reclassified to profit or loss |
| Valuation difference on available-for-sale securities | 840 | — | 83 | 924 | C | Financial assets measured at fair value through other comprehensive income |
| Remeasurements of defined benefit plans, net of tax | 35 | — | -54 | -18 | B | Remeasurements of defined benefit plans |
| | | | | | | Items that may be reclassified to profit or loss |
| Foreign currency translation adjustment | 252 | — | -25 | 226 | | Foreign currency translation adjustments |
| Total other comprehensive income | 1,128 | — | 3 | 1,132 | | Other comprehensive income |
| Comprehensive income | 5,813 | — | -220 | 5,592 | | Comprehensive income |
| | | | | | | Comprehensive income attributable to |
| Comprehensive income attributable to owners of parent | 5,367 | — | -209 | 5,158 | | Owners of parent |
| Comprehensive income attributable to non-controlling interests | 445 | — | -10 | 434 | | Non-controlling interests |

Notes on adjustments to profit and loss and comprehensive income

A. Adjustment to revenue

Under Japanese GAAP, some goods sales transactions are recognized on a shipping basis. Under IFRS, however, the time when the customer recognizes that he or she has gained control over the product, etc. by checking them against the contractual conditions is the fulfillment timing of the contract's performance obligation. Revenue is recognized upon the arrival of the product etc. at the customer, based mainly on inspection and trade conditions. In addition, some rebates, etc. were presented in "selling, general and administrative expenses" under Japanese GAAP, but are deducted from "revenue" under IFRS.

B. Accounting for net defined benefit liability

Under Japanese GAAP, actuarial differences are recognized in other comprehensive income as they occur, and they are expensed from the year after their occurrence, proportionally divided by a certain number of years within the average remaining service period of employees. Under IFRS, however, they are recognized in other comprehensive income when they occur and are immediately transferred to retained earnings.

C. Financial assets measured at fair value through other comprehensive income

Under Japanese GAAP, gain or loss on sales of investment securities was recognized as profit or loss. Under IFRS, however, with regard to equity financial assets selected as financial assets to be measured at fair value through other comprehensive income, gain or loss on sales of such equity financial assets is recognized as "other comprehensive income."

D. Adjustment for line items

For items that were presented in "non-operating income," "non-operating expenses," "extraordinary income," and "extraordinary loss" under Japanese GAAP, financial related gains and losses are recorded as "financial income" and "financial expenses," and other items are shown in "other income" and "other expenses" under IFRS.

Adjustments to cash flows in the previous consolidated fiscal year (April 1, 2017 to March 31, 2018) (the most recent fiscal year of Japanese GAAP consolidated financial statements)

There are no significant differences between the consolidated statement of cash flows disclosed under Japanese GAAP and the consolidated statement of cash flows disclosed under IFRS.

(2) Other

Quarterly information for the fiscal year under review

| (Accumulated total) | First quarter<br>From April 1, 2018 to<br>June 30, 2018 | First half<br>From April1, 2018 to<br>September 30, 2018 | First nine months<br>From April1, 2018 to<br>December 31, 2018 | Full year under review<br>From April 1, 2018 to<br>March 31, 2019 |
|---|---|---|---|---|
| Net sales (million yen) | 17,330 | 35,123 | 50,303 | 67,447 |
| Income before taxes and other adjustments (million yen) | 2,746 | 5,480 | 7,665 | 10,139 |
| Net income attributable to owners of parent on common stock (million yen) | 1,462 | 3,091 | 4,437 | 6,033 |
| Net income per share (yen) | 27.62 | 58.56 | 84.21 | 114.94 |

| (Quarterly) | First quarter<br>From April 1, 2018<br>to June 30, 2018 | Second quarter<br>From July 1, 2018<br>to September 30, 2018 | Third quarter<br>From October 1, 2018<br>to December 31, 2018 | Fourth quarter<br>From January 1, 2019<br>to March 31, 2019 |
|---|---|---|---|---|
| Net income per share (yen) | 27.62 | 30.91 | 25.64 | 30.74 |

(Note) 1. Quarterly information for the consolidated fiscal year under review is prepared under Japanese GAAP.

2. The consolidated fiscal year under review and the fourth quarter are not subject to audit or review pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

(i) Non-consolidated balance sheets

(Million yen)

| | | Previous fiscal year (As of March 31, 2018) | | Fiscal year under review (As of March 31, 2019) |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash and deposits | | 3,290 | | 2,258 |
| Trade notes receivable | Note 1, 3 | 100 | Note 1, 3 | 214 |
| Accounts receivable | Note 1 | 7,484 | Note 1 | 8,935 |
| Merchandise and finished goods | | 4,311 | | 4,544 |
| Work in process | | 1,851 | | 2,207 |
| Raw materials and supplies | | 1,778 | | 1,679 |
| Consumption taxes receivable | | 803 | | 1,035 |
| Other | Note 1 | 200 | Note 1 | 453 |
| Allowance for doubtful accounts | | -66 | | -83 |
| Total current assets | | 19,755 | | 21,246 |
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Buildings | | 2,122 | | 1,890 |
| Structures | | 63 | | 71 |
| Machinery and equipment | | 262 | | 264 |
| Vehicles | | 0 | | 6 |
| Tools, furniture and fixtures | | 145 | | 103 |
| Land | | 409 | | 241 |
| Leased assets | | 9 | | 20 |
| Construction in progress | | 52 | | — |
| Total property, plant and equipment | | 3,066 | | 2,597 |
| Intangible assets | | | | |
| Software | | 34 | | 92 |
| Telephone subscription rights | | 8 | | 7 |
| Software in progress | | — | | 409 |
| Other | | 1 | | 0 |
| Total intangible assets | | 44 | | 510 |
| Investments and other assets | | | | |
| Investment securities | | 8,278 | | 6,097 |
| Shares in affiliates | | 3,521 | | 3,521 |
| Investments in capital of subsidiaries and associates | | 847 | | 849 |
| Long-term loans receivable from affiliates | | 573 | | 544 |
| Prepaid pension cost | | — | | 203 |
| Other | | 216 | | 217 |
| Total investments and other assets | | 13,436 | | 11,433 |
| Total non-current assets | | 16,547 | | 14,541 |
| Total assets | | 36,302 | | 35,787 |

(Million yen)

| | | Previous fiscal year (As of March 31, 2018) | | Fiscal year under review (As of March 31, 2019) |
|---|---|---|---|---|
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade notes payable | | 5,795 | | 5,010 |
| Accounts payable | Note 1 | 2,754 | Note 1 | 1,805 |
| Short-term loans payable | | 3,200 | | 6,000 |
| Accounts payable - other | Note 1 | 197 | Note 1 | 372 |
| Accrued expenses payable | Note 1 | 238 | Note 1 | 251 |
| Income taxes payable | | 513 | | 106 |
| Provision for product warranties | | 254 | | 342 |
| Provision for bonuses | | 162 | | 181 |
| Other | | 212 | | 245 |
| Total current liabilities | | 13,327 | | 14,314 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | | 1,221 | | 559 |
| Provision for retirement benefits | | 594 | | 807 |
| Other | | 29 | | 40 |
| Total non-current liabilities | | 1,846 | | 1,406 |
| Total liabilities | | 15,173 | | 15,721 |
| Net assets | | | | |
| Shareholders' equity | | | | |
| Capital stock | | 12,345 | | 12,345 |
| Retained earnings | | | | |
| Legal retained earnings | | 147 | | 242 |
| Other retained earnings | | | | |
| Deferred retained earnings | | 5,645 | | 7,325 |
| Total retained earnings | | 5,793 | | 7,568 |
| Treasury shares | | -1,814 | | -2,943 |
| Total shareholders' equity | | 16,323 | | 16,970 |
| Valuation and translation adjustments | | | | |
| Valuation difference on available-for-sale securities | | 4,149 | | 2,600 |
| Total Valuation and translation adjustments | | 4,149 | | 2,600 |
| Share acquisition rights | | 656 | | 495 |
| Total net assets | | 21,129 | | 20,066 |
| Total liabilities and net assets | | 36,302 | | 35,787 |

(ii) Non-consolidated statements of income

(Million yen)

| | Previous fiscal year (from April 1, 2017 to March 31, 2018) | | Fiscal year under review (from April 1, 2018 to March 31, 2019) | |
|---|---|---|---|---|
| Net sales | Note 1 | 33,821 | Note 1 | 38,557 |
| Cost of sales | Note 1 | 28,068 | Note 1 | 31,932 |
| Gross profit | | 5,752 | | 6,625 |
| Selling, general and administrative expenses | Note 1, 2 | 4,302 | Note 1, 2 | 4,716 |
| Operating income | | 1,450 | | 1,908 |
| Non-operating income | | | | |
| Interest income | | 12 | | 11 |
| Dividend income | | 491 | | 1,708 |
| Insurance income | | 58 | | 60 |
| Other | | 45 | | 63 |
| Total non-operating income | Note 1 | 607 | Note 1 | 1,843 |
| Non-operating expenses | | | | |
| Interest expenses | | 28 | | 68 |
| Foreign exchange losses | | 104 | | 26 |
| Sales discount | | 13 | | 17 |
| Loss on sales of notes payable | | 73 | | 85 |
| Other | | 70 | | 61 |
| Total non-operating expenses | | 289 | | 259 |
| Ordinary income | | 1,767 | | 3,491 |
| Extraordinary income | | | | |
| Gain on sales of non-current assets | | 33 | | 5 |
| Gain on sales of investment securities | | 97 | | — |
| Gain on sales of investments in capital of affiliate | | 81 | | — |
| Gain on sales of shares of subsidiaries | | 1,909 | | — |
| Gain on reversal of share acquisition rights | | 2 | | — |
| Total extraordinary income | | 2,124 | | 5 |
| Extraordinary losses | | | | |
| Loss on retirement of non-current assets | | 48 | | 3 |
| Loss on sales of non-current assets | | 4 | | 2 |
| Impairment loss | | — | | 40 |
| Loss from performance of warranty against defects | | 30 | | — |
| Total extraordinary losses | | 83 | | 47 |
| Income before taxes and other adjustments | | 3,808 | | 3,449 |
| Corporate, inhabitant and enterprise taxes | | 720 | | 352 |
| Deferred taxes | | 16 | | -28 |
| Total corporate and other taxes | | 736 | | 324 |
| Net income | | 3,072 | | 3,125 |

(iii) Non-consolidated statements of changes in net assets

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Million yen)

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | | Capital surplus | | Retained earnings | | |
| | Capital stock | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings<br>Deferred retained earnings | Total retained earnings |
| Balance as of March 31, 2017 | 12,345 | 478 | 478 | 49 | 10,834 | 10,884 |
| Change during the fiscal year | | | | | | |
| Cash dividends paid | | | | 97 | -1,076 | -978 |
| Net income | | | | | 3,072 | 3,072 |
| Purchase of treasury shares | | | | | | — |
| Disposal of treasury shares | | | | | -25 | -25 |
| Retirement of treasury shares | | -478 | -478 | | -7,159 | -7,159 |
| Changes in items other than shareholders' equity during the fiscal year (net) | | | | | | — |
| Total change during the fiscal year | — | -478 | -478 | 97 | -5,188 | -5,090 |
| Balance as of March 31, 2018 | 12,345 | — | — | 147 | 5,645 | 5,793 |

| | Shareholders' equity | | Valuation and translation adjustments | | Share acquisition rights | Total net assets |
|---|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance as of March 31, 2017 | -2,986 | 20,721 | 3,308 | 3,308 | 679 | 24,708 |
| Change during the fiscal year | | | | | | |
| Cash dividends paid | | -978 | | | | -978 |
| Net income | | 3,072 | | | | 3,072 |
| Purchase of treasury shares | -6,842 | -6,842 | | | | -6,842 |
| Disposal of treasury shares | 376 | 350 | | | | 350 |
| Retirement of treasury shares | 7,637 | — | | | | — |
| Changes in items other than shareholders' equity during the fiscal year (net) | | — | 840 | 840 | -22 | 818 |
| Total change during the fiscal year | 1,171 | -4,397 | 840 | 840 | -22 | -3,579 |
| Balance as of March 31, 2018 | -1,814 | 16,323 | 4,149 | 4,149 | 656 | 21,129 |

Consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

(Million yen)

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | |
| | | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings: Deferred retained earnings | Total retained earnings |
| Balance as of March 31, 2018 | 12,345 | — | — | 147 | 5,645 | 5,793 |
| Change during the fiscal year | | | | | | |
| Cash dividends paid | | | | 95 | -1,046 | -951 |
| Net income | | | | | 3,125 | 3,125 |
| Purchase of treasury shares | | | | | | — |
| Disposal of treasury shares | | | | | -399 | -399 |
| Retirement of treasury shares | | | | | | — |
| Changes in items other than shareholders' equity during the fiscal year (net) | | | | | | — |
| Total change during the fiscal year | — | — | — | 95 | 1,679 | 1,774 |
| Balance as of March 31, 2019 | 12,345 | — | — | 242 | 7,325 | 7,568 |

| | Shareholders' equity | | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance as of March 31, 2018 | -1,814 | 16,323 | 4,149 | 4,149 | 656 | 21,129 |
| Change during the fiscal year | | | | | | |
| Cash dividends paid | | -951 | | | | -951 |
| Net income | | 3,125 | | | | 3,125 |
| Purchase of treasury shares | -1,831 | -1,831 | | | | -1,831 |
| Disposal of treasury shares | 703 | 303 | | | | 303 |
| Retirement of treasury shares | | — | | | | — |
| Changes in items other than shareholders' equity during the fiscal year (net) | | — | -1,548 | -1,548 | -160 | -1,709 |
| Total change during the fiscal year | -1,128 | 646 | -1,548 | -1,548 | -160 | -1,062 |
| Balance as of March 31, 2019 | -2,943 | 16,970 | 2,600 | 2,600 | 495 | 20,066 |

Notes

(Significant accounting policies)

1. Valuation standards for securities
  (1) Stocks of subsidiaries and affiliates
    Cost accounting method using the moving average method
  (2) Other securities
    Securities with fair market value:
    Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)
    Securities without fair market value:
    Cost accounting method using the moving average method

2. Valuation standard and method for inventories
  Primarily cost accounting method using the moving average method (The values in the balance sheet were calculated using the book-value write-down method based on the decline of profitability.)

3. Depreciation method for Non-current assets
  (1) Property, plant and equipment (excluding leased assets)
    The straight-line method is mainly adopted.
    The significant service lives are summarized as follows:

| | |
|---|---|
| Buildings: | 15-38 years |
| Machinery and equipment: | 9 years |
| Tools, furniture and fixtures: | 5 years |

  (2) Intangible assets (excluding leased assets)
    Intangible assets are amortized using the straight-line method.
    However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.
  (3) Leased assets
    Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.
  (4) Long-term prepaid expenses
    This is computed using the straight-line method.

4. Accounting standards for translating assets or liabilities in foreign currencies into yen
  Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the closing date.

5. Accounting standards for allowances
  (1) Allowance for doubtful accounts
    To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts.
  (2) Allowance for employees' bonuses
    To provide for the payment of employees' bonuses, the Company provides accrued bonuses for employees based on the projected amount for the fiscal year under review.
  (3) Allowance for retirement benefits
    To prepare for the payment of employee retirement benefits, the Company provides accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at end of the fiscal year under review.
    Any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (five years) of employees at the time of the accrual using the straight-line method.
  (4) Allowance for product warranties
    To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

6. Other important matters for the preparation of financial statements
  (1) Accounting policy for retirement benefits
    Unrecognized actuarial gain or loss and unsettled difference at change of accounting principle in relation to retirement benefits are accounted for by a different method than the method used in the consolidated financial statements.
  (2) Accounting method for consumption taxes
    The tax-exclusion method is used for the calculation of consumption tax and local consumption tax, and consumption tax and local consumption tax not subject to deduction are treated as expenses in the consolidated fiscal year under review.

(Changes in Method of Presentation)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Starting from the beginning of the fiscal year under review, "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) is applied. Deferred tax assets are now presented in investments and other assets, while deferred tax liabilities are presented in non-current liabilities.

As a result, "deferred tax assets" of ¥268 million in "current assets" and "deferred tax liabilities "of ¥1,489 million in "non-current liabilities" are presented by offsetting them in the balance sheet for the previous fiscal year, and total assets decreased ¥268 million in comparison with those before the change.

(Non-consolidated balance sheets)

*1. Notes relating to subsidiaries and affiliates

The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items.

(Million yen)

| | Previous fiscal year (As of March 31, 2018) | Fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Short-term monetary receivables | 3,228 | 4,677 |
| Short-term monetary payables | 1,382 | 948 |

2. Amount of discount for bills receivable

(Million yen)

| | Previous fiscal year (As of March 31, 2018) | Fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Amount of discount for bills receivable | 1,533 | 1,860 |
| Amount of discount for export bills receivable | 2,692 | 3,250 |

*3. Notes due at the end of the fiscal year

Notes due at the end of the fiscal year are settled on the date of clearing. Since the end of the fiscal year under review fell on a bank holiday, the following notes due at the end of the fiscal year are included in the balance at the end of the fiscal year.

(Million yen)

| | Previous fiscal year (As of March 31, 2018) | Fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Amount of bills receivable | 0 | 0 |
| Amount of discount for bills receivable | 252 | 252 |

(Non-consolidated statements of income)

*1. Net sales, amount of purchases and other in relation to transactions with subsidiaries and affiliates

(Million yen)

| | Previous fiscal year (from April 1, 2017 to March 31, 2018) | Fiscal year under review (from April 1, 2018 to March 31, 2019) |
|---|---|---|
| Net sales | 9,666 | 10,767 |
| Amount of purchases | 11,627 | 14,267 |
| Selling, general and administrative expenses | 145 | 143 |
| Amount of transactions other than business transactions | 361 | 1,519 |

*2. Selling expenses accounted for approximately 27% of total expenses in the previous fiscal year and approximately 28% in the fiscal year under review. General and administrative expenses accounted for approximately 73% of total expenses in the previous fiscal year and approximately 72% in the fiscal year under review.

The major components of selling, general and administrative expenses and their amounts are as follows:

(Million yen)

| | Previous fiscal year (from April 1, 2017 to March 31, 2018) | Fiscal year under review (from April 1, 2018 to March 31, 2019) |
|---|---|---|
| Salaries and allowances | 766 | 837 |
| Provision for bonuses | 34 | 41 |
| Retirement benefit expenses | 28 | 18 |
| Research and development expenses | 1,302 | 1,482 |
| Depreciation | 5 | 6 |
| Provision for product warranties | 254 | 342 |

(Securities)

Shares in subsidiaries and shares in affiliates

Previous fiscal year (As of March 31, 2018)

(Million yen)

| Classification | Balance sheet amount | Fair value | Difference |
|---|---|---|---|
| Shares in subsidiaries | 3,389 | 42,845 | 39,456 |

(Note) Balance sheet amount of shares in subsidiaries whose fair values are very difficult to estimate

| Classification | Balance sheet amount |
|---|---|
| Shares in subsidiaries | 132 |

Since these shares in subsidiaries do not have any market prices, and their fair values are very difficult to estimate, they are not included in above shares in subsidiaries of ¥3,389 million.

Fiscal year under review (As of March 31, 2019)

(Million yen)

| Classification | Balance sheet amount | Fair value | Difference |
|---|---|---|---|
| Shares in subsidiaries | 3,389 | 34,780 | 31,390 |

(Note) Balance sheet amount of shares in subsidiaries whose fair values are very difficult to estimate

| Classification | Balance sheet amount |
|---|---|
| Shares in subsidiaries | 132 |

Since these shares in subsidiaries do not have any market prices, and their fair values are very difficult to estimate, they are not included in above shares in subsidiaries of ¥3,389 million.

(Deferred Tax Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Million yen)

| | Previous fiscal year (As of March 31, 2018) | Fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Deferred tax assets | | |
| Allowance for doubtful accounts | 21 | 26 |
| Provision for bonuses | 49 | 55 |
| Reserve for retirement benefits | 181 | 183 |
| Provision for product warranties | 77 | 104 |
| Loss on devaluation of investment securities | 121 | 121 |
| Loss on devaluation of stocks of subsidiaries and affiliates | 7 | 7 |
| Loss on devaluation of inventories | 119 | 123 |
| Impairment loss | 45 | 40 |
| Accrued enterprise taxes | 49 | 28 |
| Stock-based compensation expense | 196 | 149 |
| Non-qualified contribution in-kind | 763 | 763 |
| Foreign tax credit carried forward | — | 47 |
| Other | 90 | 112 |
| Deferred tax assets subtotal | 1,724 | 1,764 |
| Valuation reserve | -1,275 | -1,287 |
| Deferred tax assets total | 448 | 477 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | -1,670 | -1,036 |
| Deferred tax liabilities total | -1,670 | -1,036 |
| Net deferred tax assets (liabilities) | -1,221 | -559 |

2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

| | Previous fiscal year (As of March 31, 2018) | Fiscal year under review (As of March 31, 2019) |
|---|---|---|
| Legally effective tax rate | 30.7% | 30.5% |
| (Adjustments) | | |
| Residence tax on a per capita basis | 0.4% | 0.4% |
| Experiment and research expenses | -3.1% | -3.5% |
| Tax sparing | -5.1% | -5.1% |
| Items permanently excluded from nontaxable expenses, including entertainment costs | 1.6% | 1.5% |
| Items permanently excluded from gross revenue including Dividend income | -3.4% | -12.9% |
| Increase (decrease) in valuation reserve | -1.7% | -1.0% |
| Other | 0.0% | -0.3% |
| Actual effective tax rate after applying tax effect accounting | 19.3% | 9.4% |

(Business Combination)
Not applicable.

(Important post-balance sheet events)

1. Resolution on stock option

The company resolved to issue share acquisition rights at The 116th annual shareholders meeting and at the Board of Directors meeting, held on June 19, 2019 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (2) Share acquisition rights, (i) Stock option system.

2. Acquisition of treasury shares

At a meeting of the Board of Directors held on June 19, 2019, the Company resolved to acquire treasury shares under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury shares. Details are as follows:

Board of Directors' resolution on the acquisition of treasury shares

(i) Reason of the acquisition of treasury shares: To implement flexible capital policy in response to changes in the management environment
(ii) Class of stock to be acquired: Common stock
(iii) Number of shares that can be acquired: 1,000 thousand shares (maximum)
(Ratio to the number of issued shares (excluding treasury shares): 1.93%)
(iv) Value of shares to be acquired: ¥850 million (maximum)
(v) Acquisition period: From June 19, 2019 to November 11, 2019
(vi) Method of acquisition: Acquisition on the Tokyo Stock Exchange

(iv) Supplementary schedule

Schedule of Property, plant and equipment and other assets

(Million yen)

| | Assets at beginning of the fiscal year under review | Increase in the fiscal year under review | Decrease in the fiscal year under review | Depreciation or amortization in the fiscal year under review | Assets at end of the fiscal year under review | Accumulated depreciation or amortization at end of the fiscal year under review |
|---|---|---|---|---|---|---|
| Buildings | 2,122 | 92 | 210 | 114 | 1,890 | 2,368 |
| Structures | 63 | 24 | 6 | 10 | 71 | 324 |
| Machinery and equipment | 262 | 60 | 7 | 52 | 264 | 2,344 |
| Vehicles | 0 | 7 | 0 | 1 | 6 | 25 |
| Tools, furniture and fixtures | 145 | 53 | 40<br>(40) | 54 | 103 | 497 |
| Land | 409 | — | 167 | — | 241 | — |
| Leased assets | 9 | 17 | — | 7 | 20 | 17 |
| Construction in progress | 52 | 6 | 58 | — | — | — |
| Total Property, plant and equipment assets | 3,066 | 262 | 491<br>(40) | 239 | 2,597 | 5,577 |
| Software | 34 | 76 | — | 18 | 92 | — |
| Telephone subscription rights | 8 | — | 0 | — | 7 | — |
| Software in progress | — | 409 | — | — | 409 | — |
| Other | 1 | — | — | 0 | 0 | |
| Total Intangible assets | 44 | 485 | 0 | 18 | 510 | — |

(Note) 1. The following is major items that were added in the fiscal year under review:

| | | | |
|---|---|---|---|
| Buildings | Nagaoka factory | Expansion of company dormitories | ¥73 million |
| Structures | Nagaoka factory | In-plant snow melting equipment work | ¥18 million |
| Machinery and equipment | Nagaoka factory | Machine tool manufacturing equipment | ¥60 million |
| Tools, furniture and fixtures | Nagaoka factory | Machine tool manufacturing tools | ¥43 million |
| Software in progress | Nagaoka factory | Information systems | ¥409 million |

2. The following is major items that were reduced in the fiscal year under review:

| | | | |
|---|---|---|---|
| Buildings | Nagaoka factory | Decrease from sale | ¥210 million |
| Tools, furniture and fixtures | Nagaoka factory | Decrease from impairment | ¥40 million |
| Land | Nagaoka factory | Decrease from sale | ¥167 million |

3. The figures in parentheses in “Decrease in the fiscal year under review” are the numbers included and show an impairment loss posted in the fiscal year under review.

Schedule of allowances

(Million yen)

| Classification | Assets at beginning of the fiscal year under review | Increase in fiscal year under review | Decrease in fiscal year under review | Assets at end of fiscal year under review |
|---|---|---|---|---|
| Allowance for doubtful accounts | 69 | 86 | 69 | 86 |
| Provision for bonuses | 162 | 181 | 162 | 181 |
| Provision for product warranties | 254 | 453 | 365 | 342 |

(2) Details of major items in assets and liabilities

Information is omitted as consolidated financial statements were prepared.

(3) Other

Not applicable.

## Section 6. Outline of Stock-Related Administration of Submitting Company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Annual shareholders meeting | In June |
| Record date | March 31 |
| Record dates for dividends | September 30<br>March 31 |
| Number of shares per unit | 100 shares |
| Fractional share repurchase<br>Handling place<br><br><br>Administrator of<br>shareholders' list<br><br>Contact place<br>Repurchase fee | <br>(Special purpose account)<br>Securities Transfer Department, Mitsubishi UFJ Trust and Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo<br>(Special purpose account)<br>Mitsubishi UFJ Trust and Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo<br>---------------------------------------<br>Amount specified separately that is equivalent to brokerage commissions for stock trading |
| Publication of announcements | Notices will be posted in electric format. However, notices will be published in the *Kanpou* (Government Newsletter) when it is impossible to make electric notification for unavoidable reasons. |
| Benefits to shareholders | None |

(Note) Under the Articles of Incorporation, holders of shares less than one unit do not have any rights other than the rights stipulated in each item of Paragraph 2 of Article 189 of the Companies Act, the right to demand specified in Article 166, Paragraph 1 of the Companies Act, and the right to receive allotments of shares for subscription and invitation to subscription in accordance with the number of shares owned by each shareholder.

## Section 7. Reference Information on Submitting Company

1. Information on the parent company of the submitting company

The Company does not have any parent company stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

The Company has submitted the following documents from the beginning of the fiscal year under review to the date of submission of the annual securities report:

(1) Annual securities report, and its attached documents and confirmation documents

The 115th fiscal year (from April 1, 2017 to March 31, 2018) Submitted to the director general of the Kanto Finance Bureau on June 21, 2018

(2) Internal control report and its attached documents

Submitted to the director general of the Kanto Finance Bureau on June 21, 2018

(3) Quarterly reports and confirmation documents

1st quarter of the 116th fiscal year (from April 1, 2018 to June 30, 2018) Submitted to the director general of the Kanto Finance Bureau on August 10, 2018

2nd quarter of the 116th fiscal year (from July 1, 2018 to September 30, 2018) Submitted to the director general of the Kanto Finance Bureau on November 14, 2018

3rd quarter of the 116th fiscal year (from October 1, 2018 to December 31, 2018) Submitted to the director general of the Kanto Finance Bureau on February 14, 2019

(4) Extraordinary report

Submitted to the director general of the Kanto Finance Bureau on June 25, 2018

An extraordinary report under Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc. (Results of exercise of voting rights at the annual shareholders meeting)

Submitted to the director general of the Kanto Finance Bureau on September 29, 2017

An extraordinary report under Article 19, paragraph 2, Item 12 of the Cabinet Office Ordinance concerning Disclosure of Corporate Businesses Conditions, etc. (events that significantly affect the Company and its Group’s financial positions, business results and cash flow situations).

(5) Report on state of purchase of Treasury shares

Reporting period (from June 1, 2018 to June 30, 2018) Submitted to Director General of Kanto Finance Bureau on July 13, 2018

Reporting period (from July 1, 2018 to July 31, 2018) Submitted to Director General of Kanto Finance Bureau on August 10, 2018

Reporting period (from August 1, 2018 to August 31, 2018) Submitted to Director General of Kanto Finance Bureau on September 14, 2018

Reporting period (from September 1, 2018 to September 30, 2018) Submitted to Director General of Kanto Finance Bureau on October 12, 2018

Reporting period (from October 1, 2018 to October 31, 2018) Submitted to Director General of Kanto Finance Bureau on November 14, 2018

Reporting period (from November 1, 2018 to November 30, 2018) Submitted to Director General of Kanto Finance Bureau on December 13, 2018

Reporting period (from December 1, 2018 to December 31, 2018) Submitted to Director General of Kanto Finance Bureau on January 11, 2019

Reporting period (from January 1, 2019 to January 31, 2019) Submitted to Director General of Kanto Finance Bureau on February 14, 2019

Reporting period (from February 1, 2019 to February 28, 2019) Submitted to Director General of Kanto Finance Bureau on March 14, 2019

Reporting period (from March 1, 2019 to March 31, 2019) Submitted to Director General of Kanto Finance Bureau on April 12, 2019

Reporting period (from April 1, 2019 to April 30, 2019) Submitted to Director General of Kanto Finance Bureau on May 14, 2019

Reporting period (from May 1, 2019 to May 31, 2019) Submitted to Director General of Kanto Finance Bureau on June 13, 2019

## Chapter 2. Information on the Guarantee Company of the Submitting Company

Not applicable.

## Audit Report and Internal Control Audit Report of Independent Auditor

June 25, 2019

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability
Certified public accountant Eishi Daikoku

(Financial statements audit)

We have audited the consolidated financial statements—balance sheets, statements of income, statements of changes in net assets, statements of cash flows, important matters that become basis of presenting consolidated financial statements, other notes and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2018 to March 31, 2019, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Responsibility of management for consolidated financial statements

Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting consolidated financial statements that do not have material misstatements due to wrong doing or error.

Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the consolidated financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these consolidated financial statements and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of consolidated financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these consolidated financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of consolidated financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of consolidated financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor’s opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsugami Corporation and subsidiaries As of March 31, 2019 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS).

(Internal control audit)
We have audited the internal control report of Tsugami Corporation As of March 31, 2019 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

Responsibility of management for internal control report
Management is responsible for development and operation of internal control, and preparing and appropriately presenting internal control report in accordance with assessing standards generally accepted in Japan concerning internal control over financial reporting.
The internal control over financial reporting might not be able to prevent or detect misstatements in financial reporting completely.

Responsibility of the auditor
This audit corporation is responsible for expressing its opinions on the internal control report from an independent position based on audits it conducted. We conducted our internal control audit in accordance with auditing standards generally accepted in Japan concerning internal control over financial reporting. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in this internal control report and conduct audits based on the audit plan.
In the audits, procedures to obtain audit evidence for the assessment results of internal control over financial reporting in internal control report are conducted. The audit procedures are selected and applied based on a significance of effect on the reliability of financial reports. The audits also include an examination of the presentation of internal control report as a whole, including statements made by management about the scope of the assessment of internal control over financial reporting, assessment procedure, and assessment results. We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor’s opinion
In our opinion, the internal control report in which Tsugami Corporation states that the internal control over financial reporting As of March 31, 2019 is valid presents fairly, in all material respects, the Company’s evaluation of its internal control over financial reporting, in conformity with standards for assessment concerning internal control over financial reporting generally accepted in Japan.

Interest
The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of consolidated financial statements.

Independent Auditor’s Report

June 25, 2019

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability
Certified public accountant Eishi Daikoku

We have audited the financial statements—balance sheets, statements of income, statements of changes in net assets, significant accounting policies, other notes and supplementary schedules—of Tsugami Corporation for the 116th fiscal year from April 1, 2018 to March 31, 2019, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Responsibility of management for financial statements
Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting consolidated financial statements that do not have material misstatements due to wrong doing or error.

Responsibility of the auditor
This audit corporation is responsible for expressing its opinions on the financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these financial statements and conduct audits based on the audit plan.
In the audits, procedures to obtain audit evidence for the amounts and disclosure of financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.
We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor’s opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tsugami Corporation and subsidiaries As of March 31, 2019 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

Interest
The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of financial statements.