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Document submitted	Annual Securities Report ("Yukashoken Hokokusho")
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Destination	Director General of the Kanto Finance Bureau
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Fiscal year	The 118th term (from April 1, 2020 to March 31, 2021)
Corporate name	TSUGAMI CORPORATION
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Place for public inspection	Tokyo Stock Exchange, Inc.
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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	117th term	118th term
Closing month and year	March 2018	March 2019	March 2020	March 2021
Revenue (million yen)	56,794	68,486	49,310	61,662
Profit before tax (million yen)	6,151	10,384	4,259	9,459
Profit attributable to owners of parent (million yen)	3,942	6,192	2,001	4,917
Comprehensive income attributable to owners of parent (million yen)	5,158	4,297	460	8,405
Equity attributable to owners of parent (million yen)	31,591	33,244	32,480	38,229
Total assets (million yen)	66,761	69,692	61,860	79,278
Equity attributable to owners of parent per share (yen)	595.14	641.69	628.14	751.14
Basic earnings per share (yen)	70.62	117.98	38.60	95.21
Diluted earnings per share (yen)	68.01	115.22	37.75	93.08
Percentage of equity attributable to owners of parent (%)	47.3	47.7	52.5	48.2
Return on equity attributable to owners of parent (%)	12.50	19.10	6.10	13.90
Price-earnings ratio (times)	18.95	7.22	19.54	17.47
Cash flows from operating activities (million yen)	6,278	1,643	7,994	6,784
Cash flows from investing activities (million yen)	-633	-1,362	-3,246	1,432
Cash flows from financing activities (million yen)	-478	355	-4,261	-2,781
Cash and cash equivalents at the end of the term (million yen)	10,466	11,112	10,921	17,207
Number of employees (Average number of temporary employees in addition to the above)	2,445 (88)	2,326 (94)	2,223 (95)	2,586 (92)

(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	Japanese GAAP		
	114th term	115th term	116th term
Closing month and year	March 2017	March 2018	March 2019
Net sales (million yen)	41,050	57,576	67,447
Ordinary income (loss) (million yen)	2,848	6,510	10,154
Net income attributable to owners of parent (million yen)	2,630	4,171	6,033
Comprehensive income (million yen)	3,516	5,813	5,768
Net assets (million yen)	31,462	37,516	40,065
Total assets (million yen)	50,127	62,362	64,217
Net assets per share (yen)	510.43	585.58	632.63
Net income (loss) per share (yen)	41.91	74.71	114.94
Net income per share after residual equity adjustment (yen)	40.93	71.97	112.26
Capital adequacy ratio (%)	61.1	49.8	51.0
Earnings on equity (%)	8.44	13.52	18.90
Price-earnings ratio (times)	17.66	17.91	7.41
Cash flows from operating activities (million yen)	5,550	6,832	2,428
Cash flows from investing activities (million yen)	920	-615	-1,286
Cash flows from financing activities (million yen)	-6,353	-1,002	-539
Cash and cash equivalents at the end of the term (million yen)	4,561	10,181	10,778
Number of employees (Japanese GAAP) (Average number of temporary employees in addition to the above)	1,959 (95)	2,419 (88)	2,298 (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 Japanese 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	114th term	115th term	116th term	117th term	118th term
Closing month and year	March 2017	March 2018	March 2019	March 2020	March 2021
Net sales (million yen)	28,601	33,821	38,557	25,937	20,367
Ordinary income (loss) (million yen)	706	1,767	3,491	1,367	1,568
Net income (million yen)	1,253	3,072	3,125	803	3,810
Capital (million yen) (Number of shares issued) (thousand shares)	12,345 (64,919)	12,345 (55,000)	12,345 (55,000)	12,345 (55,000)	12,345 (55,000)
Net assets (million yen)	24,708	21,129	20,066	19,424	20,104
Total assets (million yen)	33,331	36,302	35,787	31,755	35,275
Net assets per share (yen)	400.56	385.68	377.75	364.21	382.78
Dividend per share (Of which, interim dividend per share) (yen)	16.00 (8.00)	18.00 (9.00)	21.00 (9.00)	24.00 (12.00)	26.00 (12.00)
Net income per share (yen)	19.96	55.03	59.54	15.50	73.78
Net income per share after residual equity adjustment (yen)	19.50	53.44	58.15	15.16	72.13
Capital adequacy ratio (%)	72.1	56.4	54.7	59.3	55.2
Earnings on equity (%)	5.03	13.81	15.61	4.18	19.89
Price-earnings ratio (times)	37.07	24.32	14.31	48.66	22.54
Dividend payout ratio (%)	80.1	32.7	35.3	154.9	35.2
Number of employees (Average number of temporary employees in addition to the above)	439 (83)	368 (70)	449 (81)	451 (80)	496 (76)
Total shareholder return (%) (Comparative indicator: TOPIX) (%)	184.8 (112.3)	335.5 (127.4)	221.8 (118.1)	203.7 (104.1)	432.3 (145.0)
Highest share price (yen)	783	1,834	1,486	1,226	1,899
Lowest share price (yen)	385	730	562	620	670

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

2. 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.

3. 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. 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
October 2020	TSUGAMI MACHINAERY CO., LTD. absorbed

3. Businesses

The Group consists of TSUGAMI Corporation (“the Company”) and 12 subsidiaries (of which eleven 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. 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

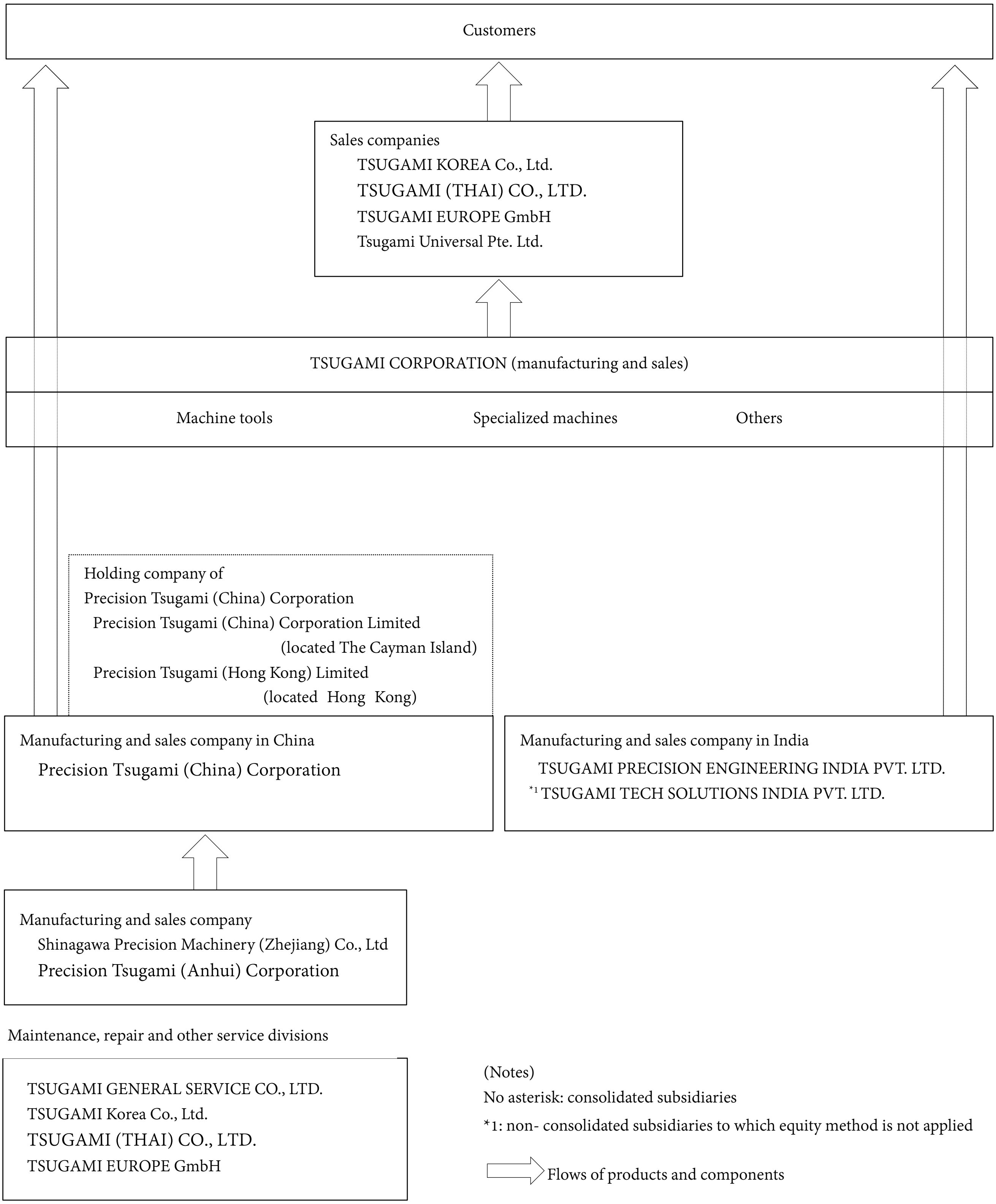
TSUGAMI Korea Co., Ltd. sells products of the Company.

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 subsidiary 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) 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. There are interlocking officers.
Precision Tsugami (China) Corporation Limited (Note 1)	The Cayman Islands	380 million Hong Kong dollar	Holding Company	70.9	Holds all shares in Precision Tsugami (Hong Kong) Limited. 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. 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. There are interlocking officers.
Precision Tsugami (Anhui) Corporation (Note 3)	Anhui, China	150 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. 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. 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. There are interlocking officers.
3 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	¥49,050 million
(2) Profit before tax	¥8,958 million
(3) Profit	¥6,761 million
(4) Total equity	¥26,395 million
(5) Total assets	¥43,826 million

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

5. Employees

(1) Group employees

As of March 31, 2021

Business segment	Number of employees	
Japan	500	(92)
China	1,792	(--)
India	247	(--)
South Korea	23	(--)
Others	24	(--)
Total	2,586	(92)

(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 rose by 300 from the end of the previous fiscal year to 1,792, mainly due to an increase in employees at Precision Tsugami (China) Corporation in the fiscal year under review.

(2) Employees of the submitting company

As of March 31, 2021

Number of employees	Average age	Average service years	Average annual salary (thousand yen)
496 (76)	43.6	19.1	5,766

(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 (24 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 265.

Labor-management relations are good.

Section 2. Business Situation

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

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.

(1) Management Policy

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.

(2) Management environment and priority issues to be addressed

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.

(i) 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.

(ii) Business strategies targeting growth regions

The Group will continue 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.

(iii) 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.

(iv) Enhancement of the corporate governance system

To ensure the fairness, transparency and objectivity of the appointment of officers and compensation for officers, the Company established a Nomination Committee and a Compensation Committee, voluntary committees in which independent outside directors constitute a majority, as advisory bodies to the Board of Directors in January 2021. In this way, the Company will enhance the corporate governance system through the development of the organizational structure.

(v) Strengthening of sustainability management

The Group believes that sustainability is an important management issue. In April 2021, the Group established a Sustainability Committee. In May 2021, the Group signed the ten principles of the United Nations Global Compact in the areas of human rights, labour, environment and anti-corruption, which are advocated by the United Nations. The Group supports the UN Global Compact and complies with its principles and will thereby fulfill its responsibility as a global citizen. The Group will promote initiatives that contribute to achieving a sustainable society through its business and will endeavor to disclose ESG information and other non-financial information.

As part of its initiatives, the Group is continuously reducing CO_2 emissions from its business activities to address climate change and environmental issues.

(Actions to prevent COVID-19)

COVID-19 has caused rapid changes in the world. Some regions have recovered, but in some regions, there remains uncertainty over the future. Under these circumstances, the Group will monitor trends in different countries and regions and follow the policies of governments and local administrative organs. The Group will strive to prevent infections and the spread of infections through proper management to ensure the safety and health of employees and continue business activities.

Through these initiatives, the Group will continue making maximum efforts as a group of companies trusted by our shareholders, customers and all other stakeholders.

2. Business and other risks

Of the matters related to the Business Situation, the Financial Status, and other sections of the Annual Securities Report, major risks that the management considers likely to have a significant effect on the financial situation, operating results, and cash flows of the consolidated companies are as described below.

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.

(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.

(9) Effects of the spread of COVID-19

As COVID-19 spreads worldwide, the Group has been taking steps to prevent infections and has been working to assess the situation of production, sales, inventory, and logistics in the entire Group to reduce any effects on the business. Increases in cases of coronavirus and the prolongation of the pandemic, however, may cause governments to decide on lockdowns or other policies, which in turn may lead to temporary shutdowns of production bases, suspension of sales and services, or weaker demand, and that may affect the Group's production, business performance, and financial situation.

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

(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 fiscal year under review, markets in Japan and overseas continued to be in an adjustment phase amid the impact of COVID-19 and other factors. From the middle of the year onwards, orders received are rallying, reflecting a recovery of demand, primarily in China.

In this situation, the Group worked intensively to expand sales to a wide range of business sectors including automotive parts and information technology. Revenue stood at ¥61,662 million (up 25.0% year on year), operating profit at ¥9,533 million (up 109.5% year on year) and profit attributable to owners of parent at ¥4,917 million (up 145.7% year on year). The Group thus achieved a year-on-year growth in revenue and profit.

Domestic revenue was ¥6,129 million (down 37.4% year on year) and overseas revenue ¥55,532 million (up 40.5% year on year). The ratio of overseas revenue rose by 10.0 percentage points year on year to 90.1%.

(Operating results by business segment)

a. In Japan, revenue decreased 22.6% year on year to ¥20,377 million and segment profit decreased 50.6% year on year to ¥273 million.
b. In China, revenue increased 60.9% year on year to ¥49,184 million and segment profit increased 163.9% year on year to ¥8,585 million.
c. In India, revenue decreased 28.8% year on year to ¥1,797 million yen and segment profit decreased 74.3% year on year to ¥39 million.
d. In South Korea, revenue decreased 36.3% year on year to ¥1,593 million yen and segment profit decreased 72.8% year on year to ¥89 million.
e. Revenue in "Other" decreased 42.0% year on year to ¥420 million yen. A segment loss was recorded at ¥48 million (whereas, for the previous fiscal year, segment profit of ¥28 million was recorded).

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

(Financial position)

Total assets amounted to ¥79,278 million at the end of the fiscal year under review, increasing ¥17,417 million from the end of the previous fiscal year.

This resulted mainly from increases of ¥6,285 million in cash and cash equivalents, of ¥8,169 million in trade and other receivables, of ¥2,431 million in inventories and of ¥2,160 million in property, plant and equipment despite a fall of ¥1,816 million in other financial assets.

Total liabilities amounted to ¥32,441 million at the end of the fiscal year under review, increasing ¥9,654 million yen from the end of the previous fiscal year.

It was chiefly attributable to increases of ¥5,317 million in trade and other payables, ¥712 million in borrowings, ¥1,021 million in income taxes payable and ¥2,140 million in contract liabilities.

Total equity amounted to ¥46,836 million at the end of the fiscal year under review, increasing ¥7,762 million from the end of the previous fiscal year.

This was largely due to increases of ¥5,577 million in retained earnings and of ¥1,521 million in other components of equity. The increase in other components of equity includes an increase of ¥2,014 million in exchange differences on the translation of foreign operations and a decrease of ¥492 million in financial assets measured at fair value through other comprehensive income.

Reflecting the results above, the ratio of equity attributable to owners of parent reached 48.2%, falling 4.3 percentage points from the end of the previous fiscal year.

(ii) Cash flows

Cash and cash equivalents amounted to ¥17,207 million at the end of the fiscal year under review, increasing ¥6,285 million from the end of the previous fiscal year. Changes in cash flows for each activity and the reasons for those changes are as follows.

(Cash flows from operating activities)

Cash generated through operating activities was ¥6,784 million (cash generated of ¥7,994 million in the previous fiscal year).

This is primarily attributable to an increase in cash, including profit before tax of ¥9,459 million, an increase of ¥4,366 million in trade and other payables, an increase of ¥1,964 million in contract liabilities, and depreciation and amortization of ¥1,505 million, as well as a decrease in cash due to an increase of ¥7,046 million in trade and other receivables, income taxes paid of ¥2,273 million and an increase of ¥1,390 million in inventories.

(Cash flows from investing activities)

Cash generated through investing activities was ¥1,432 million (cash used of ¥3,246 million in the previous fiscal year).

The result principally reflected an increase in cash resulting from proceeds from the sale of investment securities of ¥3,888 million despite a decrease in cash due to the purchase of property, plant and equipment of ¥2,311 million.

(Cash flows from financing activities)

Cash used for financing activities was ¥2,781 million (cash used of ¥4,261 in the previous fiscal year).

The cash outflow resulted mainly from ¥1,497 million for the purchase of treasury shares and dividends paid of ¥1,242 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, 2020 to March 31, 2021) (Million yen)	Year on year (%)
Japan	17,699	75.9
China	25,886	138.9
India	1,870	79.9
South Korea	--	--
Others	--	--
Total	45,457	102.6

(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, 2020 to March 31, 2021) (Million yen)	Year on year (%)
Japan	14,798	70.8
China	43,172	188.6
India	1,797	72.2
South Korea	1,558	63.7
Others	334	57.2
Total	61,662	125.0

(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) Recognition, analysis, and consideration of financial position and operating results

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

(Revenue)

Net sales for the fiscal year under review increased 25.0% year on year, to ¥61,662 million.

By geographic region, revenue in Japan decreased 37.4% year on year, to ¥6,129 million. Overseas revenue increased 40.5% year on year, to ¥55,532 million. The ratio of overseas revenue stood at 90.1%.

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

(Million yen)

	China	Asia	America	Europe	Total
I Overseas revenue	42,393	8,323	3,357	1,459	55,532
II Consolidated revenue					61,662
III Ratio of overseas revenue to consolidated revenue (%)	68.8	13.5	5.4	2.4	90.1

(Note) 1. National or regional classifications are based on geographic proximity.
2. Major countries or regions in each classification
(1) Asia India, South Korea, Thailand, Singapore and the Philippines
(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 109.5% year on year, to ¥9,533 million. This was mainly due to higher sales.

(Profit attributable to owners of parent)

Profit attributable to owners of the parent rose 145.7% year on year, to ¥4,917 million. As with operating profit, this was mainly due to 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."

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. Analysis and consideration of cash flows and information on 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."

(ii) Significant accounting policies and significant accounting estimates, and assumptions for significant accounting estimates

The Group's consolidated financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS). Individual significant accounting policies and significant accounting estimates and how to assess the impact of COVID-19 are described in Section 5. Financial Status, 1. Consolidated Financial Statements, etc., (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 3. Significant accounting policies and 4. Significant accounting estimates and decisions with estimates.

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.
The Group is also developing power-saving, high-efficiency, environmentally friendly products to reduce CO_2 emissions for sustainability.
Total R&D expenses in the entire Group in the consolidated fiscal year under review were ¥1,777 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 BM162, SS207-II and C300-V CNC precision automatic lathe and the VL4 High speed vertical machining center.

Section 3. Facilities

1. Overview of capital investment

Capital expenditures of the Group were ¥2,456 million (including some right-of-use assets).
Capital expenditures by business segment are as follows:
Capital expenditures in Japan were ¥248 million, which was allocated primarily to the construction of a new operating system.
Capital expenditures in China were ¥1,925 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 ¥281 million, which was allocated primarily to facilities at TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED, a subsidiary.
Capital expenditures in South Korea were ¥1 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, 2021

Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
			Buildings	Machinery and equipment	Land (m^2)	Other	Right-of-use assets	Total	
Nagaoka factory (Nagaoka-shi, Niigata)	Japan	Equipment for producing machine tools	1,695	196	246 (69,650)	152	237	2,528	496 (76)

(2) Overseas subsidiary

As of March 31, 2021

Corporate name	Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
				Buildings	Machinery and equipment	Land (m^2)	Other	Right-of-use assets	Total	
Precision Tsugami (China) Corporation	China factory (Zhejiang, China)	China	Equipment for producing machine tools	2,506	1,656	--	96	540	4,799	1,710 (--)
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	China factory (Zhejiang, China)	China	Equipment for producing machine tools	277	103	--	14	49	444	82 (--)
Precision Tsugami (Anhui) Corporation	China factory (Anhui, China)	China	Equipment for producing machine tools	2,814	129	--	25	169	3,138	-- (--)
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	India factory (Dt. Tamil Nadu, India)	India	Equipment for producing machine tools	290	127	--	34	265	717	247 (--)

(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
Precision Tsugami (Anhui) Corporation	Anhui, China	China	Buildings, machinery and equipment	4,100	3,763	Self-financing	May 2018	December 2021
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	Dt. Tamil Nadu, India	India	Buildings, machinery and equipment	2,434	718	Self-financing	January 2019	October 2021

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, 2021)	Number of shares issued on the date of the submission of the report (June 16, 2021)	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, 2021 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 Statutory auditors 4 Titled executive officers 7	The Company's directors 4 Statutory auditors 4
Number of share acquisition rights (Note 1)	35	22
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 35,000	Common stock 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 Amount per share to be credited to capital: 1	Issue price: 609 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 Statutory auditors 4	The Company's directors 7 Statutory auditors 4
Number of share acquisition rights (Note 1)	29	20
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 29,000	Common stock 20,000
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 Amount per share to be credited to capital: 257	Issue price: 280 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 Statutory auditors 4
Number of share acquisition rights (Note 1)	45
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 45,000
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 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 Statutory auditors 4	Titled executive officers and employees with similar positions 20
Number of share acquisition rights (Note 1)	25	3
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 25,000	Common stock 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 Amount per share to be credited to capital: 267	Issue price: 533 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 Statutory auditors 4	Titled executive officers and employees with similar positions 14
Number of share acquisition rights (Note 1)	51	16
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 51,000	Common stock 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 Amount per share to be credited to capital: 205	Issue price: 409 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 Statutory auditors 4	Titled executive officers and employees with similar positions 19
Number of share acquisition rights (Note 1)	55	10
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 55,000	Common stock 10,000
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 Amount per share to be credited to capital: 230	Issue price: 460 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 Statutory auditors 4	Titled executive officers and employees with similar positions 23
Number of share acquisition rights (Note 1)	61	29 [25]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 61,000	Common stock 29,000 [25,000]
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 Amount per share to be credited to capital: 223	Issue price: 446 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	June 20, 2014
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Titled executive officers and employees with similar positions 19
Number of share acquisition rights (Note 1)	61	32 [29]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 61,000	Common stock 32,000 [29,000]
Amount to be paid for the exercise of share acquisition rights (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 8, 2014 to July 7, 2034	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 Amount per share to be credited to capital: 227	Issue price: 453 Amount per share to be credited to capital: 227
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 Statutory auditors 5	Titled executive officers and employees with similar positions 25
Number of share acquisition rights (Note 1)	44	41 [38]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 44,000	Common stock 41,000 [38,000]
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 Amount per share to be credited to capital: 264	Issue price: 527 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 Statutory auditors 5	Titled executive officers and employees with similar positions 24
Number of share acquisition rights (Note 1)	60	75 [72]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 60,000	Common stock 75,000 [72,000]
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 Amount per share to be credited to capital: 137	Issue price: 273 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 Statutory auditors 5	Titled executive officers and employees with similar positions 25
Number of share acquisition rights (Note 1)	38	57 [51]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 38,000	Common stock 57,000 [51,000]
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 Amount per share to be credited to capital: 354	Issue price: 707 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	430	680 [630]
Type, number and content of shares underlying share acquisition rights	Common stock 43,000	Common stock 68,000 [63,000]
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 Amount per share to be credited to capital: 386	Issue price: 772 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 19, 2019
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	810 [710]
Type, number and content of shares underlying share acquisition rights	Common stock 56,000	Common stock 81,000 [71,000]
Amount to be paid for the exercise of share acquisition rights (yen)	1	1
Exercise period	From July 6, 2019 to July 5, 2039	From July 6, 2019 to July 5, 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: 753 Amount per share to be credited to capital: 377	Issue price: 753 Amount per share to be credited to capital: 377
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 17, 2020	June 17, 2020
Positions and numbers of officers to receive stock options	The Company's directors 5	Titled executive officers and employees with similar positions 24
Number of share acquisition rights	440	800 [720]
Type, number and content of shares underlying share acquisition rights	Common stock 44,000	Common stock 80,000 [72,000]
Amount to be paid for the exercise of share acquisition rights (yen)	1	1
Exercise period	From July 7, 2020 to July 6, 2040	From July 7, 2020 to July 6, 2040
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: 709 Amount per share to be credited to capital: 355	Issue price: 709 Amount per share to be credited to capital: 355
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, 2021) 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, 2021), 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, 2021

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	--	40	80	136	160	14	8,155	8,585	--
Number of shares held (unit)	--	170,210	9,445	36,776	185,377	199	147,237	549,244	75,600
Holdings (%)	--	31.0	1.7	6.7	33.8	0.0	26.8	100.0	--

(Note) 1. Treasury shares (4,105,615 shares) includes 41,056 units in the individuals and others category and 15 fractional shares.

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

(6) Major shareholders

As of March 31, 2021

Name	Address	Number of shares held (thousand shares)	Ratio of holdings to the number of shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	3,907	7.67
THE BANK OF NEW YORK MELLON 140051 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A.	2,579	5.06
Daishi Hokuetsu Bank, Ltd.	1071-1, Higashiborimae-dori,7-bancho, Chuo-ku, Niigata	2,184	4.29
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	1-13-1, Yurakucho, Chiyoda-ku, Tokyo	2,100	4.12
THE BANK OF NEW YORK 133652 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	RUE MONTOYERSTRAAT 46, 1000 BRUSSELS, BELGIUM	1,897	3.72
Custody Bank of Japan, Ltd. (Trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	1,894	3.72
JP MORGAN CHASE BANK 385151 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	1,875	3.68
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	1,516	2.97
Tsugami Customers' Shareholding Association	1-1-1, Higashi-Zao, Nagaoka-shi, Niigata	1,063	2.08
Daikin Industries, Ltd.	Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka	717	1.40
Total	--	19,735	38.77

(Note)
1. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.
2. The Hokuetsu Bank, Ltd. was merged with The Daishi Bank, Ltd. on January 1, 2021, and the business name has changed to Daishi Hokuetsu Bank, Ltd.
3. All shares held by Custody Bank of Japan, Ltd. relate to the trust service.
4. The Company received a report from Baillie Gifford & Company Limited in its change report of the statement of large-value holdings submitted on December 4, 2020 that the company holds shares as described below as of November 30, 2020. 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 March 31, 2021.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
Baillie Gifford & Co	Calton Square 1 Greenside Row Edinburgh EH1 3AN Scotland	Shares 4,219,600	7.67
Baillie Gifford Overseas Limited	Calton Square 1 Greenside Row Edinburgh EH1 3AN Scotland	Shares 502,900	0.91

5. The Company received a report from Mitsubishi UFJ Financial Group, Inc. in its change report of the statement of large-value holdings submitted on January 8, 2021 that the company holds shares as described below as of December 28, 2020. 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 t March 31, 2021.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
MUFG Bank, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	Shares 530,257	0.96
Mitsubishi UFJ Trust and Banking Corporation	1-4-5, Marunouchi, Chiyoda-ku, Tokyo	Shares 1,320,000	2.40
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1, Yurakucho, Chiyoda-ku, Tokyo	Shares 662,600	1.20

6. The Company received a report from Sumitomo Mitsui DS Asset Management Company, Limited in its change report of the statement of large-value holdings submitted on February 5, 2021 that the company holds shares as described below as of January 29, 2021. 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 March 31, 2021.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
Sumitomo Mitsui DS Asset Management Company, Limited	Toranomon Hills Business Tower 26F, 1-17-1 Toranomon, Minato-ku, Tokyo	Shares 1,930,700	3.51

7. The Company received a report from Asset Management One Co., Ltd. in its change report of the statement of large-value holdings submitted on February 22, 2021 that the company holds shares as described below as of February 15, 2021. 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 March 31, 2021.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo	Shares 3,211,800	5.84
Asset Management One International Ltd.	Mizuho House, 30 Old Bailey, London, EC4M 7AU, UK	Shares 210,000	0.38

(7) Voting rights

(i) Shares issued

As of March 31, 2021

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 4,105,600	--	--
Shares with complete voting rights (other shares)	Common stock 50,818,800	508,188	--
Fractional shares	Common stock 75,600	--	--
Total number of shares issued	55,000,000	--	--
Number of voting rights of all shareholders	--	508,188	--

(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, 2021

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	4,105,600	--	4,105,600	7.5
Total	--	4,105,600	--	4,105,600	7.5

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 November 12, 2019 (Acquisition period: from November 12, 2019 to May 13, 2020)	1,000,000	1,000,000,000
Treasury shares acquired before the fiscal year under review	177,100	123,209,100
Treasury shares acquired in the fiscal year under review	--	--
Number and total value of remaining Treasury shares	822,900	876,790,900
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	82.3	87.7
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 (%)	82.3	87.7

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on May 27, 2020 (Acquisition period: from May 27, 2020 to November 11, 2020)	1,000,000	1,000,000,000
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	1,000,000,000
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	100.0	100.0
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 (%)	100.0	100.0

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on November 12, 2020 (Acquisition period: from November 12, 2020 to May 12, 2021)	1,000,000	1,550,000,000
Treasury shares acquired before the fiscal year under review	--	--
Treasury shares acquired in the fiscal year under review	944,800	1,495,033,300
Number and total value of remaining Treasury shares	55,200	54,966,700
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	5.5	3.5
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 (%)	5.5	3.5

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on April 20, 2021 (Acquisition period: from April 20, 2021 to October 21, 2021)	1,000,000	1,850,000,000
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	1,850,000,000
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	100.0	100.0
Treasury shares acquired in the current fiscal year	899,300	1,446,737,900
Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%)	10.1	21.8

(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	533	756,988
Treasury shares acquired in the current fiscal year	46	81,174

(Note) The Treasury shares acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2021 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, stock issuance, and company splits	--	--	--	--
Other (Note 1,2)	131,200	119,260,800	40,300	42,879,200
Treasury shares held (Note 3)	4,105,615	--	4,964,661	--

(Note) 1. Exercise of share acquisition rights (131,200 shares, disposal of ¥119,260,800) in the fiscal year under review. Exercise of share acquisition rights (40,300 shares, disposal of ¥42,879,200) 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, 2021 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, 2021 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, 2021, the Company has decided to pay annual dividends of 26 yen per share including interim dividends of 12 yen per share and a year-end dividends of 14 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, 2022 the Company plans to pay annual dividends of 28 yen per share, including interim dividends of 14 yen per share and year-end dividends of 14 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, 2021

Resolution	Total amount of dividend (Million yen)	Dividend per share (yen)
Resolution of Board of Directors on November 12, 2020	622	12.00
Resolution of Board of Directors on May 13, 2021	712	14.00

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 five audit and supervisory committee members including four outside directors (four independent directors) who are the audit and supervisory committee members audit the execution of duties of directors (the members of the audit and supervisory committee are the five directors who are audit and supervisory committee members listed in (2) Officers, (i) Executive list; the chairperson is Tomoko Takahashi, the standing member of the audit and supervisory committee).

The number of directors (excluding directors who are the audit and supervisory committee members) is five consisting of three inside directors and two outside directors (the members of the Board of Directors are the 10 directors listed in (2) Officers, (i) Executive list; the chairperson is Representative Director, Chairman and CEO Takao Nishijima).

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 established the Nomination Committee and Compensation Committee, voluntary committees, as advisory bodies to the Board of Directors and ensures the transparency and objectivity of the process for evaluating and determining the nomination and compensation, etc. of Directors and Executive Officers. Each committee is made up of three or more Directors elected by the Board of Directors and a majority of the members are independent Outside Directors.

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. By establishing the Nomination Committee and the Compensation Committee as advisory bodies to the Board of Directors, the Company ensures the fairness, transparency and objectivity of the nomination and compensation of Directors because matters referred by the Board of Directors are deliberated at these committee, details of deliberations are reported to the Board of Directors, and the Board of Directors passes resolutions based on the content of these reports.

c. 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 members 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 members 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 members.

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 amount of liability for damages under the contracts is the minimum amount of liability specified by laws and ordinances.

b. Outline of a directors' and officers' liability insurance contract in which directors and officers are the insured persons

The Company has entered into a directors' and officers' liability insurance contract with an insurance company as stipulated in Article 430-3, paragraph 1 of the Companies Act. Directors (including persons who were in office during the fiscal year under review) of the Company are the insured persons under the contract. The insurance premiums are borne in full by the Company. Under the insurance contract, the insurance company agrees to indemnify any damage that may arise when directors or officers, who are the insured persons, assume liability for the execution of their duties or receive a claim related to the pursuit of such liability. The contract is renewed each year. The insurance contract states that insurance shall not be paid in cases where the Company takes action pursuing liability for compensation of damages against directors or officers and stipulates provisions to the effect that the scope of damages to be compensated shall be limited, for the purpose of guaranteeing the appropriateness of the directors’ and officers’ execution of duties. The Company also plans to renew the contract with the same content at next renewal.

c. 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.

d. 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.

e. 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.

f. 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: 8 Female: 2 (The ratio of female among the officers: 20%)

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 Jun. 2000 Apr. 2003 Apr. 2012 Jun. 2019	General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd. Director and General Manager of the Sales Representative Director, Chairman and CEO Representative Director, Chairman and CEO Representative Director, Chairman and CEO (current position)	(Note 3)	10
Representative Director (CFO)	Ichiro Muromoto	May 7, 1958	Apr. 1982 Jun. 2009 Jun. 2013 Jun. 2015 Feb. 2021 Jun. 2021	Joined Hokuetsu Bank, Ltd. (now Daishi Hokuetsu Bank, Ltd.) General Manager of the General Planning Department of Hokuetsu Bank, Ltd. (now Daishi Hokuetsu Bank, Ltd.) General Manager of the Personnel Department of Hokuetsu Bank, Ltd. (now Daishi Hokuetsu Bank, Ltd.) Managing Director of Hokuetsu Bank, Ltd. (now Daishi Hokuetsu Bank, Ltd.) Full-time advisor and assistant general manager of the administrative operations of the Company Representative Director, CFO (current position)	(Note 3)	--
Director and Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION	Donglei TANG	November 27, 1962	Nov. 2005 Jun. 2010 Feb. 2017 Jun. 2018	Joined the Company Director, Managing Executive Officer in charge of China Operations of the Company Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION Director of Precision Tsugami (Hong Kong) Limited Executive director of Precision Tsugami (China) Corporation Limited (current position) Director of the Company (current position)	(Note 3)	--
Director	Ken Kubo	November 20, 1953	Apr. 1977 Nov. 2009 Apr. 2013 Jun. 2013 Jun. 2015 Apr. 2019 Jun. 2020	Joined the Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corporation) President and CEO of Promise Co. Ltd. (now SMBC Consumer Finance Co., Ltd.) Deputy President and Executive Officer of Sumitomo Mitsui Financial Group, Inc. Deputy President and Executive Officer of Representative Director of Mitsui Sumitomo Financial Group President and CEO of Sumitomo Mitsui Card Co., Ltd. Special Advisor of Sumitomo Mitsui Card Co., Ltd. (current position) Outside Director of the Company (current position)	(Note 3)	--

Title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Director	Koichi Maruno	July 29, 1956	Apr. 1980 Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited) Mar. 2015 Outside auditor of SHIZUOKA GAS Co., Ltd. (current position) Oct. 2016 Senior Managing Executive Officer of Daiichi Life Holdings, Inc. Oct. 2016 Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited Apr. 2017 Representative Director, President of The Dai-ichi Life Research Institute INC (current position) Jun. 2018 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company Jun. 2020 Outside Director of the Company (current position)	(Note 3)	--
Director (Members of the Audit and Supervisory Committee)	Tomoko Takahashi	March 9, 1956	Mar. 1974 Joined the Company Jun. 2013 Executive Officer and General Manager of the Administration Division of the Company Apr. 2014 Senior Executive Officer and General Manager of the Administration Division of the Company Apr. 2017 Senior Executive Officer, head of the Personnel Affairs Division and head of the Secretary Office of the Company Jun. 2018 CHO, head of the Personnel Affairs Division and and head of the Secretary Office of the Company Jun. 2021 Director (who is a member of the Audit and Supervisory Committee) of the Company (current position)	(Note 5)	5
Director (Members of the Audit and Supervisory Committee)	Yoshimi Takeuchi	August 21, 1948	Jan. 1978 Assistant Professor at Kyushu Institute of Technology Jan. 1988 Professor at the University of Electro-Communications Jun. 2002 Professor at the Graduate School of Engineering Science, Osaka University Sep. 2011 Professor at the College of Engineering, Chubu University Honorary Professor at Osaka University (current positions) Apr. 2017 Vice-President of Chubu University Apr. 2019 Advisor to the Chancellor and Professor at Chubu University Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position) Apr. 2021 President of Chubu University (current position)	(Note 4)	--

Title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Director (Members of the Audit and Supervisory Committee)	Kenyu Adachi	July 27, 1952	Apr. 1977 Joined the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry (METI)) Jul. 2007 Director-General of Trade and Economic Cooperation Bureau, METI Jul. 2008 Director-General of Minister's Secretariat, METI Jul. 2010 Director-General of Economic and Industrial Policy Bureau, METI Aug. 2011 Vice-Minister of Economy, Trade and Industry Jun. 2014 Outside Director of Asahi Kasei Corporation Outside Director of Toyo Engineering Corporation Jun. 2016 President of the Shoko Chukin Bank, Ltd. Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)	Kunio Shimada	August 16, 1959	Apr. 1986 Registered as an attorney in Tokyo Oct. 1991 Registered as an attorney in New York State Jul. 2010 Representative partner at Shimada Hamba & Osajima (current position) Jun. 2011 Outside Director of the Company Nov. 2013 Supervisory Officer of Hulic Reit, Inc. (current position) Jun. 2018 Outside Director (who is a Member of the Audit And Supervisory Committee) of the Company (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)	Michiyo Yamamiya	July 26, 1969	Apr. 1998 Registered as an attorney in Tokyo Sep. 2005 Registered as an attorney in New York State Jul. 2010 Joined Tanabe & Partners Jan. 2011 Partner at Tanabe & Partners (current position) Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--
Total					15

(Note) 1. Directors Ken Kubo and Koichi Maruno are outside directors.

2. Directors who are members of the audit and supervisory committee Yoshimi Takeuchi, Kenyu Adachi, Kunio Shimada and Michiyo Yamamiya are outside directors.
3. One year from the closing of the annual shareholders meeting held on June 16, 2021
4. Two years from the closing of the annual shareholders meeting held on June 17, 2020
5. Two years from the closing of the annual shareholders meeting held on June 16, 2021

(ii) Outside officers

The Company has six outside directors.

Outside Director Ken Kubo was a director of Sumitomo Mitsui Financial Group until April 2015. Sumitomo Mitsui Banking Corporation, a company in 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 Koichi Maruno is Representative Director, President of The Dai-ichi Life Research Institute INC. The Company has trading relationships, including insurance contracts, with The Dai-ichi Life Insurance Company, Limited in the Dai-ichi Life Group. The amount of trading is within a normal range. The Company has 38,000 shares in Dai-ichi Life Holdings, Inc. The Dai-ichi Life Insurance Company, Limited has 2,100,000 shares in the Company.

Outside Director Yoshimi Takeuchi is a President of Chubu University. The Company and Mr. Takeuchi or Chubu University do not have any stake in each other or any trading relationships. He is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Kenyu Adachi and the Company do not have any stake in each other or any trading relationships. Mr. Adachi is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Kunio Shimada is a representative partner at Shimada Hamba & Osajima. The Company and Mr. Shimada or Shimada Hamba & Osajima do not have any stake in each other or any trading relationships. He is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Michiyo Yamamiya is a partner at Tanabe & Partners. The Company and Ms. Yamamiya or Tanabe & Partners do not have any stake in each other or any trading relationships. She 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.

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 to execute their duties as outside directors independently of the Company's management 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. At the 117th annual shareholders meeting held on June 17, 2020, the Company decided to increase the number of independent outside directors by one to strengthen the audit system, and the number of directors who are members of the Audit & Supervisory Committee has become five including four independent outside directors.

In the fiscal year under review (from April 1, 2020 to March 31, 2021), the Company held five Audit & Supervisory Committee meetings. A member was absent at one meeting. All members were present at the other meetings.

The Audit & Supervisory Committee audits the execution of the duties of the directors based on the audit standards set by the Audit & Supervisory Committee and checks and examines the audit reports of the accounting auditor and the internal audit division about year-end audits of business reports and financial statements and proposals to the shareholders meeting, among other documents.In addition to regular audit and supervisory committee meetings, the audit and supervisory committee meets with accounting auditors regularly and exchanges opinions with them.

The standing member of the audit and supervisory committee attends important meetings, including corporate management meetings, exchanges opinions with the representative directors, interviews the directors, executive officers and other employees regarding the status of their execution of operations and exchanges information with the internal audit division and the accounting auditor to supervise the execution of the duties of the directors and regularly report their activities to the audit and supervisory committee.

(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. Continuous audit period
Eleven years

c. Certified public accountants who executed operations
Operating Partners Kazunari Tsukada, Shinichi Oshima

d. Composition of assistants of audit operations
13 certified public accountants and 23 other members

e. 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.

f. 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

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	53	2	57	--
Consolidated subsidiaries	--	--	--	--
Total	53	2	57	--

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 the previous fiscal year.

b. Compensation for the network (Ernst & Young (EY)) of auditing certified public accountants (excluding compensation described in a. above)

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	--	3	--	4
Consolidated subsidiaries	44	--	37	--
Total	44	3	37	4

The content of the non-audit work in the Company is documentation of transfer pricing taxation for both the previous fiscal year and the fiscal year under review.

c. Compensation for other significant audit certification work

Not applicable.

d. Policy for determining audit fees

Not applicable.

e. 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

At a meeting held on February 19, 2021, the Company's Board of Directors resolved a policy for determining details of the compensation, etc. of individual Directors. The resolution by the Board of Directors was made on the basis of a report by the Compensation Committee, which was consulted in advance about the details of the resolution. The Board of Directors confirmed with respect to the compensation, etc. of individual Directors for the fiscal year under review that the method of determining the details of compensation, etc. and the details of the determined compensation, etc. is consistent with the determination policy and that the reports of the Nomination and Compensation Committees have been respected and judged that the determination policy had been adhered to.

At the 118th annual shareholders meeting held on June 16, 2021, the Company resolved to introduce a restricted stock compensation plan for directors (excluding directors who are members of the Audit & Supervisory Committee and outside directors) to promote greater sharing between the directors and shareholders of the advantages and risks of stock price changes and to further raise directors' motivation to contribute to raising the stock price and corporate value. With the introduction of the restricted stock compensation plan, stock options as compensation were abolished except for those that were already granted. Along with this, at a meeting held on June 16, 2021, the Board of Directors revised a policy for determining details of the compensation, etc. of individual directors, incorporating the aforementioned shareholders meeting's resolution, and resolved the revised policy.

Details of the policy for determining details of compensation, etc. of individual Directors are as follows.

a. Basic policy

- In accordance with its basic policy for corporate governance, the Company adopts a compensation structure that aligns the values of Directors with those of shareholders to ensure that compensation effectively incentivizes Directors to strive for sustainable improvement in corporate value and, when determining compensation amounts for individual Directors, the Company sets these at an appropriate level in light of the responsibilities of each Director.
- Compensation is determined following deliberation at the Compensation Committee where a majority of members are independent Outside Directors, in order to ensure objectivity and transparency.
- Compensation must be within the overall compensation limited fixed by resolution of the General Meeting of Shareholders.

b. Structure of compensation

- Compensation of Executive Directors consists of basic compensation, performance-linked compensation and non-monetary compensation. The proportions of each type of compensation are deliberated at the Compensation Committee, giving consideration to factors such as trends at other companies of a similar size and also taking individual circumstances such as rank and responsibilities into account. The Board of Directors (Representative Director and CEO under authority delegated by the Board as described later) determines the proportions of the different types of compensation and details of compensation for each Director, giving due respect to the report of the Compensation Committee. In terms of monetary compensation, the Company pays basic compensation according to individual circumstances such as rank and responsibilities as base pay, and since Directors are responsible for business execution, the Company makes them aware of their responsibility for business execution and incentivizes them to improve business performance by paying a portion as performance-linked compensation. The compensation structure also includes non-monetary compensation in the form of stock compensation for greater alignment of the values of Directors with those of shareholders, thereby encouraging Directors to think about enhancement of corporate value in the medium and long term.
- Outside Directors and Directors who are Audit & Supervisory Committee members are paid basic compensation only, in light of their role in the supervisory function.

c. Basic salary (monetary compensation)

- Basic compensation is a fixed monthly salary determined based on comprehensive consideration of a range of factors including rank and responsibilities, whether the Director is an Outside Director and is full-time or part-time, and the Company's business performance.

d. Performance-linked compensation

- Performance-linked compensation is monetary compensation that reflects performance indicators to motivate Directors to improve performance, and it is paid as monthly compensation. Performance indicators and their target levels are set and reviewed as appropriate according to changes in the environment to ensure that they are consistent with evaluations of the level of achievement of business performance forecasts (consolidated revenue, consolidated operating profit, etc.) and the performance of the business for which each Director is responsible.

e. Non-monetary compensation

・The Company pays non-monetary compensation in the form of restricted stock compensation as part of medium-to-long-term performance-linked compensation. The Company provides monetary compensation claims within the range of annual amounts set by resolution of a shareholders meeting, and each eligible director pays in the entire monetary compensation claim as an in-kind contribution to the Company and receives the allocated restricted stock. Restricted shares are allocated at a fixed time every year in comprehensive consideration of roles, responsibilities, the Company's results, among other factors. Restrictions on transfer of shares are lifted at the time of retirement. With the introduction of a restricted stock compensation plan resolved at the 118th shareholders meeting held on June 16, 2021, stock compensation-type stock options were abolished except for those that were already granted.

f. Procedure for determining details of compensation, etc. of each Director

・Upon determination of the details of compensation, etc. of Directors (excluding those who are Audit &Supervisory Committee members), the Compensation Committee is consulted by the Board of Directors and holds deliberations and issues a report based on the policy and standards outlined above.

・The details of compensation, etc. of individual Directors (excluding those who are Audit & Supervisory Committee members) are determined by the Representative Director and CEO under authority delegated by resolution of the Board of Directors, giving due respect to the report of the Compensation Committee. However, the allocation of restricted shares to be granted to each eligible director is resolved by the Board of Directors, giving due respect of the Compensation Committee.

・Details of compensation, etc. of individual Directors who are Audit & Supervisory Committee members are discussed and determined at the Audit & Supervisory Committee with the unanimous consent of all of the Audit & Supervisory Committee members, giving due respect to the report of the Compensation Committee.

(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	Performance-linked compensation	Non-monetary compensation, etc.	
Director (excluding members of the audit and supervisory committee and Outside Director)	142	91	19	31	6
Director (members of the audit and supervisory committee) (excluding Outside Director)	18	18	--	--	1
Outside officer	51	51	--	--	10

(Note) 1. The above includes a director (excluding those who are Audit & Supervisory Committee members and outside directors) and four outside officers who retired as of the closing of the 117th annual shareholders meeting held on June 17, 2020. An outside officer retired as a member of the Audit & Supervisory Committee and was appointed as an outside director (who is not a member of the Audit & Supervisory Committee). Compensation to the outside officer as a member of the Audit & Supervisory Committee and as an outside director is included.

2. Performance indicators for performance-linked compensation, etc. and their target levels are set and reviewed as appropriate according to changes in the environment to ensure that they are consistent with evaluations of the level of achievement of business performance forecasts (consolidated revenue, consolidated operating profit, etc.) and the performance of the business for which each Director is responsible.

3. Non-monetary compensation, etc. consists of stock compensation-type stock options. The Company determines the number of subscription rights to shares of the Company to be granted based on comprehensive consideration of a range of factors including rank, responsibilities and the Company's performance and adopts a system whereby the subscription rights can then be exercised upon retirement.

4. It was resolved at the 115th Annual Shareholders Meeting held on June 20, 2018 that the amount of monetary compensation for Directors (excluding those who are Audit & Supervisory Committee members) should be no more than ¥250 million per year. The number of Directors (excluding those who are Audit & Supervisory Committee members) at the closing of the 115th Annual Shareholders Meeting was seven (including two Outside Directors). It was also resolved at the 115th Annual Shareholders Meeting held on June 20, 2018 that, separate from this monetary compensation, the amount of compensation, etc. related to subscription rights to shares to be allocated as stock compensation-type stock options should be no more than ¥80 million per year (excluding Outside Directors). The number of Directors (excluding those who are Audit & Supervisory

Committee members as well as Outside Directors) at the closing of the 115th Annual Shareholders Meeting was five.

At the 118th annual shareholders meeting held on June 16, 2021, the Company resolved to introduce a restricted stock compensation plan for directors (excluding those who are members of the Audit & Supervisory Committee and outside directors) set the total annual amount of monetary compensation claims provided as compensation, etc. related to restricted shares provided to the eligible directors, which are separate from the monetary compensation to the directors (excluding those who are members of the Audit & Supervisory Committee) mentioned above, at no more than ¥80 million. With the introduction of the restricted stock compensation plan, stock options as compensation were abolished except for those that were already granted.

5. It was resolved at the 115th Annual Shareholders Meeting held on June 20, 2018 that the amount of monetary compensation for Directors who are Audit & Supervisory Committee members should be no more than ¥80 million per year. The number of Directors serving as Audit & Supervisory Committee members at the closing of the 115th Annual Shareholders Meeting was four.
6. The Board of Directors delegates authority to determine the details of compensation, etc. (including amounts of basic compensation and performance-linked compensation) of individual Directors (excluding those who are Audit & Supervisory Committee members) to Takao Nishijima, Representative Director and CEO. The Board of Directors delegated authority based on the judgment that the Representative Director and CEO is the right person to evaluate the performance of the business unit each Director is responsible for whilst taking into consideration the performance of the Company as a whole and other pertinent factors. At a meeting held on January 22, 2021, the Company's Board of Directors resolved to establish voluntary Nomination and Compensation Committees where the majority of members are independent Outside Directors. Upon determination of the details of compensation, etc. of Directors described above, the details are first deliberated at the Compensation Committee and then determined by the Representative Director and CEO, under authority delegated by the Board of Directors, giving due respect to the report of the Compensation Committee.

(5) Share holding

(i) Standards and concepts of categories of stocks held

The Company categorizes the stocks that it holds into the stocks held for the purpose of pure investment, which are held solely for the purpose of receiving benefits from fluctuations in the value of stocks and dividends from stocks, and the stocks held for purposes other than pure investment.

(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 invest in stocks 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 for the Company. The Company comprehensively examines the significance, benefits, risks, and other aspects of the economic rationality of cross-shareholding for each stock held by the Company, taking into consideration capital cost, among other factors, every year at the corporate management meeting consisting of major executive officers. It also conducts reviews at meetings of the Board of Directors as needed. If the Company determines that the significance and rationality of holding stocks is lacking, it will sell shares of the stocks, considering market trends.

b. Number of stocks and balance sheet amount

	Number of stocks (stocks)	Balance sheet amount (million yen)
Non-listed stocks	4	0
Stocks other than non-listed stocks	12	4,092

(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	1	0
Stocks other than non-listed stocks	1	3,887

c. 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 Number of shares Balance sheet amount (million yen)	At end of the previous fiscal year Number of shares Balance sheet amount (million yen)	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
Tokyo Seimitsu Co., Ltd.	-- --	1,033,000 3,181	To maintain and strengthen the business relationship and facilitate business activities	No
FANUC CORPORATION	50,000 1,309	50,000 732	To maintain and strengthen the business relationship and facilitate business activities	Yes
YAMAZEN CORPORATION	500,000 521	500,000 450	To maintain and strengthen the business relationship and promote sales activities	Yes
DAIKIN INDUSTRIES, LTD	46,700 1,042	46,700 615	To maintain and strengthen the business relationship and facilitate business activities	Yes
YUASA TRADING CO., LTD.	100,000 312	100,000 285	To maintain and strengthen the business relationship and promote sales activities	Yes
THK CO., LTD.	59,000 225	59,000 130	To maintain and strengthen the business relationship and facilitate business activities	Yes
MinebeaMitsumi Inc.	100,000 282	100,000 161	To maintain and strengthen the business relationship and facilitate business activities	Yes
Daishi Hokuetsu Financial Group, Inc.	51,984 135	51,455 121	To facilitate financing activities by acquiring shares in this financial institution Acquiring shares by cumulative stock investment	Yes
The Hachijuni Bank, Ltd.	196,000 78	196,000 76	To facilitate financing activities by acquiring shares in this financial institution	Yes
Mitsubishi UFJ Financial Group, Inc.	134,800 79	134,800 54	To facilitate financing activities by acquiring shares in this financial institution	Yes
Dai-ichi Life Holdings, Inc.	38,700 73	38,700 50	To maintain and strengthen the business relationship and facilitate business activities	Yes
Teikoku Tsushin Kogyo Co., Ltd.	16,000 17	16,000 18	To maintain and strengthen the business relationship and facilitate business activities	Yes
TOMITA CO., LTD.	13,515 13	12,662 13	To maintain and strengthen the business relationship and facilitate business activities Acquiring shares by cumulative stock investment	No

(Note) The quantitative effect of holding is not stated in consideration of the Company's relationships with the business partners.
The rationality of holding is described in "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."

(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, 2020 to March 31, 2021) and the financial statements for The 118th fiscal year (from April 1, 2020 to March 31, 2021) 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	Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)
Assets			
Current assets			
Cash and cash equivalents	7	10,921	17,207
Trade and other receivables	8	12,258	20,428
Other financial assets	9	30	30
Inventories	10	18,343	20,774
Other current assets	11	1,397	1,582
Total current assets		42,952	60,023
Non-current assets			
Property, plant and equipment	12	9,648	11,808
Right-of-use assets	17	1,222	1,302
Intangible assets	13	1,289	1,116
Retirement benefit asset	18	82	91
Other financial assets	9	6,236	4,420
Deferred tax assets	15	209	253
Other non-current assets	11	218	261
Total non-current assets		18,908	19,254
Total assets		61,860	79,278

(Million yen)

	Note	Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	14	9,480	14,797
Borrowings	16	8,867	9,579
Other financial liabilities	16,17	175	210
Income taxes payable		310	1,332
Provisions	19	402	384
Contract liabilities	24	1,021	3,161
Other current liabilities	20,21	609	737
Total current liabilities		20,866	30,204
Non-current liabilities			
Other financial liabilities	16,17	140	123
Retirement benefit liability	18	915	893
Deferred tax liabilities	15	635	887
Other non-current liabilities	20,21	229	333
Total non-current liabilities		1,920	2,237
Total liabilities		22,787	32,441
Equity			
Share capital	22	12,345	12,345
Capital surplus	22	3,306	3,332
Treasury shares	22	-2,994	-4,371
Other components of equity	22	1,038	2,560
Retained earnings	22	18,784	24,362
Equity attributable to owners of parent		32,480	38,229
Non-controlling interests	33	6,593	8,607
Total equity		39,073	46,836
Total liabilities and net equity		61,860	79,278

(ii) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Revenue	6,24	49,310	61,662
Cost of sales		-36,354	-44,457
Gross profit		12,956	17,204
Selling, general and administrative expenses	25	-8,369	-8,297
Other income	26	308	670
Other expenses	26	-345	-44
Operating profit		4,549	9,533
Finance income	27	310	339
Finance costs	27	-601	-413
Profit before tax		4,259	9,459
Income tax expense	15	-1,511	-2,822
Profit		2,747	6,636
Profit for the year attributable to:			
Owners of parent		2,001	4,917
Non-controlling interests		745	1,718
Profit		2,747	6,636
Earnings per share			
Basic earnings per share (yen)	29	38.60	95.21
Diluted earnings per share (yen)	29	37.75	93.08

Consolidated Statements of Comprehensive Income

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Profit		2,747	6,636
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	28	-170	1,459
Remeasurement of defined benefit pension plans	28	-3	11
Total items that will not be reclassified to profit or loss		-174	1,471
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	28	-1,874	2,795
Total items that may be reclassified to profit or loss		-1,874	2,795
Total other comprehensive income		-2,049	4,266
Comprehensive income		697	10,902
Total comprehensive income for the year attributable to:			
Owners of parent		460	8,405
Non-controlling interests		236	2,497
Comprehensive income		697	10,902

(iii) Consolidated statement of changes in equity

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(Million yen)

	Note	Equity attributable to owners of 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, 2019		12,345	3,214	-2,943	-169	2,745
Profit						
Other comprehensive income					-1,366	-170
Total comprehensive income for the year		--	--	--	-1,366	-170
Purchase of treasury shares	22			-123		
Disposal of treasury shares	22		-34	72		
Dividends	23					
Changes in share-based payment transactions	31		129			
Transfer to retained earnings						-0
Equity transactions with non-controlling interests			-3		-0	
Share-based payment transactions		--	92	-51	-0	-0
Balance as of March 31, 2020		12,345	3,306	-2,994	-1,535	2,574

	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, 2019		--	2,576	18,052	33,244	6,827	40,072
Profit				2,001	2,001	745	2,747
Other comprehensive income		-3	-1,540		-1,540	-508	-2,049
Total comprehensive income for the year		-3	-1,540	2,001	460	236	697
Purchase of treasury shares	22				-123		-123
Disposal of treasury shares	22			-21	16		16
Dividends	23			-1,244	-1,244	-463	-1,707
Changes in share-based payment transactions	31				129		129
Transfer to retained earnings		3	3	-3	--		--
Equity transactions with non-controlling interests			-0		-3	-7	-11
Share-based payment transactions		3	2	-1,269	-1,225	-471	-1,696
Balance as of March 31, 2020		--	1,038	18,784	32,480	6,593	39,073

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	Note	Equity attributable to owners of 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, 2020		12,345	3,306	-2,994	-1,535	2,574
Profit						
Other comprehensive income					2,016	1,459
Total comprehensive income for the year		--	--	--	2,016	1,459
Purchase of treasury shares	22			-1,495		
Disposal of treasury shares	22		-57	119		
Dividends	23					
Changes in share-based payment transactions	31		88			
Transfer to retained earnings						-1,952
Equity transactions with non-controlling interests			-5		-1	
Share-based payment transactions		--	25	-1,376	-1	-1,952
Balance as of March 31, 2021		12,345	3,332	-4,371	478	2,081

	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, 2020		--	1,038	18,784	32,480	6,593	39,073
Profit				4,917	4,917	1,718	6,636
Other comprehensive income		11	3,487		3,487	779	4,266
Total comprehensive income for the year		11	3,487	4,917	8,405	2,497	10,902
Purchase of treasury shares	22				-1,495		-1,495
Disposal of treasury shares	22			-61	0		0
Dividends	23			-1,242	-1,242	-454	-1,697
Changes in share-based payment transactions	31				88		88
Transfer to retained earnings		-11	-1,963	1,963	--		--
Equity transactions with non-controlling interests			-1		-7	-28	-35
Share-based payment transactions		-11	-1,965	659	-2,656	-483	-3,140
Balance as of March 31, 2021		--	2,560	24,362	38,229	8,607	46,836

(iv) Consolidated Statements of Cash Flows

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities			
Profit before tax		4,259	9,459
Depreciation and amortization		1,242	1,505
Finance income		-310	-339
Finance costs		81	103
Loss on retirement of fixed assets		5	10
Loss (gain) on sale of fixed assets		-5	-1
Loss from performance of defect liability, etc.	26	307	--
Decrease (increase) in inventories		3,058	-1,390
Decrease (increase) in trade and other receivables		4,470	-7,046
Increase (decrease) in trade and other payables		-3,211	4,366
Increase (decrease) in contract liabilities		-521	1,964
Increase or decrease in retirement benefit asset or liability		19	-19
Increase (decrease) in provisions		-171	-43
Other		47	-432
Subtotal		9,269	8,135
Interest and dividends received		291	348
Interest paid		-81	-103
Government grant income		166	392
Proceeds from subsidy income		--	121
Payments for performance of warranty against defects	26	-307	--
Income taxes paid		-1,598	-2,273
Income taxes refund		254	163
Net cash provided by (used in) operating activities		7,994	6,784
Cash flows from investing activities			
Payments into time deposits		-50	-50
Proceeds from withdrawal of time deposits		50	50
Purchase of property, plant and equipment		-2,209	-2,311
Proceeds from sale of property, plant and equipment		6	2
Payments for retirement of property, plant and equipment		-0	-7
Purchase of intangible assets		-798	-228
Purchase of right-of-use assets		-183	--
Purchase of investment securities		-2	-2
Proceeds from sale of investment securities		1	3,888
Proceeds from subsidy income		--	81
Other		-60	9
Cash flows from investing activities		-3,246	1,432

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Cash flows from investing activities			
Net increase (decrease) in short-term borrowings	30	-2,254	712
Proceeds from sale of treasury shares		16	0
Purchase of treasury shares		-123	-1,497
Dividends paid	23	-1,244	-1,242
Dividends paid to non-controlling interests		-463	-454
Payments for acquisition of interests in subsidiaries from non-controlling interests		-11	-35
Repayments of lease obligations	30	-180	-263
Net cash provided by (used in) financing activities		-4,261	-2,781
Effect of exchange rate changes on cash and cash equivalents		-677	849
Net increase (decrease) in cash and cash equivalents		-190	6,285
Cash and cash equivalents at beginning of period		11,112	10,921
Cash and cash equivalents at end of period	7	10,921	17,207

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 (https://www.tsugami.co.jp/). The Company's consolidated financial statements consist of the Company and its subsidiaries (hereinafter the "Group") with March 31, 2021 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 16, 2021.

(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) Changes in accounting policy

The Group adopts the standards and interpretation guidelines enforced from the fiscal year under review. The adoption has no significant impact on the Group's consolidated financial statements.

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 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 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 (lessee)

Upon conclusion of a contract, the Group determines whether the contract is or includes a lease agreement. If the contract conveys the right to control use of a specified asset for a certain period in exchange for the consideration, the Group determines that the contract is or includes a lease agreement.

If the Group determines that the contract is or includes a lease agreement, it recognizes right-of-use assets and lease liabilities at the lease start date. The Group has opted not to recognize right-of-use assets and lease liabilities for short-term leases whose term is 12 months or less and leases of low-value assets.

The Company uses the cost model for measuring right-of-use assets and the value of acquisition cost is stated net of cumulative depreciated expenses and cumulative impairment losses. Acquisition cost is initially measured by adjusting the initial value of lease liabilities with lease expenses paid prior to the commencement of lease transactions, initial direct costs, etc. Right-of-use assets are depreciated based on the straight-line method over the lesser of their estimated useful lives and the lease term. Short-term lease and lease of small-value assets are recognized as expenses on a straight-line basis over the lease term.

Lease liabilities are measured at the present value of unpaid lease expenses and are included in other financial liabilities in the consolidated statement of financial position. Lease expenses are distributed to financial costs and repayment of lease liabilities through the interest method and financial costs are recognized 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 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:

(1) Valuation of inventories

The Company measures inventories at acquisition cost but if their net realizable value at the end of the reporting period is lower than their acquisition cost, the Company measures inventories at their net realizable value and recognizes the difference between their net realizable value and acquisition cost in the cost of sales. The Company also estimates the net realizable value of slow-moving inventory deviating from the business cycle model to reflect the assumptions and judgments of management concerning factors such as future demand, selling prices and the estimated cost of additional machining. If the market environment experiences a sharper downturn than forecast and net realizable value falls dramatically, the Company may incur losses.

The amounts of inventories and inventory write-down are stated in Note 10. Inventories.

(2) Recoverability of deferred tax assets

A deferred tax asset is recognized for unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The timing and amount of taxable profit that will arise in the future are based on a business plan approved by management. Since the timing and amount of future taxable profit will be affected by changes in the future environment, which are uncertain, any discrepancies between the actual timing and amount and those estimated could seriously impact the amount recognized in the consolidated financial statements for subsequent fiscal years.

Deferred tax assets are described in Note 15. Income tax expense.

(Effects of the COVID-19 pandemic)

The COVID-19 pandemic has had far-reaching effects on business activities, with growing concerns over global economic slowdown.

Under such conditions, when making accounting estimates, the Group has made its best estimates based on the information currently available.

However, it is difficult to predict the future impact of the COVID-19 pandemic and future uncertainties may affect the outcome of the Group's accounting estimates.

5. New standards not yet applied

No new establishment or revision of statements or interpretations that have been published by the date of approval of the consolidated financial statements have any significant impact.

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, 2019 to March 31, 2020)

(Million yen)

	Reportable segment						Adjustment	Consolidated
	Japan	China	India	South Korea	Other	Total		
Revenue								
Revenue from external customers	20,899	22,888	2,491	2,446	584	49,310	--	49,310
Inter-segment	5,415	7,689	34	56	139	13,335	-13,335	--
Total	26,315	30,577	2,526	2,502	724	62,646	-13,335	49,310
Segment profit (loss)	552	3,253	155	327	28	4,317	269	4,586
Other income and expenses, net	--	--	--	--	--	--	--	-36
Operating profit	--	--	--	--	--	--	--	4,549
Finance income and expenses, net	--	--	--	--	--	--	--	-290
Profit before tax	--	--	--	--	--	--	--	4,259
Other items								
Depreciation and amortization	386	758	41	69	0	1,256	-14	1,242
Segment assets	22,932	29,234	3,725	1,611	744	58,249	3,611	61,860
Capital expenditure	1,068	2,057	365	86	1	3,579	--	3,579

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

2. The adjustment of ¥269 million for segment profit is an adjustment of unrealized profit.

3. Adjustments for segment assets of ¥3,611 million include company assets of ¥9,331 million and the impact of consolidation adjustments between segments of ¥-5,720 million.

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	Reportable segment						Adjustment	Consolidated
	Japan	China	India	South Korea	Other	Total		
Revenue								
Revenue from external customers	14,798	43,172	1,797	1,558	334	61,662	--	61,662
Inter-segment	5,578	6,012	--	34	85	11,711	-11,711	--
Total	20,377	49,184	1,797	1,593	420	73,373	-11,711	61,662
Segment profit (loss)	273	8,585	39	89	-48	8,938	-31	8,907
Other income and expenses, net	--	--	--	--	--	--	--	625
Operating profit	--	--	--	--	--	--	--	9,533
Finance income and expenses, net	--	--	--	--	--	--	--	-74
Profit before tax	--	--	--	--	--	--	--	9,459
Other items								
Depreciation and amortization	670	758	36	49	0	1,516	11	1,505
Segment assets	21,929	45,303	4,389	1,114	432	73,168	6,109	79,278
Capital expenditure	465	1,982	281	37	0	2,766	--	2,766

(Note) 1. Segment profit is calculated by deducting the cost of sales and selling, general and administrative expenses from revenue.
2. The adjustment of ¥-31 million for segment profit is an adjustment of unrealized profit.
3. Adjustments for segment assets of ¥6,109 million include company assets of ¥11,788 million and the impact of consolidation adjustments between segments of ¥-5,678 million.

(3) Information about products and services

The same information is disclosed in Note “24. 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Japan	9,792	6,129
China	23,005	42,393
Asia	9,084	8,323
America	4,607	3,357
Europe	2,821	1,459
Total	49,310	61,662

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

Non-current assets

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Japan	4,030	3,773
China	7,288	9,354
India	944	1,238
South Korea	110	117
Other	5	4
Total	12,379	14,489

(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 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)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Financial assets measured at amortized cost		
Trade notes receivable	4,458	3,244
Accounts receivable	3,035	4,586
Accounts receivable – other	224	41
Other	31	104
Allowance for doubtful accounts	-68	-110
Financial assets measured at fair value through other comprehensive income		
Trade notes receivable	4,577	12,562
Total	12,258	20,428

9. Other non-current assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Financial assets measured at amortized cost		
Time deposits	30	30
Financial assets measured at fair value through other comprehensive income		
Stocks	5,920	4,117
Investments in capital, etc.	315	303
Total	6,266	4,450
Current assets	30	30
Non-current assets	6,236	4,420
Total	6,266	4,450

Stock and investments in capital, etc. are classified into financial assets measured at fair value through other comprehensive income, and time deposits 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	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Tokyo Seimitsu Co., Ltd.	3,181	--
FANUC CORPORATION	732	1,309
Daikin Industries, Ltd.	615	1,042
Other	1,707	2,069

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, 2019 to March 31, 2020)		Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)	
Fair value	Cumulative gains or losses	Fair value	Cumulative gains or losses
0	0	3,888	2,806

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 ¥0 million in the previous consolidated fiscal year and ¥1,952 million in the consolidated fiscal year under review.

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

(Million yen)

Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)		Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)	
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	195	77	62

10. Inventories

The breakdown of inventories is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Merchandise and finished goods	9,027	8,927
Work in process	3,820	4,723
Raw materials	5,495	7,124
Total	18,343	20,774

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 ¥644 million in the previous consolidated fiscal year and ¥770 million in the consolidated fiscal year under review. The amounts of reversal of inventory write-down are ¥501 million and ¥632 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)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Other current assets		
Prepaid expenses	157	138
Advance payments	204	325
Consumption taxes receivable	1,027	1,109
Other	8	8
Total	1,397	1,582
Other non-current assets		
Long-term prepaid expenses	30	77
Other	188	184
Total	218	261

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, 2019	9,557	8,172	1,187	273	27	19,218
Adjustment due to application of IFRS 16	--	--	-37	--	--	-37
April 1, 2019	9,557	8,172	1,150	273	27	19,181
Purchase	114	221	103	5	1,920	2,364
Sales or disposal	-57	-8	-100	--	--	-165
Exchange differences on translation of foreign operations	-358	-408	-39	--	-57	-864
Other	--	-59	--	--	-34	-94
March 31, 2020	9,255	7,918	1,113	278	1,855	20,421
Purchase	240	346	87	--	1,674	2,349
Sales or disposal	-23	-41	-91	-10	--	-167
Exchange differences on translation of foreign operations	524	531	47	--	232	1,336
Other	2,734	-52	--	--	-2,741	-59
March 31, 2021	12,731	8,702	1,157	268	1,020	23,880

Accumulated depreciation and impairment loss

(Million yen)

	Buildings and Structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
April 1, 2019	-4,032	-5,382	-900	-31	--	-10,347
Adjustment due to application of IFRS 16	--	--	17	--	--	17
April 1, 2019	-4,032	-5,382	-883	-31	--	-10,330
Depreciation	-353	-518	-104	--	--	-976
Impairment losses	--	--	--	--	--	--
Sales or disposal	53	7	99	--	--	160
Exchange differences on translation of foreign operations	100	225	26	--	--	353
Other	--	20	--	--	--	20
March 31, 2020	-4,231	-5,647	-862	-31	--	-10,772
Depreciation	-372	-477	-89	--	--	-939
Impairment loss	--	--	--	--	--	--
Sales or disposal	23	38	91	10	--	163
Exchange differences on translation of foreign operations	-159	-354	-34	--	--	-548
Other	--	25	--	--	--	25
March 31, 2021	-4,740	-6,415	-894	-21	--	-12,071

(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, 2019	5,524	2,790	286	241	27	8,871
March 31, 2020	5,023	2,271	251	246	1,855	9,648
March 31, 2021	7,991	2,286	263	246	1,020	11,808

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, 2019	243	409	8	661
Purchase	239	591	--	831
Sales or disposal	-15	--	--	-15
Exchange differences on translation of foreign operations	-6	--	--	-6
Other	1,001	-1,001	--	--
March 31, 2020	1,461	--	8	1,470
Purchase	121	--	--	121
Sales or disposal	--	--	--	--
Exchange differences on translation of foreign operations	9	--	--	9
Other	--	--	--	--
March 31, 2021	1,592	--	8	1,601

Accumulated amortization and impairment loss

(Million yen)

	Intangible assets			
	Software	Software in progress	Other	Total
April 1, 2019	-104	--	-0	-104
Amortization	-94	--	-0	-94
Sales or disposal	15	--	--	15
Exchange differences on translation of foreign operations	2	--	--	2
March 31, 2020	-181	--	-0	-181
Amortization	-298	--	-0	-298
Sales or disposal	--	--	--	--
Exchange differences on translation of foreign operations	-5	--	--	-5
March 31, 2021	-485	--	-0	-485

(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, 2019	138	409	8	557
March 31, 2020	1,280	--	8	1,289
March 31, 2021	1,107	--	8	1,116

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 ¥1,863 million and ¥1,777 million, respectively, and they are included in “selling, general and administrative expenses” in the consolidated statement of income.

14. Trade and other payables

The breakdown of trade and other payables is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Trade notes payable	4,410	3,810
Accounts payable	3,863	9,373
Accounts payable - other	635	517
Other	569	1,096
Total	9,480	14,797

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

15. 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, 2019 to March 31, 2020)

(Million yen)

	April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2020
Deferred tax assets					
Inventories	201	-40	--	17	178
Allowance for doubtful accounts	23	-9	--	1	16
Accrued bonuses	78	-19	--	--	59
Income taxes payable	32	-20	--	--	11
Provisions	158	-45	--	-0	112
Retirement benefit liability	237	6	1	-0	244
Other	198	-43	--	-2	151
Total	930	-171	1	14	774
Deferred tax liabilities					
Financial assets	-1,099	--	38	--	-1,061
Retained earnings at foreign subsidiaries	-91	-10	--	--	-101
Other	-18	-22	--	3	-37
Total	-1,208	-33	38	3	-1,200

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	April 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2021
Deferred tax assets					
Inventories	178	14	--	6	199
Allowance for doubtful accounts	16	10	--	0	27
Accrued bonuses	59	-3	--	--	56
Income taxes payable	11	46	--	--	58
Provisions	112	-8	--	4	108
Retirement benefit liability	244	5	-5	0	244
Other	151	37	--	5	195
Total	774	102	-5	16	889
Deferred tax liabilities					
Financial assets	-1,061	--	243	--	-817
Retained earnings at foreign subsidiaries	-101	-567	--	--	-669
Other	-37	2	--	-1	-36
Total	-1,200	-565	243	-1	-1,523

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Deferred tax assets	209	253
Deferred tax liabilities	-635	-887
Net amount	-425	-633

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Unused tax credits	340	270
Deductible temporary differences	1,307	1,343
Total	1,648	1,613

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
First year	--	--
Second year	53	270
Third year	286	--
Total	340	270

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 in the previous consolidated fiscal year and the consolidated fiscal year under review are ¥6,619 million and ¥7,047 million, respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Current tax expense	1,306	2,360
Deferred tax expense	205	462
Total	1,511	2,822

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 ¥29 million and ¥161 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Statutory effective tax rate	30.5	30.5
Expenses that are not reduced for the calculation of taxable income	1.4	0.6
Experimentation and research expenses	-0.2	-1.7
Deemed foreign tax credits	--	-2.4
Withholding tax on dividends from overseas subsidiaries	3.6	2.4
Difference from tax rate applied to overseas subsidiaries	-5.4	-5.6
Retained earnings at foreign subsidiaries	0.2	6.0
Effect of the evaluation of the recoverability of deferred tax assets	4.5	-0.4
Other	0.8	0.4
Actual average tax rate	35.5	29.8

(Note) 1. "Retained earnings at overseas subsidiaries" that was included in "Other" in the previous consolidated fiscal year is stated as a separate item in the consolidated fiscal year under review due to an increase in financial terms.
With this change, the 1.0% that was stated in "Other" in the report for the previous consolidated fiscal year is stated in "Other" (0.8%) and "Retained earnings at overseas subsidiaries" (0.2%), separately.
2. 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 30.5% in the previous consolidated fiscal year and the consolidated fiscal year under review. However, corporate tax, etc. is imposed on overseas subsidiaries in their location.

16. Borrowings

Breakdown of financial liabilities

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)	Average interest rate (%)	Repayment term
Short-term borrowings	8,867	9,579	1.5	--
Short-term lease liabilities	175	210	--	--
Long-term lease liabilities	140	123	--	From 2022 to 2026
Total	9,183	9,913	--	--
Current liabilities	9,042	9,790	--	--
Non-current liabilities	140	123	--	--
Total	9,183	9,913	--	--

(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.

17. Leases

The Group, as a lessee, leases buildings and structures, machinery and vehicles, tools, furniture and fixtures, land and software. There are no important purchase options, escalation clauses, or restrictions imposed by lease contracts (such as restrictions on dividends, additional borrowings or additional leases).

The breakdown of profit and loss related to leases is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Depreciation of right-of-use assets		
Buildings and Structures	92	190
Machinery and vehicles	41	38
Tools, furniture and fixtures	16	16
Land	19	19
Software	1	0
Total	171	266
Short-term lease costs	51	48
Small-value assets lease costs	3	4

The breakdown of the book value of right-of-use assets is as follows.

(Million yen)

	April 1, 2019	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Right-of-use assets			
Buildings and Structures	164	190	222
Machinery and vehicles	62	77	73
Tools, furniture and fixtures	45	49	46
Land	823	904	958
Software	4	2	1
Total	1,100	1,222	1,302

An increase in right-of-use assets in the previous consolidated fiscal year and in the consolidated fiscal year under review was ¥402 million and ¥310 million, respectively.
Total cash outflows related to leases in the previous consolidated fiscal year and in the consolidated fiscal year under review were ¥418 million and ¥316 million, respectively.

The breakdown of the balance of lease liabilities by due date is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Up to 1 year	175	210
More than 1 year, up to 5 years	140	123
More than 5 years	--	--
Total	316	334

18. 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)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Present value of funded defined benefit obligation	1,501	1,497
Fair value of plan assets	-1,579	-1,588
Subtotal	-77	-91
Present value of unfunded defined benefit obligation	910	893
Net defined benefit liability and defined benefit asset	833	801
Amounts in the consolidated statement of financial position		
Retirement benefit liability	915	893
Retirement benefit asset	-82	-91
Net defined benefit liability and defined benefit asset posted in the consolidated statement of financial position	833	801

(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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Beginning balance of the present value of defined benefit obligation	2,419	2,412
Current service cost	153	128
Interest cost	8	11
Remeasurements		
Actuarial gain (loss) arising from changes in demographic assumptions	--	1
Actuarial gain (loss) arising from changes in financial assumptions	-19	-0
Actuarial gain (loss) arising from revisions to actual results	18	14
Benefit payments	-159	-184
Exchange differences on translation of foreign operations	-7	8
Ending balance of the present value of defined benefit obligation	2,412	2,390

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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Beginning balance of the fair value of plan assets	1,608	1,579
Interest income	6	8
Remeasurement		
Actuarial gain (loss)	-7	31
Employer contributions	84	63
Benefit payments	-106	-102
Exchange differences on translation of foreign operations	-6	8
Ending balance of the fair value of plan assets	1,579	1,588

The Group plans to make contributions of ¥55 million in the next consolidated fiscal year (ending March 31, 2022).

(iv) Breakdown of plan assets by item

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Assets with a published price in an active market		
Stocks	54	433
Bonds	116	777
Assets without a published price in an active market		
General accounts of life insurance	300	144
Other	1,107	233
Total	1,579	1,588

(Note) Other is primarily short-term financial assets, including deposits.

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.

(%)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Discount rate	0.5	0.5

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.

(%)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
If the discount rate rises 0.5%	-106	-104
If the discount rate falls 0.5%	115	113

(2) Defined contribution plans

The amounts recognized as an expense for defined contribution plans are ¥449 million in the previous consolidated fiscal year and ¥436 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 ¥7,574 million and ¥7,612 million, respectively.

19. Provisions

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

(Million yen)

	Provision for product	Other provisions	Total
April 1, 2020	388	13	402
Amount of increase during the period	358	26	384
Amount of decrease during the period (utilization)	--	--	--
Amount of decrease during the period (reversal)	-388	-13	-402
March 31, 2021	358	26	384
Current liabilities	358	26	384

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.

20. Other liabilities

The breakdown of other liabilities is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Other current liabilities		
Accrued bonuses	325	467
Accrued paid leave	204	192
Other	80	78
Total	609	737
Other non-current liabilities		
Long-term accounts payable - other	30	30
Deferred income	199	303
Total	229	333

21. Deferred income

The breakdown of deferred income is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Non-current liabilities		
Those related to government grants	199	303
Total	199	303

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.

22. 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Number of shares authorized		
Common stock	320,000	320,000
Total number of shares issued		
Beginning balance	55,000	55,000
Changes during the period	--	--
Ending balance	55,000	55,000

(Note) 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) Treasury shares

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

	Number of shares (thousand shares)	Amount (Million yen)
April 1, 2019	3,192	2,943
Changes during the period	99	51
March 31, 2020	3,291	2,994
Changes during the period	814	1,376
March 31, 2021	4,105	4,371

(Note) 1. Changes in treasury shares in the previous consolidated fiscal year represent an increase of 177 thousand shares due to the purchase of treasury shares and a decrease of 78 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 945 thousand shares due to the purchase of treasury shares and a decrease of 131 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.

23. Dividends

The amount of dividends paid is as follows.

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(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	March 31, 2019	May 28, 2019
Board of directors meeting held on November 12, 2019	Common shares	622	12	September 30, 2019	November 29, 2019

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(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 27, 2020	Common shares	620	12	March 31, 2020	June 2, 2020
Board of directors meeting held on November 12, 2020	Common shares	622	12	September 30, 2020	November 30, 2020

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

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(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 27, 2020	Common shares	620	12	March 31, 2020	June 2, 2020

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(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 13, 2021	Common shares	712	14	March 31, 2021	May 28, 2021

24. Revenue

(1) Disaggregation of revenue

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

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(Million yen)

	Reportable segment					
	Japan	China	India	South Korea	Other	Total
Main product lines						
Automatic lathes	14,544	19,236	2,265	2,389	448	38,885
Grinding machines	2,292	1,110	88	3	--	3,495
Machining centers, Rolling machines and specialized machines	1,500	1,871	--	--	--	3,371
Other	2,561	669	137	52	136	3,558
Total	20,899	22,888	2,491	2,446	584	49,310

(Note) “Other” in main product lines include components and services.

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	Reportable segment					
	Japan	China	India	South Korea	Other	Total
Main product lines						
Automatic lathes	10,876	37,468	1,738	1,500	225	51,810
Grinding machines	901	1,570	--	5	10	2,489
Machining centers, Rolling machines and specialized machines	914	3,156	10	5	8	4,096
Other	2,104	976	47	47	89	3,265
Total	14,798	43,172	1,797	1,558	334	61,662

(Note) “Other” in main product lines include components and services.

(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.

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(Million yen)

	April 1, 2019	March 31, 2020
Receivables arising from contracts with customers	16,860	12,071
Contract liabilities	1,630	1,021

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	April 1, 2020	March 31, 2021
Receivables arising from contracts with customers	12,071	20,393
Contract liabilities	1,021	3,161

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 ¥1,630 million and ¥1,021 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.

25. 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Personnel expenses	3,334	3,404
Travel and transportation expenses	435	309
Research and development expenses	1,863	1,777
Depreciation, rent expenses	330	331
Insurance expenses	161	160
Taxes and dues	155	221
Transportation costs	374	516
Advertising and sales promotion expenses	275	65
Product warranty costs	295	296
Commission expenses	486	540
Other	656	676
Total	8,369	8,297

26. Other income and expenses

The breakdown of other income is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Gain on sale of fixed assets	5	1
Government grant income	166	392
Proceeds from subsidy income	--	121
Other	136	155
Total	308	670

(Note) 1. Government grant income is primarily grants to the subsidiaries in China from the government.

2. Subsidy income is employment adjustment subsidies related to COVID-19.

The breakdown of other expenses is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Loss on retirement of fixed assets	5	10
Loss on sale of fixed assets	0	--
Loss from performance of defect liability, etc.	307	--
Other	32	34
Total	345	44

27. Finance income and finance costs

The breakdown of financial income is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Interest income		
Financial assets measured at amortized cost	113	198
Dividend income		
Financial assets measured at fair value through other comprehensive income	196	140
Total	310	339

The breakdown of financial costs is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Interest expenses		
Financial liabilities measured at amortized cost	165	165
Foreign exchange loss	435	120
Other	--	127
Total	601	413

28. 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Financial assets measured at fair value through other comprehensive income		
Amount generated during the period	-208	2,070
Amount of tax effect	38	-611
After tax effect	-170	1,459
Remeasurements of defined benefit plans		
Amount generated during the period	-5	17
Amount of tax effect	1	-5
After tax effect	-3	11
Foreign currency translation adjustments		
Amount generated during the period	-1,874	2,795
Amount of tax effect	--	--
After tax effect	-1,874	2,795
Total other comprehensive income	-2,049	4,266

29. Per Share information

(1) Basis for calculation of basic earnings per share

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Profit attributable to owners of parent (million yen)	2,001	4,917
Basis for calculation of basic earnings per share (million yen)	--	--
Profit used to calculate basic earnings per share (million yen)	2,001	4,917
Weighted average number of common shares (thousand shares)	51,860	51,655
Basic earnings per share (yen)	38.60	95.21

(2) Basis for calculation of diluted earnings per share

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Profit used to calculate basic earnings per share (million yen)	2,001	4,917
Adjustment on profit (million yen)	--	--
Profit used to calculate diluted earnings per share (million yen)	2,001	4,917
Weighted average number of common shares (thousand shares)	51,860	51,655
Increase in common shares		
Share acquisition rights (thousand shares)	1,159	1,178
Weighted average number of diluted common shares (thousand shares)	53,019	52,833
Diluted earnings per share (yen)	37.75	93.08

30. 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, 2019 to March 31, 2020)

(Million yen)

	April 1, 2019	Adjustment due to application of IFRS 16	April 1, 2019 (after adjustment)	Changes accompanied by cash flows	Changes not accompanied by cash flows		March 31, 2020
					Exchange differences on translation of foreign operations	Other	
Short-term borrowings	11,121	--	11,121	-2,254	--	--	8,867
Lease liabilities	22	256	278	-180	-1	219	316
Total	11,143	256	11,399	-2,434	-1	219	9,183

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	April 1, 2020	Changes accompanied by cash flows	Changes not accompanied by cash flows		March 31, 2021
			Exchange differences on translation of foreign operations	Other	
Short-term borrowings	8,867	712	--	--	9,579
Lease liabilities	316	-263	-29	310	334
Total	9,183	449	-29	310	9,913

31. 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 First compensation-type Share acquisition rights (Stock compensation-type stock options)	2006 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 Statutory auditors 4 Employees of the Company 7	The Company's directors 4 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 June 30, 2025	July 21, 2006 to July 20, 2026

	2007 Stock compensation-type stock options Plan A	2008 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 Statutory auditors 4	The Company's directors 7 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 101,000 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

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

	2010 Stock compensation-type stock options Plan A	2010 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 7 Statutory auditors 4	Executive officers and employees with similar positions 20
Number of stock options by share type (Note 1)	Common stock 101,000 shares	Common stock 100,000 shares
Grant date	July 5, 2010	July 5, 2010
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 6, 2010 to July 5, 2030	July 6, 2010 to July 5, 2030

	2011 Stock compensation-type stock options Plan A	2011 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 8 Statutory auditors 4	Executive officers and employees with similar positions 14
Number of stock options by share type (Note 1)	Common stock 165,000 shares	Common stock 100,000 shares
Grant date	July 4, 2011	July 4, 2011
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 5, 2011 to July 4, 2031	July 5, 2011 to July 4, 2031

	2012 Stock compensation-type stock options Plan A	2012 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 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 Stock compensation-type stock options Plan A	2013 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 Statutory auditors 4	Executive officers and employees with similar positions 23
Number of stock options by share type (Note 1)	Common stock 190,000 shares	Common stock 120,000 shares
Grant date	July 8, 2013	July 8, 2013
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 9, 2013 to July 8, 2033	July 9, 2013 to July 8, 2033

	2014 Stock compensation-type stock options Plan A	2014 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 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 Stock compensation-type stock options Plan A	2015 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 8 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 Stock compensation-type stock options Plan A	2016 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 8 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 Stock compensation-type stock options Plan A	2017 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 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 Stock compensation-type stock options Plan A	2018 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 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

	2019 Stock compensation-type stock options Plan A	2019 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 5	Executive officers and employees with similar positions 26
Number of stock options by share type (Note 1)	Common stock 56,000 shares	Common stock 90,000 shares
Grant date	July 5, 2019	July 5, 2019
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 6, 2019 to July 5, 2039	July 6, 2019 to July 5, 2039

	2020 Stock compensation-type stock options Plan A	2020 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 5	Executive officers and employees with similar positions 24
Number of stock options by share type (Note 1)	Common stock 44,000 shares	Common stock 80,000 shares
Grant date	July 6, 2020	July 6, 2020
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 7, 2020 to July 6, 2040	July 7, 2020 to July 6, 2040

(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, 2019 to March 31, 2020)		Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning balance of unexercised stock options	1,097,000	1	1,190,000	1
Granted	146,000	1	124,000	1
Exercised	-50,300	1	-131,200	1
Expired	-2,700	1	-1,800	1
Ending balance of unexercised stock options	1,190,000	1	1,181,000	1
Ending balance of exercisable stock options	1,153,500	1	1,150,000	1

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥896 in the previous consolidated fiscal year and ¥929 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 14 years in both the previous consolidated fiscal year and the consolidated fiscal year under review.

(ii) General share acquisition rights

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)		Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning balance of unexercised stock options	28,000	584	--	--
Granted	--	--	--	--
Exercised	-28,000	584	--	--
Expired	--	--	--	--
Ending balance of unexercised stock options	--	--	--	--
Ending balance of exercisable stock options	--	--	--	--

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥895 in the previous consolidated fiscal year.

(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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
	2019 Stock compensation-type stock options Plan A and Plan B	2020 Stock compensation-type stock options Plan A and Plan B
Weighted average fair value on the grant date (yen)	753	709
Share price on the grant date (yen)	942	921
Exercise price (yen)	1	1
Expected volatility (%) (Note)	46.351	42.462
Expected remaining life (years)	10	10
Expected dividend (yen)	21	24
Risk free rate (%)	-0.176	0.040

(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 ¥129 million in the previous consolidated fiscal year and ¥88 million in the consolidated fiscal year under review.

32. 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 parent and the return on equity attributable to owners of 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
Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)	12,058	13	--	12,071
Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)	20,344	49	--	20,393

(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
Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)	224	--	--	224
Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)	41	--	--	41

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, 2019	84	0	--	--	85
Amount of increase during the period	68	0	--	--	68
Amount of decrease during the period (reversal)	84	0	--	--	85
Balance on March 31, 2020	68	0	--	--	68
Amount of increase during the period	110	0	--	--	110
Amount of decrease during the period (reversal)	68	0	--	--	68
Balance on March 31, 2021	110	0	--	--	110

(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 in the previous consolidated fiscal year (As of March 31, 2020) or in the consolidated fiscal year under review (As of March 31, 2021).

A breakdown of lease liabilities by due date is shown in Note 17. Leases.

Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)

(Million yen)

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Non-derivative financial liabilities				
Short-term borrowings	8,867	8,867	8,867	--
Trade and other receivables	9,480	9,480	9,480	--
Total	18,347	18,347	18,347	--

Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)

(Million yen)

	Carrying amount	Contractual cash flows	Within 1 year	More than 1 year
Non-derivative financial liabilities				
Short-term borrowings	9,579	9,579	9,579	--
Trade and other receivables	14,797	14,797	14,797	--
Total	24,377	24,377	24,377	--

(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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Profit before tax	-36	-89

(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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Profit before tax	-99	-105

(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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Other comprehensive income (before tax effect)	-58	-40

(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.

(Deposits)

The carrying amount is used as the fair value because deposits are settled within a short period of time and their fair value is almost equal to their carrying amount.

(Trade receivables)

Certain trade receivables are classified as financial assets that are measured at fair value through other comprehensive income. Fair value is the present value of future cash flows discounted at an interest rate that takes into consideration time to maturity and credit risk.

(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.

Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)

(Million yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Deposits	--	1,837	--	1,837
Financial assets measured at fair value through other comprehensive income				
Trade receivables	--	4,577	--	4,577
Stocks	5,892	--	28	5,920
Investments in capital, etc.	--	--	315	315
Total	5,892	6,414	343	12,650

Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)

(Million yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Deposits	--	--	--	--
Financial assets measured at fair value through other comprehensive income				
Trade receivables	--	12,562	--	12,562
Stocks	4,092	--	24	4,117
Investments in capital, etc.	--	--	303	303
Total	4,092	12,562	327	16,983

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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Beginning balance	348	343
Total gains and losses	-3	-15
Other comprehensive income	-3	-15
Sales	-1	-0
Ending balance	343	327

(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 "trade and other payables" and "borrowings" in the consolidated statement of financial position. Their fair value is reasonably approximate to their carrying amount.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Carrying amount of transferred assets	3,867	3,879
Carrying amount of related liabilities	3,867	3,886
(Breakdown) Purchase of export bills	3,446	2,079
Discounted bills, etc.	420	1,806

33. 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

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Percentage interest owned by non-controlling interests (%)	29.2	29.1

(ii) Condensed consolidated financial information

i) Condensed consolidated statement of financial position

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	Consolidated fiscal year under review (As of March 31, 2021)
Current assets	21,705	36,008
Non-current assets	7,834	9,664
Current liabilities	6,723	15,095
Non-current liabilities	327	931
Equity	22,488	29,645
Accumulated amount of non-controlling interests	6,510	8,548

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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Revenue	30,319	48,874
Profit	2,430	6,145
Other comprehensive income	--	--
Comprehensive income	2,430	6,145
Profit allocated to non-controlling interests	766	1,718
Dividends paid to non-controlling interests	463	454

iii) Condensed Consolidated Statements of Cash Flows

(Million yen)

	Previous consolidated fiscal year (From April 1, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities	2,886	4,716
Cash flows from investing activities	-4,156	473
Cash flows from financing activities	-1,634	-1,659
Net increase (decrease) in cash and cash equivalents	-2,904	3,529

34. 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, 2019 to March 31, 2020)	Consolidated fiscal year under review (From April 1, 2020 to March 31, 2021)
Short-term compensation	142	129
Share-based payment	50	31
Total	192	160

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

35. Commitment

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

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2020)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2021)
Purchase of property, plant and equipment	763	968
Purchase of intangible assets	79	7
Total	842	976

36. Contingent liabilities

No corresponding item existed.

37. Subsequent events

(Purchase of treasury shares)

At a meeting of the Board of Directors held on April 20, 2021, the Company passed a resolution on matters related to the purchase of treasury stock under Article 459, Paragraph 1 of the Companies Act.

(1) Resolution of the Board of Directors on purchase of treasury stock

(i) Reason for the purchase of treasury stock

To implement flexible capital policy measures in response to future changes in the management environment

(ii) Class of stock to be purchased	Common stock
(iii) Total number of shares that can be purchased	1,000,000 (maximum) (Ratio of the number to the number of shares issued, excluding treasury stock: 1.96%)
(iv) Total stock acquisition cost	¥1,850 million (maximum)
(v) Acquisition period	From April 20, 2021 to October 21, 2021
(vi) Acquisition method	Market purchase at the Tokyo Stock Exchange

(2) Total number of shares of treasury stock purchased under the abovementioned resolution of the Board of Directors

(i) Total number of shares purchased	899,000
(ii) Total acquisition cost	¥1,446 million

At a meeting of the Board of Directors held on June 16, 2021, the Company passed a resolution on matters related to the purchase of treasury stock under Article 459, Paragraph 1 of the Companies Act.

(1) Resolution of the Board of Directors on purchase of treasury stock

(i) Reason for the purchase of treasury stock

To implement flexible capital policy measures in response to future changes in the management environment

(ii) Class of stock to be purchased	Common stock
(iii) Total number of shares that can be purchased	1,000,000 (maximum) (Ratio of the number to the number of shares issued, excluding treasury stock: 2.00%)
(iv) Total stock acquisition cost	¥1,750 million (maximum)
(v) Acquisition period	From June 16, 2021 to November 11, 2021
(vi) Acquisition method	Market purchase at the Tokyo Stock Exchange

(Introduction of a restricted stock compensation plan)

At a meeting of the Company's Board of Directors held on May 13, 2021, the Company reviewed the directors' compensation system and resolved to introduce a restricted stock compensation plan ("the Plan"). An agenda item related to the Plan was proposed to the Company's 118th annual shareholders meeting held on June 16, 2021 ("the Shareholders Meeting"), which resolved to introduce the Plan.

1. Purpose of the introduction of the Plan, etc.

The Company resolved to introduce the Plan as a compensation plan to allot restricted shares for the Company's directors (excluding directors who are members of the Audit & Supervisory Committee and outside directors; hereinafter "the Eligible Directors") to promote greater sharing with the shareholders of the advantages and risks of stock price changes and to further raise the directors' motivation to contribute to raising the stock price and corporate value.

Under the Plan, the Company has set the total annual amount of monetary compensation claims provided to the Eligible Directors as compensation etc. related to restricted shares at no more than ¥80 million, comprehensively considering the Eligible Directors' contributions, among other factors.

2. Overview of the Plan

(1) Allotment of and payment for restricted shares

The Company will grant to Eligible Directors monetary compensation claims within the abovementioned annual limit as

compensation, etc. related to restricted shares based on resolutions of the Board of Directors of the Company, and each of the Eligible Directors will receive allotment of restricted shares by paying in all such monetary compensation claims by way of in-kind contribution.
The amount paid for restricted shares will be determined by the Board of Directors based on the closing price of the Company's common shares at the Tokyo Stock Exchange on the business day immediately before the day on which resolutions are made at a meeting of the Board of Directors (or the closing price on the immediately preceding day if no trades are made on this day) with respect to the issuance or disposal of such shares, provided that such amount shall not be particularly favorable to the Eligible Directors who subscribe for such restricted shares.
In addition, the abovementioned monetary compensation claims shall be granted on the condition that the Eligible Directors agree to the abovementioned in-kind contribution and conclude an agreement on the allotment of shares with transfer restrictions that includes the provisions specified in (3) below.

(2) Total number of restricted shares

The total number of restricted shares allotted to the Eligible Directors in each fiscal year shall not exceed 150,000 shares. However, if, after the day on which a resolution is passed to adopt this Proposal, there is a stock split (including the gratis allotment of the Company's common shares) or stock consolidation of the Company's common shares, or any other similar event requiring adjustment to the total number of restricted shares to be allotted, the total number of restricted shares to be allotted will be adjusted accordingly within a reasonable range.

(3) Details of agreement on the allotment of shares with transfer restrictions

In conjunction with the allotment of restricted shares, the following provisions shall be included in an agreement on the allotment of shares with transfer restrictions to be concluded between the Company and the Eligible Directors who will be allotted restricted shares, based on resolutions of the Board of Directors of the Company.

(i) Details of transfer restrictions

Eligible Directors who have been allotted restricted shares shall not engage in transfer, the establishment of a pledge, the establishment of security by way of assignment, transfer in the form of inter vivos gifts, disposition at will, or any other act of disposition to any third party (hereinafter referred to as the “Transfer Restrictions") with respect to the Restricted Shares allotted to such Eligible Directors (hereinafter referred to as the "Allotted Shares") during the period from the day on which the restricted shares are delivered until the day on which the Eligible Directors retire from all positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company (hereinafter referred to as the “Transfer Restriction Period").

(ii) Acquisition of restricted shares without compensation

If Eligible Directors who have been allotted restricted shares retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company during the period from the start date of the Transfer Restriction Period until the day before the first Annual Shareholders Meeting of the Company to be held after such start date, the Company may automatically acquire the Allotted Shares without compensation, unless such acquisition is denied for reasons that the Board of Directors acknowledges to be justifiable.
In addition, if there are any Allotted Shares whose Transfer Restrictions are not lifted when the Transfer Restriction Period defined in (i) above has expired due to provisions on the lifting of the Transfer Restrictions specified in (iii) below, the Company may automatically acquire such shares without compensation.

(iii) Lifting of the transfer restrictions

Provided that Eligible Directors who have been allotted restricted shares have continually held positions as Directors, Executive Officers or employees equivalent thereto during the period from the start date of the Transfer Restriction Period until the day of the first Annual Shareholders Meeting of the Company to be held after such start date, the Company may lift the Transfer Restrictions for all of the Allotted Shares on the day when the relevant Transfer Restriction Period expires.
However, if such Eligible Directors retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company during the period from the start date of the Transfer Restriction Period until the day before the first Annual Shareholders Meeting of the Company to be held after such start date for reasons that the Board of Directors acknowledges to be justifiable, the Company may make reasonable adjustments to the number of the Allotted Shares on which transfer restrictions are lifted and the timing of the lifting of restrictions as necessary.

(iv) Handling in the case of organizational restructuring, etc.

If, during the Transfer Restriction Period, the Shareholders Meeting of the Company approves a proposal concerning a merger contract under which the Company will cease to exist, a share exchange agreement or share transfer plan under which the Company will become a wholly owned subsidiary, or any other organizational restructuring, etc. (or, in cases where approval at the Shareholders Meeting of the Company for said organizational restructuring, etc. is not necessary, if the Board of Directors of the Company approves the same) (only applies if the effective date of said organizational restructuring, etc. precedes expiration of the Transfer Restriction Period; hereinafter referred to as the "In the Event of Approval of Organizational Restructuring, etc.") and if the Eligible Directors who have been allotted restricted shares will retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company as a result of said organizational restructuring, etc., the Company will lift the Transfer Restrictions prior to the effective date of said organizational restructuring, etc. with respect to the number of the Allotted Shares that is reasonably calculated considering the period from the start date of the Transfer Restriction Period to the date of approval of the said organizational restructuring, etc., based on a resolution of the Board of Directors of the Company.

In the Event of Approval of Organizational Restructuring, etc., the Company will, on the business day before the effective date of said organizational restructuring, etc., automatically acquire without compensation any of the Allotted Shares in relation to which the Transfer Restrictions have not been lifted.

3. Application to the executive officers of the Company and employees in equivalent positions

After the close of this Shareholders Meeting, the Company plans to allot restricted shares similar to the abovementioned restricted shares to Executive Officers and employees equivalent thereto of the Company.

(2) Other

Quarterly information for the fiscal year under review

(Accumulated total)	First quarter From April 1, 2020 to June 30, 2020	First half From April1, 2020 to September 30, 2020	First nine months From April1, 2020 to December 31, 2020	Full year under review From April 1, 2020 to March 31, 2021
Revenue (million yen)	13,963	26,457	42,503	61,662
Profit before tax (million yen)	1,776	3,023	5,708	9,459
Profit attributable to owners of parent (million yen)	668	1,279	2,904	4,917
Basic earnings per share (yen)	12.92	24.71	56.07	95.21

(Quarterly)	First quarter From April 1, 2020 to June 30, 2020	Second quarter From July 1, 2020 to September 30, 2020	Third quarter From October 1, 2020 to December 31, 2020	Fourth quarter From January 1, 2021 to March 31, 2021
Basic earnings per share (yen)	12.92	11.79	31.35	39.22

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, 2020)		Fiscal year under review (As of March 31, 2021)
Assets				
Current assets				
Cash and deposits		3,033		7,470
Trade notes receivable	Note 1	145		651
Electronically recorded monetary claims		295		326
Accounts receivable	Note 1	3,970	Note 1	3,387
Merchandise and finished goods		3,495		3,743
Work in process		1,241		1,385
Raw materials and supplies		1,926		3,026
Short-term loans receivable from subsidiaries and associates		--		333
Consumption taxes receivable		724		745
Other	Note 1	444	Note 1	145
Allowance for doubtful accounts		-35		-110
Total current assets		15,242		21,105
Non-current assets				
Property, plant and equipment				
Buildings		1,822		1,813
Structures		73		67
Machinery and equipment		242		196
Vehicles		5		4
Tools, furniture and fixtures		98		89
Land		246		246
Leased assets		28		21
Construction in progress		--		0
Total property, plant and equipment		2,518		2,440
Intangible assets				
Software		1,233		1,049
Telephone subscription rights		7		7
Other		0		0
Total intangible assets		1,241		1,057
Investments and other assets				
Investment securities		5,893		4,093
Shares in affiliates		3,253		3,173
Investments in capital of subsidiaries and associates		849		849
Long-term loans receivable from affiliates		2,367		2,221
Prepaid pension cost		183		135
Other		205		198
Total investments and other assets		12,753		10,671
Total non-current assets		16,512		14,170
Total assets		31,755		35,275

(Million yen)

	Previous fiscal year (As of March 31, 2020)		Fiscal year under review (As of March 31, 2021)	
Liabilities				
Current liabilities				
Trade notes payable		3,341		2,640
Accounts payable	Note 1	1,472	Note 1	2,521
Short-term loans payable		5,000		7,500
Accounts payable - other	Note 1	243	Note 1	161
Accrued expenses payable		223		231
Income taxes payable		16		303
Provision for product warranties		264		208
Provision for bonuses		141		180
Other		166		282
Total current liabilities		10,868		14,027
Non-current liabilities				
Deferred tax liabilities		581		250
Provision for retirement benefits		832		853
Other		48		40
Total non-current liabilities		1,462		1,143
Total liabilities		12,330		15,171
Net assets				
Shareholders' equity				
Capital stock		12,345		12,345
Retained earnings				
Legal retained earnings		367		491
Other retained earnings				
Deferred retained earnings		6,682		9,065
Total retained earnings		7,050		9,556
Treasury shares		-2,994		-4,371
Total shareholders' equity		16,400		17,530
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		2,432		1,950
Total Valuation and translation adjustments		2,432		1,950
Share acquisition rights		591		623
Total net assets		19,424		20,104
Total liabilities and net assets		31,755		35,275

(ii) Non-consolidated statements of income

(Million yen)

	Previous fiscal year (from April 1, 2019 to March 31, 2020)		Fiscal year under review (from April 1, 2020 to March 31, 2021)	
Net sales	Note 1	25,937	Note 1	20,367
Cost of sales	Note 1	21,282	Note 1	16,261
Gross profit		4,654		4,105
Selling, general and administrative expenses	Note 1,2	4,253	Note 1,2	3,995
Operating income		401		109
Non-operating income				
Interest income		25		48
Dividend income		1,205		1,382
Insurance income		46		56
Provision of allowance for doubtful accounts		40		--
Other		51		188
Total non-operating income	Note 1	1,368	Note 1	1,676
Non-operating expenses				
Interest expenses		81		103
Foreign exchange losses		206		3
Loss on sales of notes payable		69		38
Provision of allowance for doubtful accounts		--		39
Other		44		33
Total non-operating expenses		402		218
Ordinary income		1,367		1,568
Extraordinary income				
Gain on sales of non-current assets		--		0
Gain on sales of investment securities		0		2,806
Gain on extinguishment of tie-in shares		--		61
Total extraordinary income		0		2,868
Extraordinary losses				
Loss on retirement of non-current assets		4		9
Loss on valuation of shares of subsidiaries and associates		--		11
Loss on sales of golf memberships		--		0
Loss from performance of warranty against defects		307		--
Total extraordinary losses		311		21
Income before taxes and other adjustments		1,056		4,414
Corporate, inhabitant and enterprise taxes		168		680
Deferred taxes		84		-77
Total corporate and other taxes		252		603
Net income		803		3,810

(iii) Non-consolidated statements of changes in net assets

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020)

(Million yen)

	Shareholders' equity					
	Capital stock	Retained earnings			Treasury shares	Total shareholders' equity
		Legal retained earnings	Other retained earnings Deferred retained earnings	Total retained earnings		
Balance at the beginning of current period	12,345	242	7,325	7,568	-2,943	16,970
Cumulative effect of change in accounting policy			-55	-55		-55
Beginning balance that reflects change in accounting policy	12,345	242	7,269	7,512	-2,943	16,914
Change during the fiscal year						
Cash dividends paid		124	-1,368	-1,244		-1,244
Net income			803	803		803
Purchase of treasury shares				--	-123	-123
Disposal of treasury shares			-21	-21	72	50
Changes in items other than shareholders' equity during the fiscal year (net)				--		--
Total change during the fiscal year	--	124	-586	-462	-51	-513
Balance at the end of current period	12,345	367	6,682	7,050	-2,994	16,400

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	2,600	2,600	495	20,066
Cumulative effect of change in accounting policy				-55
Beginning balance that reflects change in accounting policy	2,600	2,600	495	20,010
Change during the fiscal year				
Cash dividends paid				-1,244
Net income				803
Purchase of treasury shares				-123
Disposal of treasury shares				50
Changes in items other than shareholders' equity during the fiscal year (net)	-168	-168	95	-72
Total change during the fiscal year	-168	-168	95	-586
Balance at the end of current period	2,432	2,432	591	19,424

Consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

(Million yen)

	Shareholders' equity					
	Capital stock	Retained earnings			Treasury shares	Total shareholders' equity
		Legal retained earnings	Other retained earnings Deferred retained earnings	Total retained earnings		
Balance at the beginning of current period	12,345	367	6,682	7,050	-2,994	16,400
Change during the fiscal year						
Cash dividends paid		124	-1,366	-1,242		-1,242
Net income			3,810	3,810		3,810
Purchase of treasury shares				--	-1,495	-1,495
Disposal of treasury shares			-61	-61	119	57
Changes in items other than shareholders' equity during the fiscal year (net)				--		--
Total change during the fiscal year	--	124	2,382	2,506	-1,376	1,130
Balance at the end of current period	12,345	491	9,065	9,556	-4,371	17,530

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	2,432	2,432	591	19,424
Change during the fiscal year				
Cash dividends paid				-1,242
Net income				3,810
Purchase of treasury shares				-1,495
Disposal of treasury shares				57
Changes in items other than shareholders' equity during the fiscal year (net)	-481	-481	31	-449
Total change during the fiscal year	-481	-481	31	680
Balance at the end of current period	1,950	1,950	623	20,104

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. Recognition of revenue and expenses
   In the sale of machine tools (automatic lathes, grinding machines, machining centers, rolling machines and specialized machines) and related parts, the time when the 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 the time.

7. 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.

(Significant accounting estimates)

1. Valuation of inventories

(1) Amounts recorded in the financial statements for the fiscal year under review

(Million yen)

	Fiscal year under review
Inventories	8,155
Write-down of inventories	559
Reversal of write-down of inventories	442

The write-down of inventories is recognized by the reversal method.

(2) Information to facilitate understanding of accounting estimates

The same as what is stated in the note to consolidated financial statements "4. Significant accounting estimates and decisions with estimates, (1) Valuation of inventories."

2. Recoverability of deferred tax assets

(1) Amounts recorded in the financial statements for the fiscal year under review

(Million yen)

	Fiscal year under review
Net deferred tax assets	--

The amount before offset with deferred tax liabilities is ¥510 million.

(2) Information to facilitate understanding of accounting estimates

The same as what is stated in the note to consolidated financial statements "4. Significant accounting estimates and decisions with estimates, (2) Recoverability of deferred tax assets."

(Impact of the COVID-19)

The COVID-19 pandemic has had far-reaching effects on business activities, with growing concerns over global economic slowdown.

In this environment, the Company has made the utmost efforts to make accounting estimates based on information available at the time of submission of the report.

However, it is difficult to predict the future impact of the COVID-19 pandemic and future uncertainties may affect the outcome of the Company's accounting estimates.

(Change in presentation)

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Company applies "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020) to the year-end financial statements for the fiscal year under review and includes notes on accounting estimates that are important for the financial statements.

Under a transitional provision in the proviso of Paragraph 11 of the accounting standard, the notes do not include information on the previous fiscal year.

(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, 2020)	Fiscal year under review (As of March 31, 2021)
Short-term monetary receivables	2,302	1,526
Short-term monetary payables	675	1,365

2. Amount of discount for bills receivable

(Million yen)

	Previous fiscal year (As of March 31, 2020)	Fiscal year under review (As of March 31, 2021)
Amount of discount for bills receivable	420	--
Amount of discount for export bills receivable	3,446	2,079

(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, 2019 to March 31, 2020)	Fiscal year under review (from April 1, 2020 to March 31, 2021)
Net sales	6,188	5,567
Amount of purchases	7,467	6,214
Selling, general and administrative expenses	140	46
Amount of transactions other than business transactions	1,049	1,290

*2. Selling expenses accounted for approximately 25% of total expenses in the previous fiscal year and approximately 18% in the fiscal year under review. General and administrative expenses accounted for approximately 75% of total expenses in the previous fiscal year and approximately 82% 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, 2019 to March 31, 2020)	Fiscal year under review (from April 1, 2020 to March 31, 2021)
Salaries and allowances	803	935
Provision for bonuses	35	47
Retirement benefit expenses	22	41
Research and development expenses	1,422	1,256
Depreciation	4	5
Provision of allowance for doubtful accounts	--	36
Provision for product warranties	264	208

(Securities)

Shares in subsidiaries and shares in affiliates

Previous fiscal year (As of March 31, 2020)

(Million yen)

Classification	Balance sheet amount	Fair value	Difference
Shares in subsidiaries	3,121	22,934	19,813

(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 ¥3,121 million.

Fiscal year under review (As of March 31, 2021)

(Million yen)

Classification	Balance sheet amount	Fair value	Difference
Shares in subsidiaries	3,121	35,525	32,404

(Note) Balance sheet amount of shares in subsidiaries whose fair values are very difficult to estimate

Classification	Balance sheet amount
Shares in subsidiaries	52

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 ¥3,121 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, 2020)	Fiscal year under review (As of March 31, 2021)
Deferred tax assets		
Allowance for doubtful accounts	14	36
Provision for bonuses	42	54
Reserve for retirement benefits	197	218
Provision for product warranties	80	63
Loss on devaluation of investment securities	121	121
Loss on devaluation of stocks of subsidiaries and affiliates	7	4
Loss on devaluation of inventories	140	172
Impairment loss	40	37
Accrued enterprise taxes	10	57
Stock-based compensation expense	180	189
Non-qualified contribution in-kind	782	782
Foreign tax credit carried forward	340	270
Other	98	114
Deferred tax assets subtotal	2,057	2,124
Valuation reserve	-1,639	-1,613
Deferred tax assets total	417	510
Deferred tax liabilities		
Valuation difference on available-for-sale securities	-998	-760
Deferred tax liabilities total	-998	-760
Net deferred tax assets (liabilities)	-581	-250

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, 2020)	Fiscal year under review (As of March 31, 2021)
Legally effective tax rate	30.5%	30.5%
(Adjustments)		
Residence tax on a per capita basis	1.3%	0.3%
Experiment and research expenses	-0.7%	-3.6%
Deemed foreign tax credit	--	-5.3%
Items permanently excluded from nontaxable expenses, including entertainment costs	5.7%	1.4%
Items permanently excluded from gross revenue including Dividend income	-29.3%	-8.8%
Increase (decrease) in valuation reserve	18.2%	-0.6%
Other	-1.7%	-0.2%
Actual effective tax rate after applying tax effect accounting	23.9%	13.7%

(Business Combination)

Transactions under common control

The Company merged TSUGAMI MACHINERY CO., LTD., which is a wholly owned subsidiary of the Company, by an absorption-type merger with October 1, 2020 as the effective date, based on a resolution of a meeting of the Board of Directors held on June 17, 2020.

(1) Overview of the transaction

(i) Name of combined entity and description of its business

Name of combined entity: TSUGAMI MACHINERY CO., LTD.

Description of business: Installation and repair of machine tools

(ii) Date of business combination

October 1, 2020

(iii) Legal form of business combination

Absorption-type merger in which the Company is the surviving company and TSUGAMI MACHINERY CO., LTD. is the dissolving company.

(iv) Name of the company after business combination

TSUGAMI CORPORATION

(v) Other matters concerning the transaction overview

TSUGAMI MACHINERY CO., LTD. was engaged in after-sales services such as the installation and repair of the Company's products but decided to merge with the Company to integrate its operations with the Company's user support operations and to build a structure for even faster more efficient services.

(2) Overview of accounting procedures implemented

The Company accounted for the business combination as a transaction under common control based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued on January 16, 2019).

(Recognition of revenue)

In the sale of machine tools (automatic lathes, grinding machines, machining centers, rolling machines and specialized machines) and related parts, the time when the 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 the time.

(Important post-balance sheet events)

Purchase of treasury shares

At a meeting of the Board of Directors held on April 20, 2021, the Company passed a resolution on matters related to the purchase of treasury stock under Article 459, Paragraph 1 of the Companies Act.

(1) Resolution of the Board of Directors on purchase of treasury stock

(i) Reason for the purchase of treasury stock

To implement flexible capital policy measures in response to future changes in the management environment

(ii) Class of stock to be purchased	Common stock
(iii) Total number of shares that can be purchased	1,000,000 (maximum) (Ratio of the number to the number of shares issued, excluding treasury stock: 1.96%)
(iv) Total stock acquisition cost	¥1,850 million (maximum)
(v) Acquisition period	From April 20, 2021 to October 21, 2021
(vi) Acquisition method	Market purchase at the Tokyo Stock Exchange

(2) Total number of shares of treasury stock purchased under the abovementioned resolution of the Board of Directors

(i) Total number of shares purchased	899,000
(ii) Total acquisition cost	¥1,446 million

At a meeting of the Board of Directors held on June 16, 2021, the Company passed a resolution on matters related to the purchase of treasury stock under Article 459, Paragraph 1 of the Companies Act.

(1) Resolution of the Board of Directors on purchase of treasury stock

(i) Reason for the purchase of treasury stock

To implement flexible capital policy measures in response to future changes in the management environment

(ii) Class of stock to be purchased	Common stock
(iii) Total number of shares that can be purchased	1,000,000 (maximum) (Ratio of the number to the number of shares issued, excluding treasury stock: 2.00%)
(iv) Total stock acquisition cost	¥1,750 million (maximum)
(v) Acquisition period	From June 16, 2021 to November 11, 2021
(vi) Acquisition method	Market purchase at the Tokyo Stock Exchange

Introduction of a restricted stock compensation plan

At a meeting of the Company's Board of Directors held on May 13, 2021, the Company reviewed the directors' compensation system and resolved to introduce a restricted stock compensation plan ("the Plan"). An agenda item related to the Plan was proposed to the Company's 118th annual shareholders meeting held on June 16, 2021 ("the Shareholders Meeting"), which resolved to introduce the Plan.

1. Purpose of the introduction of the Plan, etc.

The Company resolved to introduce the Plan as a compensation plan to allot restricted shares for the Company's directors (excluding directors who are members of the Audit & Supervisory Committee and outside directors; hereinafter "the Eligible Directors") to promote greater sharing with the shareholders of the advantages and risks of stock price changes and to further raise the directors' motivation to contribute to raising the stock price and corporate value.

Under the Plan, the Company has set the total annual amount of monetary compensation claims provided to the Eligible Directors as compensation etc. related to restricted shares at no more than ¥80 million, comprehensively considering the Eligible Directors' contributions, among other factors.

2. Overview of the Plan

(1) Allotment of and payment for restricted shares

The Company will grant to Eligible Directors monetary compensation claims within the abovementioned annual limit as compensation, etc. related to restricted shares based on resolutions of the Board of Directors of the Company, and each of the Eligible Directors will receive allotment of restricted shares by paying in all such monetary compensation claims by way of in-kind contribution.

The amount paid for restricted shares will be determined by the Board of Directors based on the closing price of the Company's common shares at the Tokyo Stock Exchange on the business day immediately before the day on which resolutions are made at a meeting of the Board of Directors (or the closing price on the immediately preceding day if no trades are made on this day) with respect to the issuance or disposal of such shares, provided that such amount shall not be particularly favorable to the Eligible Directors who subscribe for such restricted shares.

In addition, the abovementioned monetary compensation claims shall be granted on the condition that the Eligible Directors agree to the abovementioned in-kind contribution and conclude an agreement on the allotment of shares with transfer restrictions that includes the provisions specified in (3) below.

(2) Total number of restricted shares

The total number of restricted shares allotted to the Eligible Directors in each fiscal year shall not exceed 150,000 shares.

However, if, after the day on which a resolution is passed to adopt this Proposal, there is a stock split (including the gratis allotment of the Company's common shares) or stock consolidation of the Company's common shares, or any other similar event requiring adjustment to the total number of restricted shares to be allotted, the total number of restricted shares to be allotted will be adjusted accordingly within a reasonable range.

(3) Details of agreement on the allotment of shares with transfer restrictions

In conjunction with the allotment of restricted shares, the following provisions shall be included in an agreement on the allotment of shares with transfer restrictions to be concluded between the Company and the Eligible Directors who will be allotted restricted shares, based on resolutions of the Board of Directors of the Company.

(i) Details of transfer restrictions

Eligible Directors who have been allotted restricted shares shall not engage in transfer, the establishment of a pledge, the establishment of security by way of assignment, transfer in the form of inter vivos gifts, disposition at will, or any other act of disposition to any third party (hereinafter referred to as the “Transfer Restrictions") with respect to the Restricted Shares allotted to such Eligible Directors (hereinafter referred to as the "Allotted Shares") during the period from the day on which the restricted shares are delivered until the day on which the Eligible Directors retire from all positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company (hereinafter referred to as the “Transfer Restriction Period").

(ii) Acquisition of restricted shares without compensation

If Eligible Directors who have been allotted restricted shares retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company during the period from the start date of the Transfer Restriction Period until the day before the first Annual Shareholders Meeting of the Company to be held after such start date, the Company may automatically acquire the Allotted Shares without compensation, unless such acquisition is denied for reasons that the Board of Directors acknowledges to be justifiable.

In addition, if there are any Allotted Shares whose Transfer Restrictions are not lifted when the Transfer Restriction Period defined in (i) above has expired due to provisions on the lifting of the Transfer Restrictions specified in (iii) below, the Company may automatically acquire such shares without compensation.

(iii) Lifting of the transfer restrictions

Provided that Eligible Directors who have been allotted restricted shares have continually held positions as Directors, Executive Officers or employees equivalent thereto during the period from the start date of the Transfer Restriction Period until the day of the first Annual Shareholders Meeting of the Company to be held after such start date, the Company may lift the Transfer Restrictions for all of the Allotted Shares on the day when the relevant Transfer Restriction Period expires.

However, if such Eligible Directors retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company during the period from the start date of the Transfer Restriction Period until the day before the first Annual Shareholders Meeting of the Company to be held after such start date for reasons that the Board of Directors acknowledges to be justifiable, the Company may make reasonable adjustments to the number of the Allotted Shares on which transfer restrictions are lifted and the timing of the lifting of restrictions as necessary.

(iv) Handling in the case of organizational restructuring, etc.

If, during the Transfer Restriction Period, the Shareholders Meeting of the Company approves a proposal concerning a merger contract under which the Company will cease to exist, a share exchange agreement or share transfer plan under which the Company will become a wholly owned subsidiary, or any other organizational restructuring, etc. (or, in cases where approval at the Shareholders Meeting of the Company for said organizational restructuring, etc. is not necessary, if the Board of Directors of the Company approves the same) (only applies if the effective date of said organizational restructuring, etc. precedes expiration of the Transfer Restriction Period; hereinafter referred to as the "In the Event of Approval of Organizational Restructuring, etc.") and if the Eligible Directors who have been allotted restricted shares will retire from all the positions they hold as Directors, Executive Officers or employees equivalent thereto of the Company as a result of said organizational restructuring, etc., the Company will lift the Transfer Restrictions prior to the effective date of said organizational restructuring, etc. with respect to the number of the Allotted Shares that is reasonably calculated considering the period from the start date of the Transfer Restriction Period to the date of approval of the said organizational restructuring, etc., based on a resolution of the Board of Directors of the Company.

In the Event of Approval of Organizational Restructuring, etc., the Company will, on the business day before the effective date of said organizational restructuring, etc., automatically acquire without compensation any of the Allotted Shares in relation to which the Transfer Restrictions have not been lifted.

3. Application to the executive officers of the Company and employees in equivalent positions

After the close of this Shareholders Meeting, the Company plans to allot restricted shares similar to the abovementioned restricted shares to Executive Officers and employees equivalent thereto of the Company.

(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	1,822	96	0	104	1,813	2,501
Structures	73	4	--	10	67	344
Machinery and equipment	242	8	0	53	196	2,432
Vehicles	5	--	--	1	4	28
Tools, furniture and fixtures	98	34	0	43	89	427
Land	246	--	0	--	246	--
Leased assets	28	--	--	7	21	18
Construction in progress	--	33	33	--	0	--
Total Property, plant and equipment assets	2,518	177	34	220	2,440	5,752
Software	1,233	97	--	281	1,049	--
Telephone subscription rights	7	0	--	--	7	--
Other	0	--	--	0	0	--
Total Intangible assets	1,241	97	--	281	1,057	--

(Note) The following is major items that were added in the fiscal year under review:

Buildings	Nagaoka factory	Air conditioning and ventilation equipment	¥52 million
Buildings	Nagaoka factory	Oil storage warehouse	¥33 million
Tools, furniture and fixtures	Nagaoka factory	Machine tool manufacturing tools	¥13 million
Software	Nagaoka factory	Mission-critical system	¥79 million
Software	Nagaoka factory	Consolidated accounting system	¥10 million

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	46	75	--	121
Provision for bonuses	141	180	141	180
Provision for product warranties	264	166	222	208

(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 March 31
Number of shares per unit	100 shares
Fractional share repurchase	
Handling place	(Special purpose account) Securities Transfer Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Administrator of shareholders' list	(Special purpose account) Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Contact place	---------------------------------------
Repurchase fee	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 117th fiscal year (from April 1, 2019 to March 31, 2020) Submitted to the director general of the Kanto Finance Bureau on June 18, 2020

(2) Internal control report and its attached documents
Submitted to the director general of the Kanto Finance Bureau on June 18, 2020

(3) Quarterly reports and confirmation documents
1st quarter of the 118th fiscal year (from April 1, 2020 to June 30, 2020) Submitted to the director general of the Kanto Finance Bureau on August 12, 2020
2nd quarter of the 118th fiscal year (from July 1, 2020 to September 30, 2020) Submitted to the director general of the Kanto Finance Bureau on November 12, 2020
3rd quarter of the 118th fiscal year (from October 1, 2020 to December 31, 2020) Submitted to the director general of the Kanto Finance Bureau on February 12, 2021

(4) Extraordinary report
Submitted to the director general of the Kanto Finance Bureau on June 22, 2020
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 November 13, 2020
An extraordinary report under Article 19, Paragraph 2, Item 12 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc. (Event which may have a material impact on the financial position, operating results and cash flow status)

(5) Report on state of purchase of Treasury shares
Reporting period (from June 1, 2020 to June 30, 2020) Submitted to Director General of Kanto Finance Bureau on July 14, 2020
Reporting period (from July 1, 2020 to July 31, 2020) Submitted to Director General of Kanto Finance Bureau on August 12, 2020
Reporting period (from August 1, 2020 to August 31, 2020) Submitted to Director General of Kanto Finance Bureau on September 14, 2020
Reporting period (from September 1, 2020 to September 30, 2020) Submitted to Director General of Kanto Finance Bureau on October 14, 2020
Reporting period (from October 1, 2020 to October 31, 2020) Submitted to Director General of Kanto Finance Bureau on November 12, 2020
Reporting period (from November 1, 2020 to November 30, 2020) Submitted to Director General of Kanto Finance Bureau on December 14, 2020
Reporting period (from December 1, 2020 to December 31, 2020) Submitted to Director General of Kanto Finance Bureau on January 14, 2021
Reporting period (from January 1, 2021 to January 31, 2021) Submitted to Director General of Kanto Finance Bureau on February 12, 2021
Reporting period (from February 1, 2021 to February 29, 2021) Submitted to Director General of Kanto Finance Bureau on March 12, 2021
Reporting period (from March 1, 2021 to March 31, 2021) Submitted to Director General of Kanto Finance Bureau on April 14, 2021
Reporting period (from April 1, 2021 to April 30, 2021) Submitted to Director General of Kanto Finance Bureau on May 13, 2021
Reporting period (from May 1, 2021 to May 31, 2021) Submitted to Director General of Kanto Finance Bureau on June 14, 2021

Chapter 2. Information on the Guarantee Company of the Submitting Company

Not applicable.

Audit Report and Internal Control Audit Report of Independent Auditor

June 16, 2021

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC
Niigata office

Designated and engagement partner with limited liability
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability
Certified public accountant Shinichi Oshima

(Financial statements audit)

Auditor's opinion

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, 2020 to March 31, 2021, 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.

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, 2021 and the consolidated results of their operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) specified in Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

Grounds for the auditor's opinion

We have implemented an audit in compliance with auditing standards that are generally accepted as fair and appropriate in Japan. Our responsibility under the auditing standards is described in the Responsibility of the auditor in the audit of the consolidated financial statements below. Following the code of professional ethics in Japan, we are independent of Tsugami Corporation and its consolidated subsidiaries and fulfill other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence that will become the basis for our opinion.

Major considerations in auditing

The major considerations in auditing are matters that the auditor as a professional considers particularly important in the audit of the consolidated financial statements for the consolidated fiscal year under review. The major considerations in auditing are matters that the auditor took into consideration in the process of auditing all consolidated financial statements and the formation of the auditor's opinions. The auditor does not express any opinions about individual matters.

Valuation of inventories	
Major considerations in auditing and reasons why they are major considerations	Audit procedures
As stated in Note 10 to the consolidated financial statements, the Company posted inventories of ¥20,774 million as of March 31, 2021. The Company posted an inventory write-down of ¥770 million in the consolidated fiscal year under review. The inventory write-down is the acquisition cost minus the net realizable value. The net realizable value is calculated by reducing the estimated cost for completion of goods and estimated selling expenses from the estimated sales price in the usual business process. The Company identifies inventories whose sales potential or estimated use has declined due to changes in the performance and functionality, etc. that customers demand based chiefly on a list of holding periods and shipment data. The Company determines that the profitability of the inventories has declined if they are held after a period of time that it usually takes, the Company expects, from receiving them to their sale or use and accordingly evaluates the inventories. The Company manufactures a range of products in response to customers' needs for precision processing, and one of the characteristics of its products is that the Company cannot directly monitor market prices. The Company thus assesses excess and long-held inventory and estimates the amount of inventory write-down based chiefly on the turnover periods and holding periods of its materials needed to manufacture the products. Those estimates include the management's assumptions and judgments, including those related to estimates of future demand, sales prices, and costs for additional processing. The valuation of inventories involves management's assumptions and judgments, and considerations in auditing require high-level judgments. We have therefore decided that the matters are major considerations in auditing.	In the valuation of inventories, we have performed the following procedures, among other procedures: ・To evaluate the internal control system related to the valuation of inventories and its operation, we have inspected the relevant documentation and questioned persons in charge of internal control. ・To evaluate the effectiveness of the management's process of the valuation of inventories, we have inspected actual sales, etc. in the consolidated fiscal year under review and compared the estimated net realizable value at the end of the previous consolidated fiscal year and unit selling prices, etc. after that. ・We have examined the accuracy of the list of holding periods and shipment data that the management uses as information for examining sales potential and estimated use and have recalculated the net realizable value and inventory write-down. ・We have inspected actual orders around the end of the fiscal year and compared the estimated net realizable value for the consolidated fiscal year under review and unit selling prices, etc. ・We have questioned the management about the future environment for receiving orders that the Company assumes, etc. and have examined the assumption, comparing it with information outside the Company that we have obtained independently, etc.

Responsibility of management and the audit and supervisory committee for consolidated financial statements

Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with international accounting standards. 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 any material misstatements due to wrongdoing or errors.

In preparing consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare consolidated financial statements based on the going concern assumption. If it is necessary to disclose going concern matters under international accounting standards, management is responsible for disclosing the matters.

The responsibility of the audit and supervisory committee is monitoring the directors' execution of business in the development and operation of a financial reporting process.

Responsibility of the auditor in the audit of consolidated financial statements

This audit corporation is responsible for obtaining, based on the audits it conducts, reasonable assurance for the absence of material misstatements due to wrongdoing or errors in the consolidated financial statements as a whole and expressing in the audit report its opinions on the consolidated financial statements from an independent position. Misstatements may occur because of wrongdoing or errors and are judged material if they are reasonably expected to affect, separately or collectively, the decision making of the users of the consolidated financial statements.

The auditor follows auditing standards generally accepted as fair and appropriate in Japan. Throughout the auditing process, the audit corporation makes decisions as professionals, and with professional skepticism, implements the following:

- The auditor identifies and assesses the risk of material misstatement due to wrongdoing or errors and designs and performs an audit procedure that can deal with the risk of material misstatement. The auditor chooses and applies an audit procedure at its own discretion. The auditor obtains sufficient and appropriate audit evidence that becomes the basis for its opinion.
- The purpose of the audit of consolidated financial statements is not expressing its opinion about the effectiveness of internal control. In risk assessment, however, the auditor examines internal control related to auditing to design an appropriate audit procedure suitable for the situation.
- The auditor assesses the adequacy of the accounting policy adopted by management and the application of the policy, and the reasonableness of accounting estimates made by management and the adequacy of related notes.
- The auditor decides whether it is appropriate for management to prepare consolidated financial statements based on the going concern assumption and whether any material uncertainty is recognized, based on the audit evidence obtained, about any events or circumstances that would raise material doubts about the going concern assumption. If any material uncertainty is recognized about the going concern assumption, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report. If the notes to the consolidated financial statements about material uncertainty are inadequate, the auditor is required to express a qualified opinion. The auditor's conclusion is based on the audit evidence that is obtained by the date of the audit report. The audited company may not be able to survive as an ongoing concern depending on future events and circumstances.
- The auditor assesses whether the presentation of the consolidated financial statements and the notes comply with international accounting standards. The auditor also assesses the presentation, structure and content of the consolidated financial statements including the related notes and whether the consolidated financial statements adequately present the underlying transactions and accounting events.
- The auditor obtains sufficient and appropriate audit evidence about Tsugami Corporation and its consolidated subsidiaries' financial information to express its opinion about the consolidated financial statements. The auditor is responsible for the instruction, supervision, and execution of the audit of the consolidated financial statements. The auditor assumes sole responsibility for its audit opinion.

The auditor reports to the audit and supervisory committee the scope and timing of the planned audit, important findings, including significant deficiencies in internal control, identified in the audit, and other matters related to the requirements in the accounting standards.

The auditor reports to the audit and supervisory committee its compliance with the code of professional ethics related to independence in Japan, matters reasonably considered to affect the auditor's independence, and if the auditor uses any safeguards to remove or reduce impediments, those safeguards.

Of the matters that the auditor has discussed with the Audit & Supervisory Committee, the auditor identifies matters it considers particularly important in the audit of the consolidated financial statements for the consolidated fiscal year under review as major considerations in auditing and describes them in the audit report. However, the auditor does not include matters in the audit report if their disclosure is prohibited under laws and regulations, etc. or if the auditor decides that the matters should not be reported in the audit report because the disadvantages resulting from the reporting are reasonably considered to be greater than the public interest, although that situation is extremely rare.

Internal Control Audit

Auditor's opinion

We have audited the internal control report of Tsugami Corporation as of March 31, 2021 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

In our opinion, the internal control report in which Tsugami Corporation states that the internal control over financial reporting as of March 31, 2021 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.

Grounds for the auditor's opinion

We have implemented an internal control audit in compliance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibility under the auditing standards for internal control over financial reporting is described in the Responsibility of the auditor in the internal control audit below. Following the code of professional ethics in Japan, we are independent of Tsugami Corporation and its consolidated subsidiaries and fulfill other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence that will become the basis for our opinion.

Responsibility of management and the audit and supervisory committee for the internal control report

Management is responsible for developing and operating internal control over financial reporting and preparing and appropriately presenting an internal control report in accordance with assessing standards generally accepted in Japan concerning internal control over financial reporting.

The responsibility of the audit and supervisory committee is monitoring and examining the development and operation of internal control over financial reporting.

The internal control over financial reporting might be unable to prevent or detect misstatements in financial reporting completely.

Responsibility of the auditor in the internal control audit

This audit corporation is responsible for obtaining, based on the internal control audit it conducts, reasonable assurance for the absence of material misstatements in the internal control report and expressing in the internal control audit report its opinions on the internal control report.

The auditor follows standards for audits of internal control over financial reporting that are generally accepted as fair and appropriate in Japan. Throughout the auditing process, the audit corporation makes decisions as professionals, and with professional skepticism, implements the following:

・The auditor performs audit procedures to obtain audit evidence for the assessment of internal control over financial reporting in the internal control report. The auditor selects and applies procedures for the internal control audit at its own discretion based on the significance of effects on the reliability of financial reporting.
・The auditor examines the presentation of the internal control report as a whole, including statements made by management about the scope of the assessment of internal control over financial reporting, assessment procedures, and assessment results.
・The auditor obtains sufficient and appropriate audit evidence about the results of the assessment of internal control over financial reporting in the internal control report. The auditor is responsible for the instruction, supervision, and execution of the audit of the internal control report. The auditor assumes sole responsibility for its audit opinion.

The auditor reports to the audit and supervisory committee the scope and timing of the planned internal control audit, the results of the internal control audit, significant deficiencies in internal control identified and to be disclosed, corrections of deficiencies, and other matters related to the requirements in the standards for internal control audits.

The auditor reports to the audit and supervisory committee its compliance with the code of professional ethics related to independence in Japan, matters reasonably considered to affect the auditor's independence, and if the auditor uses any safeguards to remove or reduce impediments, those safeguards.

Interest

The Company and its consolidated subsidiaries and the auditing corporation or 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 16, 2021

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC
Niigata office

Designated and engagement partner with limited liability
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability
Certified public accountant Shinichi Oshima

Auditor's opinion

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 118th fiscal year from April 1, 2020 to March 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tsugami Corporation as of March 31, 2021, and the results of their operations for the year then ended, in conformity with accounting principles generally accepted in Japan.

Grounds for the auditor's opinion

We have implemented an audit in compliance with auditing standards that are generally accepted as fair and appropriate in Japan. Our responsibility under the auditing standards is described in the Responsibility of the auditor in the audit of financial statements below. Following the code of professional ethics in Japan, we are independent of Tsugami Corporation and fulfill other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence that will become the basis for our opinion.

Major considerations in auditing

The major considerations in auditing are matters that the auditor as a professional considers particularly important in the audit of the financial statements for the fiscal year under review. The major considerations in auditing are matters that the auditor took into consideration in the process of the audit of the entire financial statements and the formation of the auditor's opinions. The auditor does not express any opinions about individual matters.

Valuation of inventories	
Major considerations in auditing and reasons why they are major considerations	Audit procedures
The Company posted merchandise and finished goods of ¥3,743 million, work in process of ¥1,385 million, and raw materials and supplies of ¥3,026 million as of March 31, 2021. The Company posted an inventory write-down of ¥559 million in the fiscal year under review, using the book-value write-down method based on the decline of profitability. The Company identifies inventories whose sales potential or estimated use has declined due to changes in the performance and functionality, etc. that customers demand based chiefly on a list of holding periods. The Company decides that the profitability of the inventories has declined if they are held after a period of time that it usually takes, the Company expects, from receiving them to their sale or use and evaluates the inventories accordingly. The Company manufactures a variety of products in response to customers' needs for precision processing, and one of the characteristics of its products is that the Company cannot directly monitor market prices. The Company thus assesses excess inventory and long-held inventory and estimates the amount of inventory write-down based chiefly on the turnover periods and holding periods of its materials needed to manufacture the products. Those estimates include the management's assumptions and judgments, including those related to estimates of future demand, sales prices, and costs for additional processing. The valuation of inventories involves management's assumptions and judgments, and considerations in auditing require high-level judgments. We have therefore decided that the matters are major considerations in auditing.	In the valuation of inventories, we have performed the following procedures, among others: ・To evaluate the internal control system related to the valuation of inventories and its operation, we have inspected the relevant documentation and questioned persons in charge of internal control. ・To evaluate the effectiveness of the management's process of the valuation of inventories, we have inspected actual sales, etc. in the fiscal year under review and compared the estimated net selling price at the end of the previous fiscal year and unit selling prices, etc. after that. ・We have examined the accuracy of the list of holding periods and shipment data that the management uses as information for examining sales potential and estimated use and have recalculated the net selling price and inventory write-down. ・We have inspected actual orders around the end of the fiscal year and compared the estimated net selling price for the fiscal year under review and unit selling prices, etc. around the end of the fiscal year. ・We have questioned the management about the future environment for receiving orders that the Company assumes, etc. and have examined the assumption, comparing it with information outside the Company that we have obtained independently, etc.

Responsibility of management and the audit and supervisory committee for financial statements

Management is responsible for preparing and appropriately presenting financial statements in compliance with accounting principles generally accepted in Japan. This includes the development and operation of internal control, which management deems necessary for preparing and appropriately presenting financial statements that do not have any material misstatements due to wrongdoing or errors.

In preparing financial statements, management is responsible for assessing whether it is appropriate to prepare financial statements based on the going concern assumption. If it is necessary to disclose going concern matters under accounting principles generally accepted in Japan, management is responsible for disclosing the matters.

The responsibility of the audit and supervisory committee is monitoring the directors' execution of business in the development and operation of a financial reporting process.

Responsibility of the auditor in the audit of financial statements

This audit corporation is responsible for obtaining, based on the audits it conducts, reasonable assurance for the absence of material misstatements due to wrongdoing or errors in the financial statements as a whole and expressing in the audit report its opinions on the financial statements from an independent position. Misstatements may occur because of wrongdoing or errors and are judged material if they are reasonably expected to affect, separately or collectively, the decision making of the users of the financial statements. The auditor follows auditing standards generally accepted as fair and appropriate in Japan. Throughout the process, the audit corporation makes decisions as professionals, and with professional skepticism, implements the following:

- The auditor identifies and assesses the risk of material misstatement due to wrongdoing or errors and designs and performs an audit procedure that can deal with the risk of material misstatement. The auditor chooses and applies an audit procedure at its own discretion. The auditor obtains sufficient and appropriate audit evidence that becomes the basis for its opinion.
- The purpose of the audit of financial statements is not expressing its opinion about the effectiveness of internal control. In risk assessment, however, the auditor examines internal control related to auditing to design an appropriate audit procedure suitable for the situation.
- The auditor assesses the adequacy of the accounting policy adopted by management and the application of the policy, and the reasonableness of accounting estimates made by management and the adequacy of related notes.
- The auditor decides whether it is appropriate for management to prepare financial statements based on the going concern assumption and whether any material uncertainty is recognized, based on the audit evidence obtained, about any events or circumstances that would raise material doubts about the going concern assumption. If any material uncertainty is recognized about the going concern assumption, the auditor is required to call attention to the notes to the financial statements in the audit report. If the notes to the financial statements about material uncertainty are inadequate, the auditor is required to express a qualified opinion. The auditor's conclusion is based on the audit evidence that is obtained by the date of the audit report. The audited company may not be able to survive as an ongoing concern depending on future events and circumstances.
- The auditor assesses whether the presentation of the financial statements and the notes comply with accounting principles generally accepted in Japan. The auditor also assesses the presentation, structure and content of the financial statements including the related notes and whether the financial statements adequately present the underlying transactions and accounting events.

The auditor reports to the audit and supervisory committee the scope and timing of the planned audit, important findings, including significant deficiencies in internal control, identified in the audit, and other matters related to the requirements in the accounting standards.

The auditor reports to the audit and supervisory committee its compliance with the code of professional ethics related to independence in Japan, matters reasonably considered to affect the auditor's independence, and if the auditor uses any safeguards to remove or reduce impediments, those safeguards.

Of the matters that the auditor has discussed with the Audit & Supervisory Committee, the auditor identifies the matters it considers particularly important in the audit of the financial statements for the fiscal year under review as major considerations in auditing and describes them in the audit report. However, the auditor does not include matters in the audit report if their disclosure is prohibited under laws and regulations, etc. or if the auditor decides that the matters should not be reported in the audit report because the disadvantages resulting from the reporting are reasonably considered to be greater than the public interest, although that situation is extremely rare.

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.