

ANNUAL REPORT 2019

Year ended March 31, 2019



Pursue high added value through evolution of business axis management system and dynamic management.

In the new medium-term business plan FACE2021 for the period from fiscal 2019 to 2021, DAIICHI JITSUGYO CO., LTD. ("DJK") developed a vision of "Facing difficulties, accelerating growth, creating value and evolving quality", and we will aim to further strengthen its earnings potential by evolving our business axis management system that closely reflects today's market conditions, such as integration of business and technical services, and creation of new value through inter-business synergies.

Further, DJK will strive to develop a dynamic business by strengthening its business planning ability and utilizing management resources in such a way as to acquire through M&A and the forming of company alliances, in addition to placing a priority on implementing risk control.

Previous Medium-term Business Plan DASH2018

1 Promoting business axis management globally to realize further growth in business performance

Achievement

Strengthening the earning base

ROE (return on equity) achieved:

7.4% FY2015 **▶** **10.1%** FY2018

Creating high added value

Reinforce marketing efforts by integrating the regional and business axes.

Expand sales by quickly capturing the trend of customers' equipment investments.

2 Building a powerful governance system by improving the management structure

Achievement

Strengthening risk management

Promoting the employment of engineering staff to address the expanded range of businesses, thereby significantly reducing risks relating to engineering matters.

Strengthening governance

Reinforce measures on internal controls and the corporate governance codes. Embark on reform of the personnel system.

Promoting diversity management

Promote the appointment of female employees in managerial positions and the employment of women in management track positions. Appoint local employees as the heads of overseas bases.

Aiming to be a "Next-generation Engineering Trading Firm"

In the next 10 years, we aim to become a "next-generation engineering trading firm" that offers total coordination services combining equipment sales with technological service. To that end, we will continue to develop our capabilities to offer total coordination and total solutions, thereby creating and offering new value continuously.

FACE2021

Facing difficulties, Accelerate growth, Create value and Evolute quality.

For further information see P.7

Qualitative Targets

- 1** Evolution of businesses axis to closely reflect today's market conditions, and further enhancing profitability
- 2** Strengthening the driving force of management
Strive for dynamic management by strengthening business planning abilities and effectively utilizing management resources. (Considering the methods of M&A and the forming of company alliances.)
- 3** Enhancement of "corporate quality"

Quantitative Targets (Consolidated Management Targets)

(Millions of yen)

	FY2018 (Results)	FY2021 (Targets)
Net sales	161,891	*185,000 (200,000)
Operating income	7,573	8,300
Ordinary income	8,073	8,500
Profit attributable to owners of parent	4,457	5,700
ROE	10.1%	10.0% or higher

*The sales target for fiscal year 2021 is shown on a net basis by applying the new revenue recognition standard. The sales target on a gross basis is presented for reference in brackets ().

DJK DIGEST

NEW MEDIUM-TERM BUSINESS PLAN >>> P.1

CONSOLIDATED FINANCIAL HIGHLIGHTS >>> P.3

Sales decreased, but profit remained at a high level.
We aim to ensure steady sales and increase earning power.

INTERVIEW WITH THE PRESIDENT >>> P.4

By evolving our business axis management,
we will further advance the value and presence of the DJK Group.

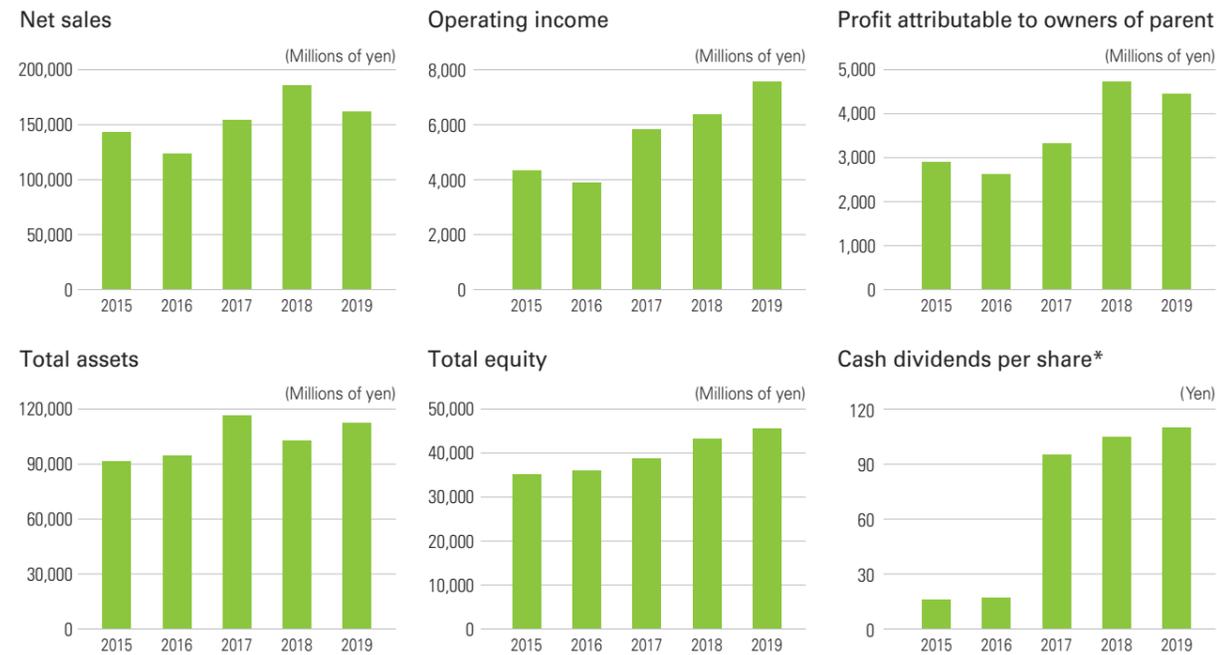
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Disclaimer regarding forward-looking statements

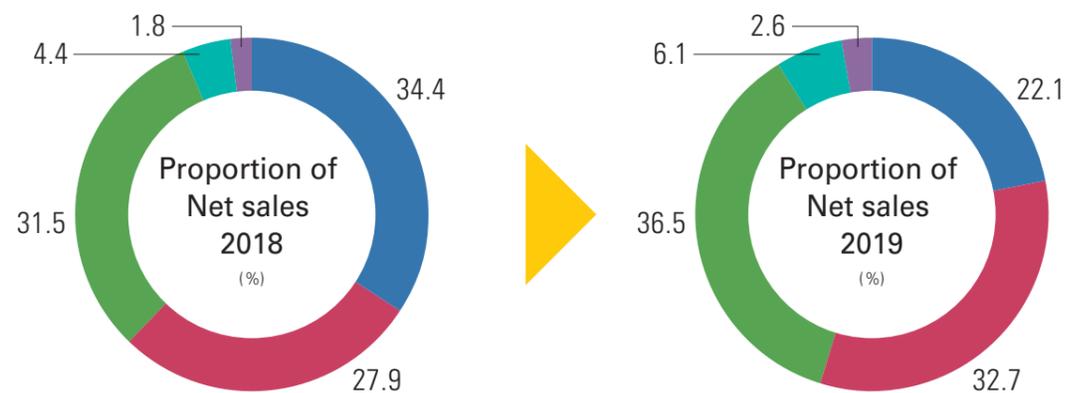
Statements made in this annual report with respect to DJK's forecasts and business targets that are not historical facts, are forward-looking statements about the future performance of DJK and its consolidated subsidiaries and are based on information currently available. Readers are cautioned that for a variety of reasons actual results could differ significantly from the projections presented in this report.

SELECTED FINANCIAL DATA



*Effective October 1, 2017, the Company's common shares were consolidated on the basis of 1 new share for 5 old shares (1:5) in Company capital. Per share information in the fiscal year ended March 31, 2017 has been retrospectively restated to reflect the 1 to 5 consolidation. Per share information in the fiscal year ended March 31, 2016, and before that fiscal year did not reflect the consolidation of common shares.

DIVISIONAL REVIEW → Page 9-10



■ Plant & Energy Business

Received a large order for fertilizer plant equipment and enjoyed firm demand for rechargeable battery manufacturing equipment.

■ Electronics Business

Enjoyed steady sales of equipment relating to automobiles, IT and digital products.

■ Aviation Business

Enjoyed growing demand for disaster-related equipment and ground support machinery for aircraft.

■ Industrial Machinery Business

Enjoyed favorable demand for equipment relating to automobiles and distribution.

■ Pharmaceuticals Business

In addition to large orders for packaging equipment, we enjoyed growing demand for equipment for manufacturing pharmaceuticals.

By evolving our business axis management, we will further advance the value and presence of the DJK Group.



I would like to take this opportunity to thank our stakeholders for their continuing support over the past fiscal year. Having completed the fiscal year from April 1, 2018, to March 31, 2019, we are pleased to report an overview of the business performance of the DJK Group.

President & CEO
Ichiro Uno

How would you summarize the operating results and the current situation of each business for the year under review?

The Company captured demand by accurately identifying customer needs. The Industrial Machinery Business and the Electronics Business were the major drivers of overall business performance.

Consolidated net sales for this fiscal year decreased compared with the previous fiscal year when DAIICHI JITSUGYO CO., LTD. and its subsidiaries (the "DJK Group") recorded one-time sales from a large project in the Plant & Energy Business segment, but the Group achieved record figures in terms of gross prof-

it, operating income and ordinary income for the fiscal year under review. Orders received on a consolidated basis approached our ¥200 billion target, as we captured demand by timely addressing customer needs in each industry. These achievements deserve recognition.

Meanwhile, an impairment loss on the manufacturing and marketing rights for the small binary power generation system, as a result of the reduced profitability of the system, led to a decline in profit attributable to owners of the parent.

Looking at the business results by segment, the Industrial Machinery Business and Electronics Business segments continued to play a leading role in boosting overall business performance as they did in the previous year. Although the Electronics Business segment experienced a slight drop in the demand for switchovers of smartphone models during the year, it responded quickly to the demand for facilities related to automatic control, automated driving and electrification to support next-generation automobiles. The Industrial Machinery Business segment offered high-value-added business solutions by not only providing a single device but also proposing solutions for the

entire production line. These efforts led to favorable performance in both segments.

The Plant & Energy Business segment continued to enjoy brisk demand for facilities relating to lithium-ion batteries. In addition to the robust Chinese market, Europe, a market sensitive to environmental issues, is experiencing an accelerated move toward electric vehicles (EVs). The DJK Group is, therefore, activating its efforts in the European market.

The temporary surge in sales of generic drugs in Japan has peaked out, but the Pharmaceuticals Business segment has become strong enough to acquire orders from customers with limited investment options. The Aviation Business segment saw growing demand for equipment and facilities in preparation for the Tokyo Olympic and Paralympic Games next year.

method of examining the effectiveness of investments, thereby strengthening risk management and corporate governance. We will continue these efforts while further raising awareness about governance.

As for promotion of diversity management, progress is taking shape gradually with the appointment of female managers and the assignment of a local staff member as president of an overseas affiliate. In response to the growing diversification of human resources to accommodate the expansion of business-

es, we have initiated efforts to revise the method of evaluation so that each employee can fully demonstrate his/her abilities.

As the evolution of our businesses gathers momentum, I would like to ensure that the initiatives under the previous medium-term business plan further penetrate throughout the DJK Group while increasing their effectiveness so that they will develop further under the new medium-term business plan.

Would you give us a summary of the former medium-term business plan DASH2018 and its results?

Wider application of the business axis management system contributed to improved business performance, and progress has been made in initiatives to reduce risks in regard to management structure improvements.

Now that four years have passed since we adopted the business axis management system, penetration of our basic policy of “Promote business axis management on a global basis to achieve further business expansion” has provided a favorable effect on the group’s business performance. Major global events during the past three years include the conversion of the marketing bases in India into locally incorporated companies, the opening of our third Mexican office in León and the establishment of the Sofia branch in Bulgaria, thereby strengthening support for local businesses.

On the other hand, we closed overseas offices in Qatar, Manaus in Brazil, Bintulu in Malaysia and Shenyang and Changchun in China, and withdrew from a joint venture with a surface treatment firm in China. I believe that we were able to make clear-cut decisions to allocate resources aggressively to thriving

businesses and withdrawal from sluggish ones. We will continue to promote business axis management globally by promoting community-based marketing activities and reconfirming the importance of regional axes.

In terms of the target of “Building a powerful governance system by improving the management structure,” there has been progress in reducing the risks associated with complex projects at home and overseas by employing highly skilled professional engineers. Progress also has been seen in enhancing the systems to allocate profits and expenses among overseas bases and reinforcing tax management systems, such as transfer price taxation. As to business investments, we have taken measures such as reviewing our internal rules for evaluating plans for new investments and setting up the Investment Management Reviewing Committee to enhance the

What are the themes and aims of the new medium-term business plan FACE2021?

Our goal is to further enhance profitability through evolution of business axes to closely reflect today’s market conditions.

The new medium-term business plan FACE2021 defines what the Company should be 10 years later as “a next-generation engineering trading firm that offers total coordination services combining equipment sales with engineering services.” To that end, we will continue to develop capabilities to offer total coordination and total solutions, thereby creating and offering new

value continuously. The period covered by the new medium-term business plan FACE2021 is positioned as a period of solidifying the foundations upon which to achieve the desired future status of DJK.

One of the qualitative targets under the new plan is “Evolution of business axis to closely reflect today’s market conditions, and further enhancing profitability.” As part of the efforts to evolve our businesses for increased profitability, we have created a separate automobile-related segment as the Automotive Business segment, aiming for a dramatic expansion of the business. By launching seven projects for automobiles—brakes, motors, inverters, advanced driver-assistance systems (ADAS), seats, bodies and lamps—we will address business opportunities for next-generation products and the development of advanced models. In doing so, we intend to expand our automobile-related businesses, for which the total amount of orders received grew to tens of billions of yen under the previous plan, even further under the new medium-term business plan. During the plan’s three years, we will seek to expand the rechargeable battery manufacturing equipment business in the Plant & Energy Business segment by making focused efforts to expand sales in China, the United States and Europe where the demand for electric vehicles is strong.



As the automobile industry has been making rapid changes to steer its way toward automated driving and electrification, we will concentrate our abilities on automobile parts production processes, which had been separately provided by the Industrial Machinery Business and Electronics Business segments, under the newly created Automotive Business segment to enable total solutions.

In addition, we will reinforce efforts to explore new business opportunities that might emerge from the crossover in different business fields and create new business axes. One example is our probe into food and medical business opportunities in the In-

dustrial Machinery Business and Pharmaceuticals Business segments. There also has been an increase in transactions to sell products discovered overseas to the markets in Japan and other nations. We will seize these business opportunities to expand our business fields and create new value beyond geographic and business boundaries.

Stronger management ability is required to achieve these goals. It is important to have systems in place to enable dynamic business management by acquiring higher business planning abilities and using management resources more effectively, while improving the quality of our entity.

FACE2021

Facing difficulties, Accelerate growth, Create value and Evolute quality.

Qualitative Targets

1 >> Evolution of businesses axis to closely reflect today's market conditions, and further enhancing profitability

- (i) Aim for a dramatic expansion in the automotive business.
- (ii) Enhance our added value by integrating sales and technical services.
- (iii) Bring out new values through the overlapping of different businesses (cross-points).
- (iv) Think globally, act locally while keeping in mind the importance of area.
- (v) Further develop local personnel to be active in the workforce, and aim for management to be conducted mainly by the local personnel.

2 >> Strengthening the driving force of management

Strive for dynamic management by strengthening business planning abilities and effectively utilizing management resources. (Considering the methods of M&A and the forming of company alliances.)

- (i) Make the Investment Management Reviewing Committee function as one of the bodies of risk management.
- (ii) Create success stories from the AI & IoT committee as the body for leading technology research.
- (iii) Implement reform of the personnel management system to respond to diversity.
- (iv) Establish a new comprehensive supporting organization for group companies.

3 >> Enhancement of "corporate quality"

- (i) Thoroughly enact compliance and reinforce corporate governance.
- (ii) Promote activities from the point of view of ESG (Environmental, Social and Governance).

In view of the foregoing, do you have anything to say to your stakeholders?

We will strive to further increase the value of DJK Group's existence with a view to evolving into a "next-generation engineering trading firm" combining equipment sales with engineering services.

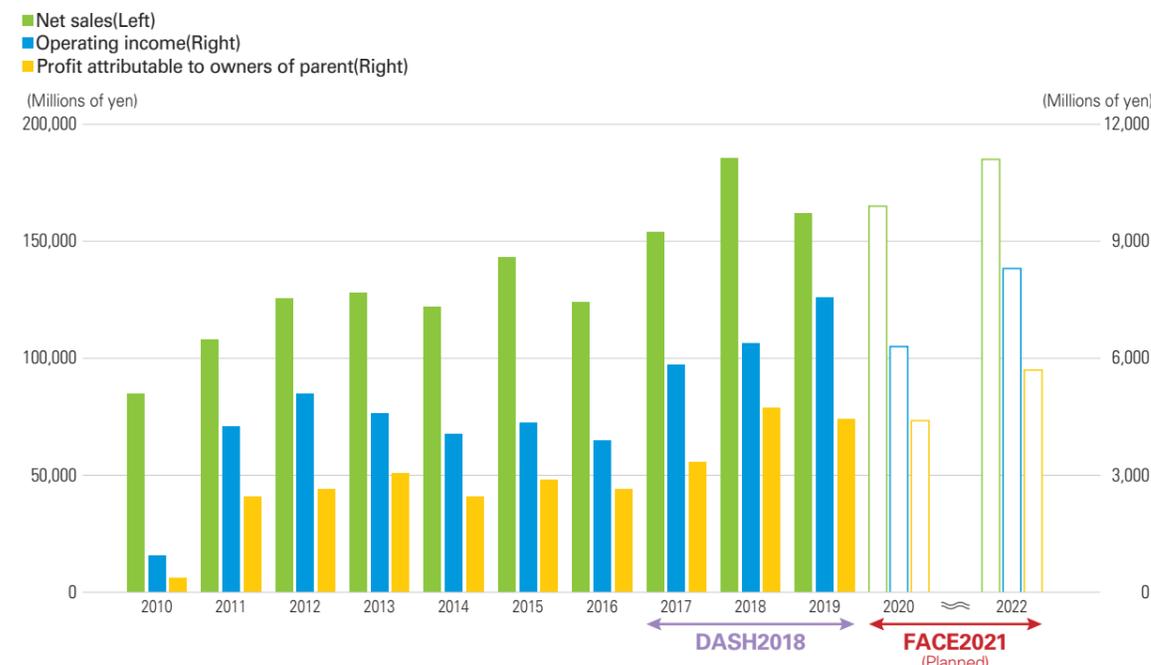
I would like to offer my sincere gratitude to stakeholders for the satisfactory achievements we have made in the past three years. Although we expect to maintain firm business performance in the short term, we are aware that we cannot be assured of a bright future. It is always necessary to identify what lies beyond and promote evolution in line with the changing times.

The advent of the fifth-generation (5G) mobile communication system is expected to bring drastic changes to the world. These changes will be rapid and complicated. We view such changes as business opportunities and will explore products that help us

evolve further. In addition, we will create new added value by capitalizing on the strengths of the DJK Group; share the vision of evolving into a "next-generation engineering trading firm" with our stakeholders, including stakeholders; and continue our contributions toward the realization of an environment-friendly and sustainable society. I believe all these efforts will help increase the value and presence of the DJK Group in the future.

I believe that our stakeholders can look forward to continuing growth and the evolution of the DJK Group, and we ask for your continuing support.

BUSINESS PERFORMANCE AND THE MEDIUM-TERM BUSINESS PLAN



*The sales target for fiscal year 2021 is shown on a net basis by applying the new revenue recognition standard.

Plant & Energy Business

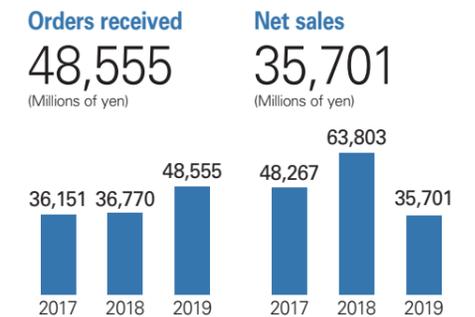


Description of Business

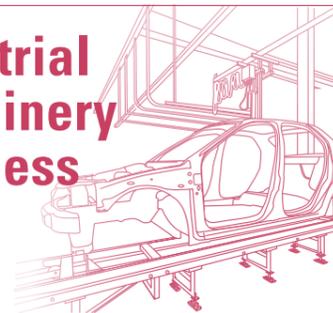
As its mainstay products, DJK has offered various pieces of equipment for gas and petroleum refining, chemical, fertilizer and paper-making plants, as well as for energy development. Due to our extensive knowledge and solid technologies accumulated over the years, including those for engineering and consulting services, DJK has achieved considerable results thus far. In addition, we are engaged in new business fields, including the manufacturing of lithium-ion batteries and the production of renewable energy.

Received a large order for fertilizer plant equipment and enjoyed firm demand for rechargeable battery manufacturing equipment.

Although net sales declined due to weaker sales of equipment for overseas petroleum plants and large fertilizer plants, the amount of orders received increased owing to a large order for overseas fertilizer plant equipment and steady demand for rechargeable battery manufacturing equipment. We will make continued efforts to acquire orders, centering on lithium-ion battery manufacturing equipment, for which the demand has been increasing.



Industrial Machinery Business

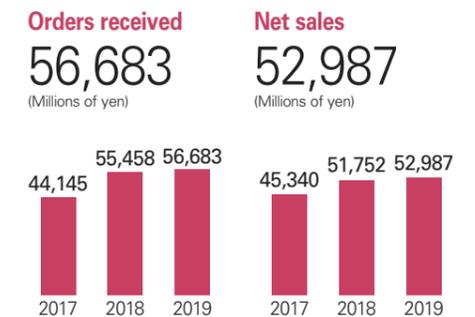


Description of Business

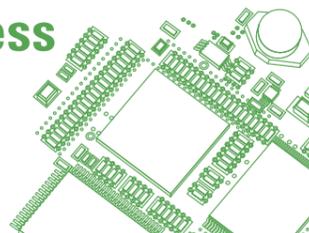
DJK's FA systems, flexible manufacturing systems (FMSs) and various automated assembly lines for manufacturing automobiles, motorcycles, household appliances and housing equipment have been highly acclaimed for their enhanced efficiency, labor-saving and streamlining of production. DJK offers a broad range of solutions from a single piece of equipment to a set of equipment for a production line and the infrastructure work for starting up a new factory to support the operation of production facilities around the world.

Enjoyed favorable demand for equipment relating to automobiles and distribution.

We achieved increases both in order received and net sales owing to steady demand for equipment for automated assembly lines, automated processing and painting, etc., for manufacturing automobiles, and equipment for distribution. We will seek increased sales with a focus on expanding sales of equipment for increasing productivity not only in Japan but also in emerging countries where equipment investment has been increasing to accommodate growing consumption.



Electronics Business

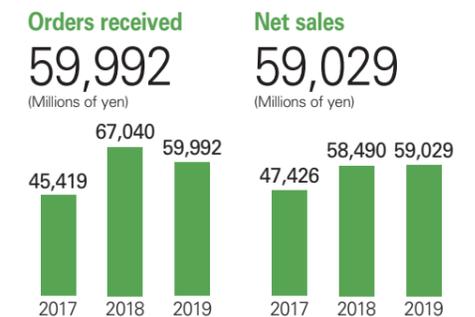


Description of Business

In the fields of surface mounting technology (SMT) and semiconductor/liquid crystal (LC) module assembly, DJK comprehensively provides various types of PCB inspection equipment, peripheral equipment and electronic parts around its core circuit formation technology through the reform of production processes. DJK proposes new business models adapted to the times by fully demonstrating its originally developed worldwide networks.

Enjoyed steady sales of equipment relating to automobiles, IT and digital products.

Net sales increased due to favorable sales of manufacturing equipment for electronic parts for automobile-related industries and manufacturers of IT- and digital-related equipment in emerging nations including China. We saw order received decline due to low demand for device-related equipment. However, we expect demand for in-vehicle equipment to continue, for which we will strive to acquire orders.



Pharmaceuticals Business



Description of Business

DJK enjoys the world's top market share for tablet visual inspection systems, which detect foreign matter in tablets. We also offer such mainstay products as automated packaging lines for pharmaceuticals and various types of pharmaceutical filling devices, which are equipped with high-precision technologies. Through these products, DJK supports the production sites for pharmaceuticals where a high level of safety and security are required. DJK also provides cooperation in the development of equipment involving regenerative medicine, thereby supporting various fields of advanced medicine.

In addition to large orders for packaging equipment, we enjoyed growing demand for equipment for manufacturing pharmaceuticals.

We enjoyed increases in orders received and net sales, due to large orders for packaging devices and favorable demand for manufacturers of medical equipment such as for visual inspection of tablets and printing on tablets. Although the business circumstances are severe, we will make proposals on equipment for new industry fields, while developing and exploring products that could contribute to cost reduction and labor-saving needs.



Aviation Business



Description of Business

As a comprehensive supplier of ground-support equipment for airplanes and airport facility-related equipment, DJK has supported air transportation at airports nationwide by delivering many such products. DJK also offers such products that contribute to the social infrastructure such as special vehicles for disaster and defense-related equipment, which are being placed throughout Japan.

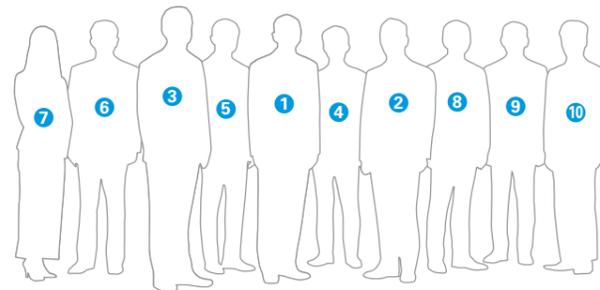
Enjoyed growing demand for disaster-related equipment and ground support machinery for aircraft.

Orders received significantly expanded due to increased demand for disaster-related equipment and ground-support equipment for aircraft. Net sales also rose as sales of equipment for ground-support machinery and airport facilities were recorded for the year under review. To address the growing inbound demand, we will explore advanced and high-performance products and increase order receipts.





- 1 Ichiro Uno**
President & CEO
- 2 Itaru Kage**
Senior Managing Director & CFO
- 3 Shigeki Terakawa**
Managing Director
- 4 Ryuichi Ninomiya**
Managing Director
- 5 Masatoshi Ueno**
Managing Director
- 6 Yoshikazu Sakamoto**
Outside Director
- 7 Yukie Tanaka**
Outside Director
- 8 Masahiko Mizumoto**
Standing Audit & Supervisory Board Member
- 9 Toshihiko Matsumiya**
Outside Audit & Supervisory Board Member
- 10 Mitsuyoshi Koyama**
Outside Audit & Supervisory Board Member



CORPORATE GOVERNANCE SYSTEM



BASIC CORPORATE GOVERNANCE POLICY

From the perspective of reinforcing our corporate capabilities to survive global competition, DAIICHI JITSUGYO CO., LTD. (the "Company") places high priority on promoting accurate and speedy business decision-making, while at the same time, enhancing our management oversight function to ensure the transparency of our business.

OVERVIEW OF THE COMPANY'S CORPORATE GOVERNANCE SYSTEM AND THE REASONS FOR ADOPTING SAID SYSTEM

Our Board of Directors comprises seven directors (including two outside directors) and meets in principle once a month or as necessary. The board determines basic business policies and other important matters through vigorous exchanges of opinions while also fulfilling its function as an oversight body for business execution. The board also places directors at consolidated subsidiaries in Japan and abroad to be in charge of those companies and to manage and oversee their business execution. According to the Company's Articles of Incorporation, the Board of Directors shall comprise eight members or less, who shall be elected by a general meeting of shareholders. To elect directors, one third or more of the shareholders holding voting rights must be in attendance, of which half or more must vote for said directors. The Articles of Incorporation also stipulate that cumulative voting shall not be used in resolutions for electing directors thereof.

Moreover, in an effort to further enhance its corporate value, the Company has adopted the executive officer system to conduct flexible and efficient business operations by reinforcing the business decision-making and supervising functions, as well as separating the business execution function. The Company dispatches certain executive officers to be in charge of its consolidated subsidiaries in Japan and overseas and to manage their business execution.

The Company uses an Audit & Supervisory Board system comprised of three Audit & Supervisory Board members, two of whom are outside Audit & Supervisory Board members. In addition to attending every Board of Directors meeting, these Audit & Supervisory Board members attend other important internal meetings to monitor the business execution performance of directors from an objective perspective. Audit & Supervisory Board members work to ensure the effective implementation of the audit by receiving reports on and explanations of the audit plan and results from independent auditor; exchanging opinions on the areas to be covered by the audit, the audit methods, and the audit results; sharing information; and taking other measures. According to the Articles of Incorporation,

the Company shall have five Audit & Supervisory Board members or less, who shall be elected by a general meeting of shareholders. To elect Audit & Supervisory Board members, one third or more of the shareholders holding voting rights must be in attendance, of which half or more must vote for said Audit & Supervisory Board members. Also, to prepare for a contingency in which the Company lacks the number of Audit & Supervisory Board Member required by laws and regulations, the Company has appointed one Substitute Audit & Supervisory Board Member.

The Company has concluded an auditing agreement with the certified public accounting firm Deloitte Touche Tohmatsu LLC to act as its independent auditor. In addition to providing accounting auditing services in a fair and unbiased manner, the auditing firm provides advice on accounting matters as appropriate.

As for the internal audit system of which the central organ is the Internal Audit Division, the job execution of employees is checked and assessed as to whether it is in accordance with laws and regulations and the Articles of Incorporation, as well as with the basic internal control policy and the code of conduct.

The Company has also concluded advisory agreements with several law offices to act as its legal advisors, from which the Company receives advice as necessary, including not only for legal consulting on business affairs but also regarding the maintenance of its compliance system.

To enhance the transparency of its business, the Company proactively discloses information through its Corporate Communicating Department. In addition, as one of its IR activities, the Company holds results briefing meetings to report on and explain business conditions and the future direction of the DJK Group to shareholders and investors. In conjunction with these meetings, the Company makes timely and appropriate disclosure of business information through its website.

ESTABLISHING AN INTERNAL CONTROL SYSTEM

As a necessary tool to ensure that directors execute their business duties and conduct their business practices in accordance with laws and regulations and the Articles of Incorporation and other methods necessary to ensure proper company operations, the Company has formulated a "basic internal control policy," the details of which are as follows.

1. Systems to ensure that directors comply with laws and regulations and Articles of Incorporation in the execution of their business duties

(1) In accordance with our business practices and code of conduct, the representative directors shall ensure that business activities are premised

on compliance with laws and regulations, the Articles of Corporation, and corporate ethics by repeatedly reminding the officers and employees of the Company of this policy.

- (2) To ensure that the business execution of the Company is carried out in an overall appropriate and sound manner, the directors shall endeavor to establish a practical internal control system and an overall legal compliance system from the perspective of further strengthening the Company's corporate governance. Furthermore, Audit & Supervisory Board members shall audit the effectiveness and functional capability of the internal control system, and if necessary report recommendations on improvements for the system to directors.
- (3) To deal with antisocial forces, the Company shall thoroughly manage information on the elimination and the eradication of such influences in a unified manner. External pressure applied by such antisocial forces shall be reported to the risk management committee for assessment of its importance and investigation.

2. System to store and manage information on business execution by directors

Information on business execution by directors shall be recorded in written form or electronic media (Hereinafter referred to as "written, etc. records") based on the Company's filings rules. These records shall be stored and managed so that they can be easily searched in an appropriate and accurate manner.

Directors and Audit & Supervisory Board members shall have free access to view these written, records.

3. Systems providing rules to manage possible losses and other matters of the Company, and its subsidiaries

As a foundation for the risk management system, the Company will determine risk management rules, assign managers to be in charge of the different types of risk, and establish a risk management system based on those rules.

When a management crisis occurs as determined by said rules, the Company shall set up a task force with the representative directors as its head as well as an information liaison team and an outside advisory team including legal counsels. Based on these actions, the Company shall establish an organization to minimize damages and prevent them from growing through quick response.

4. Systems to ensure that directors carry out job execution effectively

- (1) In the Company's medium-term business and annual business plans that are built around its corpo-

rate principles, each operating section and the DJK Group companies shall work toward achieving the goals of the plan and check whether the business plan is proceeding on schedule on a monthly basis based on performance reports.

- (2) In executing their duties, directors shall comply with all of the obligations of the Board of Directors regarding business decisions as set out in the rules of the Board of Directors. Based on the principles of business decision-making, the Company will set up a system that distributes adequate information on items prior to their discussion to all directors and Audit & Supervisory Board members.
- (3) As the foundation of the system to ensure that directors carry out the execution of their duties effectively, in principle, the Board of Directors will meet regularly once a month and as otherwise necessary. Important matters regarding the business policy and strategy of the Company will first be discussed by an Executive Committee comprising directors with a ranking of managing director or above, and passed on for approval by the Board of Directors before execution.
- (4) The business execution of decisions made by the Board of Directors shall be carried out by directors and executive officers in accordance with the division of duties decided at the start of each fiscal year, with assignments, responsibilities, and execution procedures determined in detail.

5. Systems for ensuring that directors, executive officers, and employees execute their business duties in accordance with laws and regulations and the Articles of Incorporation

- (1) As a foundation for the compliance system, employees will be made thoroughly aware of the code of conduct.
- (2) An Internal Audit Division will be established under the supervision of the representative directors and will determine internal audit rules and establish, maintain, and improve an internal control system. As necessary, the Division shall carry out audits and training sessions in all business sections.
- (3) When a major legal violation or other significant incident regarding compliance has been discovered, directors shall promptly report it to the representative directors and to Audit & Supervisory Board members.
- (4) As an in-house information system to report legal violations or other incidents regarding compliance, the manager of the Internal Audit Division will promptly establish an internal communication system where information can be directly reported and operate it in accordance with the internal communications rules.
- (5) When Audit & Supervisory Board members recognize that there is a problem with the operation of

the Company's legal compliance system or internal communication system, they may give their opinion and require that improvement measures be formulated.

6. System to ensure the fairness of operations of the corporate group comprising the parent company and its subsidiaries

- (1) Based on the management rules for subsidiaries/associated companies determined by the Company, the DJK Group's sales results, financial position and other important information shall be reported to the Company regularly and the DJK Group meetings shall be held as necessary.
- (2) To ensure the appropriate and fair conduct of the Group companies, each Group company will create a code of conduct and formulate its own related rules based on it.
- (3) The Company will appoint a director in charge of business administration to implement optimal management strategies whereby prior consultation with the Company and reporting systems, as well as monitoring structure, if necessary, is in place.
- (4) If a director recognizes that a Group company has violated some aspect of the business management or business guidance systems or if a compliance problem is discovered, the director shall report it to the representative directors.
- (5) DJK Group companies shall be audited by the Internal Audit Division of the Company, and the audit results shall be reported to the Company's representative directors.

7. System for requesting staff to aid Audit & Supervisory Board members and ensuring the independence of those staff members from the influence of directors and the effectiveness of instructions given to such assisting staff

- (1) Audit & Supervisory Board members may instruct the Internal Audit Division general manager to provide assistance in matters necessary to the auditing process. The staff of the Internal Audit Division who have been instructed by Audit & Supervisory Board members to provide assistance regarding matters necessary to the auditing process may not receive other instructions regarding those matters from directors.
- (2) Based on meetings with the Audit & Supervisory Board, the Internal Audit Division general manager will perform internal audits on items requested by Audit & Supervisory Board members and report the results to the Audit & Supervisory Board.

8. System for directors, executive officers, and employees of the Company and its subsidiaries to report to Audit & Supervisory Board members of the Company, system for making other reports to

Audit & Supervisory Board members, and system to ensure effective audit of Audit & Supervisory Board members

- (1) Directors, executive officers, and employees of the Company and the Group Company shall report the following important items regarding the Company's business or influence on business performance to the Audit & Supervisory Board members of the Company on a case-by-case basis.
 - Activities of the sections related to the establishment of the internal control system of the Company and the Group Company.
 - The principal accounting policies and standards system of the Company and the Group Company and any changes in them.
 - Details of announcements on business performance or business forecasts, details of important disclosure items.
 - Details of operations and communications of internal communications system.
 - Internal management approval (Ringi) documents, applications for different types of transactions, and keeping minutes of meetings as required by Audit & Supervisory Board members.
- (2) As necessary, Audit & Supervisory Board members may request reports on preceding issues from directors, executive officers, and employees of the Company and the Group Company.
- (3) The Audit & Supervisory Board and the representative directors shall establish regular meetings to exchange opinions.
- (4) The Company will ensure an appropriate system for reporting to Audit & Supervisory Board members on legal violations and other compliance issues by maintaining the proper application of the in-house communication rules.
- (5) Audit & Supervisory Board members will check the objectivity of the work of the Company's independent certified public accounting firm, and will request reports and explanations of the details of the independent certified public accounting firm's audit and collaborate with the audit firm through periodic exchanges of information and other activities.
- (6) Persons who have reported to Audit & Supervisory Board members shall not be treated in a detrimental way because of such reporting. This matter shall be disseminated among DJK and DJK Group's officers and employees.
- (7) When Audit & Supervisory Board members request the prepayment of expenses to be incurred in the execution of their duties, etc., such shall be treated promptly except in cases where such expenses are determined to be unnecessary for their execution of duties.

CONSOLIDATED FIVE-YEAR SUMMARY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Millions of yen					Thousands of U.S. Dollars (Note 1)
	2019	2018	2017	2016	2015	2019
For the year:						
Net sales ¥	¥161,891	¥185,686	¥154,120	¥124,177	¥143,361	\$ 1,458,616
Gross profit	24,269	22,362	20,476	18,164	18,922	218,661
Operating income	7,573	6,394	5,844	3,886	4,341	68,235
Net income attributable to owners of parent	4,457	4,730	3,338	2,637	2,897	40,161
Comprehensive income	3,759	5,391	3,781	1,480	4,482	33,870
Overseas sales:	80,769	75,707	76,096	57,965	78,610	727,716
Asia	63,532	58,480	53,634	44,910	56,271	572,419
Europe	2,815	3,379	8,799	2,174	3,946	25,369
North and South America	14,333	13,593	13,244	9,437	11,116	129,137
Other	87	254	418	1,443	7,276	789
Depreciation and amortization	774	805	850	847	874	6,982
Capital expenditures	387	525	937	968	4,050	3,495
At year-end:						
Total assets ¥	¥112,561	¥102,997	¥116,681	¥ 94,767	¥ 91,835	\$ 1,014,157
Working capital	32,497	29,255	25,636	23,372	22,670	292,793
Interest-bearing debt	7,802	8,409	9,289	10,711	11,035	70,301
Total equity	45,710	43,194	38,794	36,006	35,310	411,840
Per share of common stock (in yen and U.S. dollars):						
Net income ¥	¥ 418.31	¥ 443.97	¥ 62.47	¥ 49.24	¥ 54.46	\$ 3.77
Cash dividends	110.0(22.0)	105.0(21.0)	95.0(19.0)	17	16	0.99(0.20)
Shareholders' equity	4,274.47	4,042.28	726.61	669.51	659.44	38.51
Other statistics:						
Number of shares of common stock outstanding (in thousands)	10,655	10,656	53,240	53,652	53,400	
Number of employees	1,167	1,134	1,097	1,064	1,080	
Key ratios (%):						
Gross profit margin	15.0	12.0	13.3	14.6	13.2	
Operating income margin	4.7	3.4	3.8	3.1	3.0	
Return on sales	2.8	2.5	2.2	2.1	2.0	
Return on assets	4.2	4.3	3.2	2.8	3.3	
Return on equity	10.1	11.6	9.0	7.4	8.7	
Asset turnover (times)	1.51	1.69	1.46	1.33	1.65	
Current ratio	149.7	151.2	134.1	142.1	143.4	
Equity ratio	40.5	42.1	33.2	37.9	38.4	
Debt-to-equity ratio	0.17	0.20	0.24	0.30	0.31	

Notes: 1. U.S. dollar figures have been converted from Japanese yen, for convenience only, at the rate of ¥110.99 to U.S.\$1.

2. Minority interests in equity have been excluded from equity when key ratio is calculated.

3. () shows the dividends per share before the share consolidation in the fiscal year ended March 31, 2018 and March 31, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PERFORMANCE

During the consolidated fiscal year under review, the Japanese economy continued a course of moderate recovery, reflecting continued improvements in corporate performance and the employment and income environments due to the positive effects of economic and financial measures taken by the Japanese government despite adverse effects due to earthquakes, typhoons, heavy rainfall and other natural disasters. However, uncertainty about the future persisted against a backdrop of global instability represented by a protectionist trend in several countries, the slowing growth of emerging economies including China and concern of a worldwide economic slowdown resulting from the trade conflict between China and the United States.

Under these circumstances, the DJK Group had smaller sales from large-scale projects mainly relative to overseas equipment for oil plants and equipment for large-scale fertilizer plants although sales of equipment for the automotive-related industry and others remained favorable. As a result, consolidated net sales for the fiscal year under review decreased ¥23,794 million, or 12.8%, from the previous year to ¥161,891 million.

Cost of sales decreased ¥25,701 million, or 15.7%, from the previous year to ¥137,622 million. The gross profit margin improved 3.0 percentage points from 12.0% of the previous year to 15.0%, mainly reflecting improvement in the gross margin ratio for the industrial machinery business. As a result, gross profit increased ¥1,906 million, or 8.5%, to ¥24,269 million.

Selling, general and administrative expenses increased ¥728 million, or 4.6%, from the previous year to ¥16,695 million mainly due to an increase in personnel expense.

As a result, operating income increased ¥1,178 million, or 18.4%, to ¥7,573 million, and the operating margin improved to 4.7% from 3.4% of the previous year.

Non-operating income increased ¥232 million, or 35.2%, from the previous year to ¥895 million mainly due to an increase in subsidy income. Non-operating expenses increased ¥159 million, or 67.6%, to ¥395 million mainly due to an increase in foreign exchange losses. As a result, net non-operating income amounted to ¥499 million, an increase of ¥73 million, and ordinary income increased ¥1,252 million, or 18.4%, to ¥8,073 million.

A net extraordinary loss of ¥1,334 million was recorded after subtracting a ¥39 million gain on sales of fixed assets reported as an extraordinary income item from a ¥1,374 million impairment loss on manufacturing and marketing rights reported as an extraordinary loss item.

Profit attributable to owners of parent decreased ¥272 million, or 5.8%, to ¥4,457 million after subtracting ¥2,274 million in income taxes (including deferred income taxes) and net income attributable to non-controlling interests from ¥6,738 million in income before income taxes.

The return on equity (ROE) for the consolidated fiscal year under review decreased 1.5 percentage points to 10.1% from 11.6% of the previous year. We will continue to maintain and improve the ROE ratio to pursue higher profitability in accordance with the basic policies of the new medium-term business plan FACE2021 while strengthening our capital base. Performance by business segment was as follows.

Plant & Energy Business

Net sales decreased ¥28,101 million, or 44.0%, from the previous year to ¥35,701 million mainly due to decreased sales of overseas equipment for oil plants and equipment for large-scale fertilizer plants, whereas segment income (operating income) increased ¥0 million, or 0.1%, to ¥753 million.

Industrial Machinery Business

Reflecting favorable sales of automated assembly lines, automated processing equipment and painting lines for the automotive-related industry, net sales increased ¥1,235 million, or 2.4%, to ¥52,987 million. Segment income (operating income) rose ¥664 million, or 34.8%, to ¥2,578 million.

Electronics Business

Due to steady sales of equipment related to the manufacturing of electronics parts for the automotive-related industry, net sales increased ¥539 million, or 0.9%, to ¥59,029 million. However, segment income (operating income) decreased ¥35 million, or 1.2%, to ¥2,855 million reflecting the low gross margin ratio.

Pharmaceuticals Business

Owing to increased sales of tablet visual inspection systems and packaging equipment, net sales increased ¥1,648 million, or 20.2%, to ¥9,814 million. Segment income (operating income) increased ¥288 million, or 43.2%, to ¥955 million.

Aviation Business

Reflecting increased sales of ground-support equipment for airplanes and airport facility-related equipment, net sales increased ¥846 million, or 24.8%, to ¥4,262 million. Segment income (operating income) increased ¥79 million, or 38.1%, to ¥288 million.

FINANCIAL POSITION

As of March 31, 2019, total assets amounted to ¥112,561 million, increasing ¥10,181 million, or 9.9%, from the end of the previous fiscal year. Current assets increased ¥12,238 million, or 14.3%, to ¥97,818 million. Fixed assets decreased ¥2,056 million, or 12.2%, to ¥14,742 million.

The increase in current assets was mainly due to increases in cash and deposits and notes and accounts receivable, as

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

well as an increase in accounts prepaid in relation to plants. The decrease in fixed assets primarily resulted from the recording of an impairment loss on manufacturing and marketing rights as well as declines due to the depreciation of property, plant and equipment and intangible assets.

Total liabilities amounted to ¥66,851 million, increasing ¥7,666 million, or 13.0%, from the previous fiscal year. Current liabilities increased ¥8,236 million, or 14.4%, to ¥65,321 million, and long-term liabilities decreased ¥569 million, or 27.1%, to ¥1,529 million.

The primary factors for the increase in current liabilities were increases in notes and accounts payable associated with the recording of purchases, as well as in advances received related to plants. The decrease in long-term liabilities mainly resulted from the repayment of long-term debt.

Total equity amounted to ¥45,710 million, increasing ¥2,515 million, or 5.8%, from the previous year. The main factor for this increase was the recording of ¥4,457 million in net income attributable to owners of parent, despite the payment of dividends. As a result, the equity ratio decreased from 42.1% of the previous fiscal year to 40.5%.

Interest-bearing debt amounted to ¥7,802 million, decreasing ¥606 million, or 7.2%, from the previous year. This consisted of short-term bank loans of ¥7,286 million (including the current portion of long-term debt), long-term debt of ¥470 million and other debt of ¥45 million. The long-term debt corresponds to the acquisition of business assets for photovoltaic power generation and manufacturing and marketing rights for the binary power generation system. The debt-to-equity ratio (DER) at the end of the fiscal year under review was 0.17 times, down from 0.20 times at the end of the previous fiscal year.

In the near future, we intend to further reinforce our financial structure by effectively utilizing group-wide funds at the global level while steadily carrying out the execution of plans in accordance with the vision and basic policies of the new medium-term business plan FACE2021.

ANALYSIS OF CASH FLOWS

Regarding cash flows for the year ended March 31, 2019, cash and cash equivalents at the end of the fiscal year under review increased ¥3,040 million from a year earlier, amounting to ¥20,867 million.

Cash Flows from Operating Activities

Net cash provided by operating activities for the consolidated fiscal year under review totaled ¥6,072 million, or a cash increase of ¥5,538 million from the previous fiscal year. This was mainly due to the recording of income before income taxes, as well as increases in notes and accounts payable - trade and advances received in relation to plants, despite increases in notes and accounts receivable - trade and

accounts prepaid in relation to plants.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥924 million, or a cash decrease of ¥259 million from the previous fiscal year. The principal factors were an increase in time deposits and payments for purchase of marketable and investment securities, despite proceeds from sales of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥1,902 million, or a cash increase of ¥94 million from the previous fiscal year. This was mainly attributable to the repayment of debt and the payment of dividends.

Information Regarding the Source of Capital and Liquidity of Funds

Major funds of the DJK Group are expended in purchases of products and services, as well as for other purposes such as selling, general and administrative expenses, capital investments and investments in new business domains. The DJK Group intends to meet these funding requirements with net cash provided by operating activities, its shareholders' equity and fund procurements via short- and long-term bank loans from financial institutions.

DJK has signed trade commitment agreements with five banks for a total credit line of ¥10,000 million to ensure flexible and stable funding means. DJK manages its liquidity risk by keeping the liquidity on hand at the level of almost one month of consolidated net sales.

BUSINESS RISKS

The following section indicates matters that could have a significant bearing on the investment decision of those considering investment in DJK with regard to the business conditions and accounting procedures stated in this annual report. However, it does not represent in any way an exhaustive description of business risks.

Risk of change in the macroeconomic environment

The DJK Group's major business involves the sale of various types of machinery, fixtures, parts, and lease services of various types of machinery and fixtures, which it sells domestically, imports, and exports. Overseas, under the new medium-term business plan, FACE2021, which began in April 2019, the DJK Group is accelerating its business development based on its global four axes network, which has been pursued, to strengthen its profit-earning capacity. Therefore, the DJK Group's business performance may be affected by changes not only in economic trends in Japan but also on a global scale. Especially with the economic growth in

China and the Asian region as well as in the North, Central, and South Americas and Europe, while these conditions provide the possibility of expanded business opportunities for the DJK Group, a slowdown in economic activity in these regions could have a negative impact on the business results of the DJK Group.

Risk of increased in proportion of overseas sales

Japanese companies continued to enter overseas markets and transferred their production bases overseas. In response, the DJK Group also is proceeding with the globalization of its operations by expanding its overseas network and other activities, aiming to expand its business opportunities. Overseas sales accounted for almost half of consolidated net sales in the fiscal year under review, increasing the proportion to 49.9% from 40.8% of the previous fiscal year. With the steady implementation of the new medium-term business plan FACE2021, it is expected that the ratio of overseas sales to net sales will expand. As a result, there is a possibility that the international financial environment, exchange rate trends, international trends in crude oil and raw material prices, and capital investment trends for customers' production bases could affect the business results of the DJK Group. In addition, DJK's overseas business activities are exposed to the risk of unexpected changes in political systems or economic environments and social disturbances based on legal and regulatory changes.

Risk of increases in interest rates

DJK has signed trade commitment agreements with five banks and is progressing with the reduction of interest-bearing debt. The interest-bearing debt of the DJK Group, comprising DJK and its consolidated subsidiaries, for the year ended March 31, 2019, amounted to ¥7,802 million. Going forward, DJK will aim to systematically and stably procure working capital and to reduce interest expenses. However, should the balance of the DJK Group's financial income and expenses deteriorate because of the trend in net sales or in interest rates, it could impact negatively on the DJK Group's business results and financial position. In addition, if substantial turmoil occurs in major financial markets in Japan or overseas, financing costs could increase.

Credit risk

At March 31, 2019, the total notes and accounts receivable - trade of the DJK Group amounted to ¥45,984 million, or 40.9% of total assets. As a result, DJK is exposed to the risk of losses due to the credit of its customers worsening or their businesses failing. DJK places orders with each supplier for the production of various machinery and equipment upon receiving orders from customers. For that reason, DJK acts in accordance with its rules regarding trading rights and risk

management, setting maximum credit and transaction amounts in its required transaction approval procedures, requires collateral or guarantees depending on the credit rating of the debtor, and puts in place risk hedges, such as the factoring or securitization of debt. Despite these measures, if the customer experiences a liquidity crisis or a chain reaction bankruptcy due to a worsening of the business environment or a specific major debtor experiences business problems resulting in it becoming impossible to recover credit extended, it could have a negative influence on the business results and financial position of the DJK Group.

Business development risk related to medium-term business plan

In FACE2021, the new medium-term business plan that began in April 2019, the DJK Group's basic policies are to further evolve business axes that match well with the times and strengthen profit-earning capacity, as well as to promote further growth, create new value and improve DJK's corporate quality while coping with the difficulties of the operating environment.

Nevertheless, depending on the cost required for strategic business development and whether or not the timing and scale of the effective allocation of business resources tailored to the progress of business development is appropriate, the DJK Group could lose earnings opportunities and increase its financial burden, resulting in a negative impact on its business results and financial position.

Risk of disaster

Should a disaster, such as an earthquake, typhoon, fire or infectious disease epidemic occur, the DJK Group's offices; factories; computer systems; directors, executive officers, and employees; or other related assets may suffer damages or interruptions may occur in the DJK Group's business or production activities. To be able to determine whether or not its directors, executive officers, and employees are safe and to implement its business continuity plan (BCP), DJK has produced risk management manuals for the different possible disasters and established such measures as backup systems for computer system data and emergency fire drills, and implemented other disaster-related activities. Nevertheless, there is no guarantee that these measures will allow the DJK Group to completely avoid any damages from disasters, and should major damages occur, they could impact negatively on the business results and financial position of the DJK Group.

Furthermore, should one of the DJK Group's major customers or vendors suffer substantial damages from a disaster, the suspension of the business and production activities of the customer or vendor could have a negative effect on the performance of the DJK Group.

CONSOLIDATED BALANCE SHEET

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2019

ASSETS	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current assets:			
Cash and cash equivalents (Note 14)	¥ 20,867	¥ 17,826	\$ 188,009
Time deposits (Note 14)	972	556	8,758
Receivables (Note 14):			
Notes receivable	3,992	3,073	35,967
Accounts receivable	39,332	36,897	354,380
Unconsolidated subsidiaries and associated companies	2	0	23
Other	4,600	3,318	41,450
Electronically recorded monetary claims (Note 14)	2,656	2,279	23,936
Inventories (Note 4)	13,553	13,437	122,114
Accounts prepaid	11,016	7,540	99,253
Other current assets	1,028	882	9,264
Allowance for doubtful accounts	(202)	(232)	(1,827)
Total current assets	97,818	85,580	881,331
Property, plant and equipment (Note 5):			
Land	527	527	4,755
Buildings and structures	1,746	1,778	15,733
Machinery and equipment	1,338	1,388	12,062
Furniture and fixtures	1,302	1,204	11,731
Leased assets (Note 13)	612	585	5,515
Construction in progress	37	32	335
Total	5,564	5,517	50,133
Accumulated depreciation	(2,483)	(2,332)	(22,375)
Net property, plant and equipment	3,080	3,184	27,758
Investment and other assets:			
Investment securities (Notes 3 and 14)	6,615	7,640	59,602
Investment in unconsolidated subsidiaries and associated companies	1,780	1,466	16,041
Manufacturing and sales right	113	1,217	1,026
Long-term deposits	733	703	6,607
Deferred tax assets (Note 10)	464	456	4,187
Assets for retirement benefits (Note 7)	1,159	1,136	10,444
Other assets	938	1,146	8,453
Allowance for doubtful accounts	(143)	(151)	(1,295)
Total investment and other assets	11,661	13,614	105,068
TOTAL	¥112,561	¥102,379	\$1,014,157

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current liabilities:			
Short-term bank loans (Notes 6 and 14)	¥ 6,833	¥ 6,974	\$ 61,566
Current portion of long-term debt (Notes 6 and 14)	453	463	4,083
Payables (Note 14):			
Notes payable	1,262	1,166	11,379
Accounts payable	37,856	33,009	341,081
Unconsolidated subsidiaries and associated companies	1,276	885	11,499
Other	131	301	1,183
Income taxes payable	1,215	943	10,953
Accrued expenses	1,749	1,896	15,766
Advances received	13,242	10,484	119,316
Allowance for after-sales service	492	293	4,436
Other current liabilities	807	666	7,271
Total current liabilities	65,321	57,085	588,537
Long-term liabilities:			
Long-term debt (Notes 6 and 14)	470	923	4,240
Liability for retirement benefits (Note 7)	360	336	3,252
Deferred tax liabilities (Note 10)	411	558	3,710
Other long-term liabilities	286	280	2,577
Total long-term liabilities	1,529	2,097	13,779
Commitments and contingent liabilities (Notes 13, 15, and 16)			
Equity (Notes 8, 9, and 19)			
Common stock, authorized, 32,000,000 shares; issued, 11,086,400 shares in 2019 and 2018	5,105	5,105	45,995
Capital surplus	3,786	3,786	34,112
Stock acquisition rights	144	104	1,301
Retained earnings	35,369	32,190	318,673
Treasury stock — at cost, 431,154 shares in 2019 and 429,569 shares in 2018	(974)	(968)	(8,777)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,961	2,422	17,669
Deferred (loss) gain on derivatives under hedge accounting	(77)	15	(696)
Foreign currency translation adjustments	276	464	2,494
Defined retirement benefit plans	98	61	886
Total	45,689	43,181	411,658
Non-controlling interests	20	13	182
Total equity	45,710	43,194	411,840
TOTAL	¥112,561	¥102,379	\$1,014,157

CONSOLIDATED STATEMENT OF INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Net sales	¥ 161,891	¥185,686	\$1,458,616
Cost of sales	137,622	163,324	1,239,954
Gross profit	24,269	22,362	218,661
Selling, general and administrative expenses (Notes 11 and 12)	16,695	15,967	150,426
Operating income	7,573	6,394	68,235
Other (expenses) income:			
Interest and dividend income	270	225	2,440
Interest expense	(33)	(56)	(301)
Purchase discount	242	222	2,182
Gain on sales of subsidiaries and affiliates	3	262	28
Gain (loss) on sales of property, plant and equipment	27	(15)	252
Impairment loss (Note 5)	(900)	(24)	(8,113)
Loss on valuation of investment securities	(465)	(414)	(4,193)
Other – net	20	12	181
Other (expense) income – net	(835)	211	(7,523)
Income before income taxes	6,738	6,605	60,711
Income taxes (Note 10):			
Current	2,243	1,948	20,214
Deferred	30	(76)	278
Total income taxes	2,274	1,872	20,492
Net income	4,463	4,733	40,218
Net income attributable to non-controlling interests	6	3	57
Net income attributable to owners of the parent	¥ 4,457	¥ 4,730	\$ 40,161

	Yen		U.S. Dollars (Note 1)
	2019	2018	2019
Per share of common stock (Notes 2t and 18)			
Basic net income	¥ 418.31	¥ 443.97	\$ 3.77
Diluted net income	415.87	441.78	3.75
Cash dividends applicable to the year (Note 8)	110.00	105.00	0.99

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Net income	¥ 4,463	¥ 4,733	\$ 40,218
Other comprehensive (loss) income (Note 17):			
Unrealized gain on available-for-sale securities	(461)	621	(4,161)
Deferred (loss) gain on derivatives under hedge accounting	(92)	13	(834)
Foreign currency translation adjustments	(186)	6	(1,680)
Defined retirement benefit plans	36	95	328
Share of other comprehensive loss in associates		(79)	
Total other comprehensive (loss) income	(704)	658	(6,348)
Comprehensive income	¥ 3,759	¥ 5,391	\$ 33,870
Total comprehensive income attributable to:			
Owners of the parent	¥ 3,752	¥ 5,388	\$ 33,805
Non-controlling interests	7	3	64

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2019

	Thousands						Millions of yen							
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)					Total	Non- controlling interests	Total equity
							Unrealized gain on available- for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total			
BALANCE, APRIL 1, 2017	10,648	¥ 5,105	¥ 3,786	¥ 99	¥ 28,473	¥ (985)	¥1,801	¥ 1	¥ 536	¥ (33)	¥38,784	¥ 9	¥38,794	
Net income attributable to owners of the parent					4,730						4,730		4,730	
Cash dividends, ¥95.00 per share					(1,012)						(1,012)		(1,012)	
Purchase of treasury stock						(8)					(8)		(8)	
Disposal of treasury stock					(0)	25					25		25	
Net change in the year				4			621	13	(72)	95	662	3	665	
BALANCE, MARCH 31, 2018	10,656	5,105	3,786	104	32,190	(968)	2,422	15	464	61	43,181	13	43,194	
Net income attributable to owners of the parent					4,457						4,457		4,457	
Cash dividends, ¥120.00 per share					(1,278)						(1,278)		(1,278)	
Purchase of treasury stock	(0)					(5)					(5)		(5)	
Disposal of treasury stock	0				0	0					0		0	
Net change in the year				40			(461)	(92)	(187)	36	(665)	7	(657)	
BALANCE, MARCH 31, 2019	10,655	¥ 5,105	¥ 3,786	¥ 144	¥ 35,369	¥ (974)	¥1,961	¥ (77)	¥ 276	¥ 98	¥45,689	¥ 20	¥45,710	

	Thousands of U.S. Dollars (Note 1)												
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)					Total	Non- controlling interests	Total equity
						Unrealized gain on available- for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total			
BALANCE, MARCH 31, 2018	\$45,995	\$34,112	\$ 938	\$290,033	\$(8,726)	\$21,830	\$ 137	\$ 4,182	\$ 557	\$389,061	\$117	\$389,179	
Net income attributable to owners of the parent				40,161						40,161		40,161	
Cash dividends, \$1.08 per share				(11,521)						(11,521)		(11,521)	
Purchase of treasury stock					(51)					(51)		(51)	
Disposal of treasury stock				0	0					0		0	
Net change in the year				362		(4,161)	(834)	(1,688)	328	(5,992)	64	(5,927)	
BALANCE, MARCH 31, 2019	\$45,995	\$34,112	\$1,301	\$318,673	\$(8,777)	\$17,669	\$(696)	\$2,494	\$ 886	\$411,658	\$182	\$411,840	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes	¥ 6,738	¥ 6,605	\$ 60,711
Adjustments for:			
Income taxes – paid	(2,041)	(2,268)	(18,394)
Depreciation and amortization	774	805	6,982
Impairment loss	900	24	8,113
Gain on sales of subsidiaries and affiliates	(3)	(262)	(28)
Loss on valuation of investment securities	465	414	4,193
Changes in operating assets and liabilities:			
Decrease in allowance for after-sales service	198	127	1,792
Increase in notes and accounts receivable – trade	(3,848)	(3,498)	(34,675)
(Increase) Decrease in advance payments to suppliers	(3,574)	19,657	(32,209)
Increase in inventories	(158)	(3,146)	(1,426)
Increase in notes and accounts payable – trade	5,445	618	49,058
Increase (Decrease) in advances from customers	2,907	(18,741)	26,199
Other – net	(1,732)	196	(15,607)
Total adjustments	(665)	(6,072)	(6,000)
Net cash provided by operating activities	6,072	533	54,710
Investing activities:			
Acquisition of property, plant and equipment	(205)	(344)	(1,855)
Proceeds from sales of property, plant and equipment	49	2	446
Acquisition of intangible assets	(90)	(135)	(815)
Acquisition of marketable and investment securities	(248)	(243)	(2,239)
Proceeds from sales of investment securities	9	496	82
Payments of loans receivable		(4)	
Collection of loans receivable	4	6	37
Payments of long-term deposits	(68)	(38)	(620)
Other – net	(373)	(405)	(3,361)
Net cash used in investing activities	(924)	(664)	(8,325)
Financing activities:			
Decrease in short-term bank loans – net	(141)	(493)	(1,276)
Repayment of long-term debt	(463)	(463)	(4,173)
Dividends paid	(1,277)	(1,012)	(11,509)
Other – net	(19)	(27)	(179)
Net cash used in financing activities	(1,902)	(1,996)	(17,139)
Foreign currency translation adjustments on cash and cash equivalents	(205)	101	(1,852)
Net increase (decrease) in cash and cash equivalents	3,040	(2,026)	27,393
Cash and cash equivalents, beginning of year	17,826	19,853	160,615
Cash and cash equivalents, end of year	¥ 20,867	¥ 17,826	\$ 188,009

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2019

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country, in which DAIICHI

JITSUGYO CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.99 to \$1, the approximate rate of exchange at March 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million and thousand in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2019, include the accounts of the Company and its 17 significant (17 in 2018) subsidiaries (together, the “Group”). Consolidation of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in one (one in 2018) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and other associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

The accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the

United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

The accounting standard requires adjustments to be made to conform the associates' accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associates' financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the

cost model of accounting.

d. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

e. Inventories

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

f. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and

ii) available-for-sale securities are reported at their fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

g. Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries. Depreciation of leased assets is computed by the straight-line method based on the lease term of the respective assets. The range of useful lives is principally from 3 to 50 years for buildings; from 2 to 17 years for machinery, equipment, and vehicles; and from 2 to 23 years for furniture and fixtures.

h. Investment and Other Assets

Manufacture and selling rights are domestic exclusive rights to manufacturing, selling, and etc. of binary power generation systems. It is computed by the straight-line method based on a 10-year prospective usable period.

i. Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset

or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from continued use and eventual disposition of the asset, or the net selling price at disposition.

j. Retirement and Pension Plans

The Company and certain domestic consolidated subsidiaries have noncontributory and contributory funded defined benefit pension plans for employees which cover their benefits. Other consolidated subsidiaries have unfunded retirement benefit plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over 14 years, no longer than the expected average remaining service period of the employees.

Retirement benefits for directors and Audit & Supervisory Board members of certain domestic consolidated subsidiaries are provided at the amount that would be required if all directors and Audit & Supervisory Board Members retired at the balance sheet date.

k. Asset Retirement Obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. Stock Options

The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

m. Research and Development Costs

Research and development costs are charged to income as incurred.

n. Leases

(Lessee)

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

(Lessor)

Finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables, and finance leases that are not deemed to transfer ownership of the leased property to the lessee are recognized as investments in lease.

o. Bonuses to Directors and Audit & Supervisory Board Members

Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

p. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥141 million and deferred tax liabilities of ¥618 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets

and long-term liabilities, respectively, in the accompanying consolidated balance sheet.

q. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains/losses are deferred until maturity of the hedged transaction. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of machinery from overseas customers/suppliers. Trade account receivables/payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

t. Per Share Information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2018, comprise interim dividends of ¥45.00 and year-end dividends of ¥60.00, which reflect a reverse stock split effected on October 1, 2017(see note 8c).

u. New Accounting Pronouncements

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services

to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Non-current:			
Marketable equity securities	¥ 5,603	¥ 6,674	\$ 50,487
Government bonds	9	9	87
Other	1,001	955	9,026
Total	¥ 6,615	¥ 7,640	\$ 59,602

The ¥9 million of government bonds are a mortgage for guarantee of dealings.

The costs and aggregate fair values of investment securities at March 31, 2019 and 2018, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,837	¥2,966	¥ 199	¥5,603
Held-to-Maturity	¥ 9	¥ 0		¥ 10
March 31, 2018				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,688	¥3,574	¥ 588	¥6,674
Held-to-Maturity	¥ 9	¥ 0		¥ 10

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 25,560	\$ 26,728	\$ 1,801	\$ 50,487
Held-to-Maturity	\$ 87	\$ 3		\$ 90

4. INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Merchandise and finished products	¥ 11,991	¥ 11,866	\$ 108,037
Work in process	1,108	1,037	9,983
Raw materials and supplies	454	533	4,093
Total	¥ 13,553	¥ 13,437	\$ 122,114

5. LONG-LIVED ASSETS

Year ended March 31, 2019

The Group recognized an impairment loss of ¥900 million (\$8,113 thousand). The impairment loss was due to the result of reconsideration for the business project involving the acquisition of exclusive domestic rights for manufacture and sales of binary power generation system. It was determined that achievement of the future earning target requires more time, and the book value was written down to the recoverable amount.

Year ended March 31, 2018

Because part of the research-and-development facilities for the plant factory project became idle, the book value of the assets was written down to the recoverable amount. ¥24 million was recognized as an impairment loss.

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

Short-term bank loans at March 31, 2019 and 2018, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.40% to 3.98% and 0.39% to 4.66% at March 31, 2019 and 2018, respectively.

Long-term debt at March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Loan from financial institution, due serially to 2021, with interest rates ranging to 0.95% (2019 and 2018)			
Unsecured	¥ 793	¥ 1,153	\$ 7,151
Loan from financial institution, due serially to 2020, with interest rates ranging to 0.92% (2019 and 2018)			
Unsecured	50	110	450
Loan from financial institution, due serially to 2021, with interest rates ranging to 0.85% (2019 and 2018)			
Unsecured	80	124	720
Total	923	1,387	8,323
Less current portion	(453)	(463)	(4,083)
Long-term debt, less current portion	¥ 470	¥ 923	\$ 4,240

Annual maturities of long-term debt as of March 31, 2019, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. Dollars
2020	¥ 453	\$ 4,083
2021	395	3,560
2022	75	679
2023		
2024		
2025 and thereafter		
Total	¥ 923	\$ 8,323

In order to procure operating funds efficiently and stably, loan commitments were signed with five banks. The unused credit balance under those loans as of March 31, 2019, was as follows:

	Millions of yen	Thousands of U.S. Dollars
Maximum amount of the loan commitment	¥ 10,000	\$ 90,098
Amount loaned	6,000	54,058
Unused credit balance	¥ 4,000	\$ 36,039

7. RETIREMENT AND PENSION PLANS

The Company and certain domestic consolidated subsidiaries have severance payment plans for employees, directors, and Audit & Supervisory Board members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. In certain circumstances, the Company might pay the severance premium on termination of employment.

The Company and certain domestic consolidated subsidiaries have non-contributory and contributory funded defined benefit pension plans for employees which cover their benefits. Other consolidated subsidiaries have unfunded retirement benefit plans.

The contributory funded defined benefit pension plan, which was established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company.

The liability for retirement benefits for directors and Audit & Supervisory Board members was ¥19 million (\$171 thousand) and ¥16 million at March 31, 2019 and 2018, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2019 and 2018, consisted of the following:

Contributory funded defined benefit pension plan

(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 3,122	¥ 2,949	\$ 28,130
Current service cost	207	199	1,872
Interest cost	14	16	134
Actuarial losses	55	27	502
Benefits paid	(85)	(86)	(769)
Others	20	15	180
Balance at end of year	¥ 3,335	¥ 3,122	\$ 30,050

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 3,937	¥ 3,670	\$ 35,473
Expected return on plan assets	21	22	190
Actuarial gain	87	141	792
Contributions from the employer	192	187	1,735
Benefits paid	(85)	(86)	(769)
Balance at end of year	¥ 4,153	¥ 3,937	\$ 37,421

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 2,994	¥ 2,801	\$ 26,977
Plan assets	(4,153)	(3,937)	(37,421)
	(1,159)	(1,136)	(10,444)
Unfunded defined benefit obligation	340	320	3,072
Net asset arising from defined benefit obligation	¥ (818)	¥ (815)	\$ (7,372)

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 340	¥ 320	\$ 3,072
Assets for retirement benefits	(1,159)	(1,136)	(10,444)
Net asset arising from defined benefit obligation	¥ (818)	¥ (815)	\$ (7,372)

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 207	¥ 199	\$ 1,872
Interest cost	14	16	134
Expected return on plan assets	(21)	(22)	(190)
Amortization of prior service cost	24	24	224
Recognized actuarial (gains)	(4)	(1)	(40)
Unfunded retirement benefit plans cost	20	15	180
Extra retirement payment	37	19	342
Others	34	49	311
Net periodic benefit costs	¥ 314	¥ 301	\$ 2,834

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the Year ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥ 24	¥ 24	\$ 224
Actuarial losses	27	112	249
Total	¥ 52	¥ 137	\$ 473

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost	¥ 147	¥ 172	\$ 1,326
Unrecognized actuarial gains	(289)	(261)	(2,604)
Total	¥ (141)	¥ (89)	\$ (1,277)

8. EQUITY

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

a. Dividends

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

(7) Plan assets

(1). Components of plan assets
Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	61.7%	43.4%
Equity investments	21.0	41.0
General account	5.2	5.3
Others	12.1	10.3
Total	100.0%	100.0%

(2). Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	0.5%	0.5%
Expected rate of return on plan assets	0.5%	0.5%

The required amount of contribution to the defined-contribution plan for the Company and some of its consolidated subsidiaries was ¥100 million (\$906 thousand) for the year ended March 31, 2019.

prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On October 1, 2017, the company effected a one-for-five reverse stock split. All shares and per share figures have been restated to reflect the reverse stock split.

9. STOCK OPTIONS

The stock options outstanding as of March 31, 2019, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2011 Stock Options	18	17,400	September 2, 2011	¥1	From September 2, 2011 to September 1, 2041
2013 Stock Options	19	25,000	September 3, 2013	¥1	From September 3, 2013 to September 2, 2043
2015 Stock Options	15	23,400	September 2, 2015	¥1	From September 2, 2015 to September 1, 2045
2017 Stock Options	15	26,800	September 4, 2017	¥1	From September 4, 2017 to September 3, 2047

The stock option activity is as follows:

For the Year ended March 31, 2019	2011 Stock Options (Shares)	2013 Stock Options (Shares)	2015 Stock Options (Shares)	2017 Stock Options (Shares)
<u>Non-vested</u>				
March 31, 2018 — Outstanding				
Granted				
Canceled				
Vested				
March 31, 2019 — Outstanding				
Vested				
March 31, 2018 — Outstanding	6,400	13,600	17,600	26,800
Vested				
Exercised				
Canceled				
March 31, 2019 — Outstanding	6,400	13,600	17,600	26,800
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise				
Fair value price at grant date	¥ 1,665 (\$ 15.00)	¥ 1,740 (\$ 15.68)	¥ 2,630 (\$ 23.70)	¥ 2,635 (\$ 23.74)

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥ 95	¥ 110	\$ 858
Allowance for bonus payable	244	309	2,202
Liability for retirement benefits	74	99	666
Evaluation loss on investment securities	83	63	751
Allowance for after-sales service	158	91	1,426
Investment in and advances to unconsolidated subsidiaries and associated companies	303	293	2,735
Revenue recognition for tax purposes	359	656	3,240
Impairment loss	447	204	4,031
Tax loss carryforwards	98	46	884
Other	551	498	4,965
Less valuation allowance	(662)	(524)	(5,965)
Total	1,753	1,849	15,798

Deferred tax liabilities:

Unrealized gain on available-for-sale securities	(829)	(994)	(7,471)
Assets for retirement benefits	(325)	(344)	(2,930)
Cost of sales recognition for tax purposes	(200)	(455)	(1,809)
Retained earnings in certain foreign countries	(268)		(2,419)
Other	(76)	(156)	(690)
Total	(1,700)	(1,951)	(15,321)
Net deferred tax assets (liabilities)	¥ 52	¥ (101)	\$ 476

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2019 is as follows:

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2019 and 2018, principally consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Salaries and fees	¥6,203	¥6,015	\$55,894
Retirement benefit costs	374	357	3,372
Depreciation and amortization	401	451	3,613
Research and development costs	338	251	3,046
Rental expense	¥1,371	¥1,302	\$12,360

March 31, 2019	Millions of yen						Total
	After 1 year or less	After 2 years through 2 years	After 3 years through 3 years	After 4 years through 4 years	After 5 years through 5 years	After 5 years	
Deferred tax assets relating to tax loss carryforwards							¥ 12 ¥ 85 ¥ 98
Less valuation allowances for tax loss carryforwards							(85) (85)
Net deferred tax assets relating to tax loss carryforwards							12 12

March 31, 2019	Thousands of U.S. Dollars						Total
	After 1 year or less	After 2 years through 2 years	After 3 years through 3 years	After 4 years through 4 years	After 5 years through 5 years	After 5 years	
Deferred tax assets relating to tax loss carryforwards							\$ 108 \$ 765 \$ 882
Less valuation allowances for tax loss carryforwards							(765) (765)
Net deferred tax assets relating to tax loss carryforwards							108 108

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the Year ended March 31, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.9%
Expenses not deductible for income tax purposes	3.6	3.5
Exclusion from charges against revenue	(2.1)	(1.7)
Tax deduction	(0.3)	(1.8)
Per capita portion of inhabitant tax	0.4	0.4
Lower income tax rates applicable to income in certain foreign countries	(1.8)	(1.6)
Less valuation allowance	0.5	(0.3)
Elimination of inter-company dividend income	0.7	0.6
Retained earnings in certain foreign countries	3.3	0.3
Investment gain on equity method	(0.6)	(0.4)
Other—net	(0.5)	(1.6)
Actual effective tax rate	33.8%	28.3%

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2019 and 2018, were ¥338 million (\$3,046 thousand) and ¥251 million, respectively.

13. LEASES

(1) As Lessee

Total rental expenses including lease payments under finance leases for the years ended March 31, 2019 and 2018, were ¥845 million (\$7,618 thousand) and ¥742 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. Dollars	
	2019	2019	2019	2019
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 14	¥ 436	\$ 132	\$ 3,932
Due after one year	30	1,141	278	10,284
Total	¥ 45	¥ 1,577	\$ 411	\$ 14,216

(2) As Lessor

The Group leases machinery, equipment, and other assets.

Total rental revenues for the years ended March 31, 2019 and 2018, were ¥104 million (\$943 thousand) and ¥117 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 49	¥ 56	\$ 443
Due after one year	122	147	1,100
Total	¥171	¥204	\$1,544

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly short-term debt, including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Payment terms of payables, such as trade notes and trade accounts, are mainly less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major

customers by each business administration department to identify the default risk of customers at early stages. With respect to held-to-maturity financial investment, the Group manages its exposure to credit risk by limiting its funding to high credit rated bonds in accordance with its internal guidelines. Please see Note 15 for details about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2019 and 2018.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

Marketable and investment securities are managed by monitoring market values and financial positions of issuers on a regular basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, at the level of one month's sales volume, along with adequate financial planning by the corporate treasury department.

(4) Concentration of Credit Risk

There are no significant account receivables from any major customer of the Group as of March 31, 2019 and 2018.

(5) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please see Note 15 for details on fair values of derivatives.

(a) Fair value of financial instruments

At March 31, 2019	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 20,867	¥ 20,867	
Time deposits	972	972	
Receivables	47,928	47,921	¥ (6)
Electronically recorded monetary claims	2,656	2,656	
Marketable and investment securities			
Held-to-maturity	9	10	0
Equity securities	5,603	5,603	
Total	¥ 78,037	¥ 78,030	¥ (6)

Payables	¥ 40,527	¥ 40,527	¥ (0)
Short-term bank loans	6,833	6,833	
Income taxes payable	1,215	1,215	
Long-term debt	923	920	(3)
Total	¥ 49,500	¥ 49,496	¥ (3)

At March 31, 2018	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 17,826	¥ 17,826	
Time deposits	556	556	
Receivables	43,446	43,423	¥ (23)
Electronically recorded monetary claims	2,279	2,279	
Marketable and investment securities			
Held-to-maturity	9	10	0
Equity securities	6,674	6,674	
Total	¥ 70,793	¥ 70,770	¥ (22)

Payables	¥ 35,363	¥ 35,362	¥ (0)
Short-term bank loans	6,974	6,974	
Income taxes payable	943	943	
Long-term debt	1,387	1,381	(5)
Total	¥ 44,668	¥ 44,662	¥ (6)

At March 31, 2019	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$ 188,009	\$ 188,009	
Time deposits	8,758	8,758	
Receivables	431,822	431,760	\$ (62)
Electronically recorded monetary claims	23,936	23,936	
Marketable and investment securities			
Held-to-maturity	87	90	3
Equity securities	50,487	50,487	
Total	\$ 703,102	\$ 703,043	\$ (59)
Payables	\$ 365,143	\$ 365,141	\$ (1)
Short-term bank loans	61,566	61,566	
Income taxes payable	10,953	10,953	
Long-term debt	8,323	8,294	(28)
Total	\$ 445,986	\$ 445,956	\$ (29)

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Receivables and payables

The fair values of receivables and payables are measured at the amount to be received or paid at maturity discounted at the Group's assumed corporate discount rate. The foreign currency forward contracts are utilized to hedge foreign currency exposures in the procurement of raw machinery from overseas customers/suppliers. Trade account receivables/payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Short-term bank loans and long-term debt

The fair values of short-term bank loans approximate fair value because of their short maturities. The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥2,782	¥2,422	\$25,068

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

At March 31, 2019	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥20,867		
Time deposits	972		
Receivables	47,517	¥ 410	
Electronically recorded monetary claims	2,656		
Marketable and investment securities			
Government bonds		9	
Total	¥72,013	¥ 419	

At March 31, 2018	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥17,826		
Time deposits	556		
Receivables	42,537	¥ 909	
Electronically recorded monetary claims	2,279		
Marketable and investment securities			
Government bonds			¥ 9
Total	¥63,200	¥ 909	¥ 9

At March 31, 2019	Thousands of U.S. Dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	\$188,009		
Time deposits	8,758		
Receivables	428,127	\$ 3,694	
Electronically recorded monetary claims	23,936		
Marketable and investment securities			
Government bonds		87	
Total	\$648,832	\$ 3,782	

- Please see Note 6 for annual maturities of long-term debt and Note 13 (1) for obligations under finance leases.
- The Group recognized an impairment loss of ¥ 465 million about other securities this fiscal year.

Derivative Transactions to Which Hedge Accounting Is Applied

At March 31, 2019	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.K.£	Order Backlog	¥1,572	¥ 174	¥ (39)
U.S.\$	-	1,232	19	(8)
EURO	-	207	21	0
CNY	-	137	-	(4)
THB	-	17	-	(0)
Buying				
EURO	Released Order	1,278	311	(30)
U.S.\$	-	950	-	(0)
DKK	-	506	-	(29)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	822	18	Note 2
EURO	-	21	-	Note 2
THB	-	17	-	Note 2
CNY	-	9	0	Note 2
Buying				
U.S.\$	Payables and other	365	-	Note 2
EURO	-	135	-	Note 2
Total		¥7,275	¥ 545	¥ (112)

At March 31, 2019	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.K.£	Order Backlog	\$14,169	\$ 1,574	\$ (355)
U.S.\$	-	11,107	174	(78)
EURO	-	1,873	193	7
CNY	-	1,242	-	(44)
THB	-	160	-	(2)
Buying				
EURO	Released Order	11,516	2,803	(271)
U.S.\$	-	8,559	-	(8)
DKK	-	4,562	-	(262)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	7,409	162	Note 2
EURO	-	192	-	Note 2
THB	-	153	-	Note 2
CNY	-	88	8	Note 2
Buying				
U.S.\$	Payables and other	3,292	-	Note 2
EURO	-	1,222	-	Note 2
Total		\$65,551	\$ 4,917	\$ (1,015)

- Notes: 1. The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
2. Fair value of the foreign currency forward contracts assigned for receivables and payables is included in the fair value of receivables and payables disclosed at Note 14. (5) (a).

15. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate their authorization.

Derivative Transactions to Which Hedge Accounting Is Not Applied

At March 31, 2019	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP¥	¥ 589		¥ 4	¥ 4
S\$	213		(3)	(3)
U.S.\$	195		(3)	(3)
Buying				
JP¥	2,825		7	7
U.S.\$	174		(0)	(0)
S\$	50		0	0
HK\$	12		0	0
THB	8		(0)	(0)
Total	¥4,071		¥ 4	¥ 4

At March 31, 2018	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
U.S.\$	¥ 711	¥ 58	¥ 26	¥ 26
JP¥	701		33	33
S\$	106		0	0
THB	75		0	0
Buying				
JP¥	2,598	0	(22)	(22)
U.S.\$	48		(1)	(1)
EURO	19		(0)	(0)
S\$	8		(0)	(0)
Total	¥4,269	¥ 58	¥ 36	¥ 36

At March 31, 2019	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP¥	\$ 5,313		\$ 38	\$ 38
S\$	1,927		(31)	(31)
U.S.\$	1,761		(27)	(27)
Buying				
JP¥	25,460		66	66
U.S.\$	1,573		(0)	(0)
S\$	457		0	0
HK\$	108		1	1
THB	77		(2)	(2)
Total	\$36,679		\$ 44	\$ 44

At March 31, 2018	Hedged Item	Millions of yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Forecasted transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Order Backlog	¥1,440		¥ 43
EURO	-	147		2
CNY	-	109		(1)
THB	-	4		0
Buying				
EURO	Released Order	708	¥ 148	(6)
U.S.\$	-	512		(13)
DKK	-	162		(2)
CNY	-	1		(0)
S\$	-	0		0
Assigned transactions				
Foreign currency forward contracts:				
Selling				
U.S.\$	Receivables	1,351	4	Note 2
CNY	-	73	-	Note 2
EURO	-	21	-	Note 2
THB	-	5	-	Note 2
Buying				
U.S.\$	Payables and other	243	-	Note 2
CNY	-	10	-	Note 2
DKK	-	2	-	Note 2
EURO	-	1	-	Note 2
Total		¥4,796	¥ 152	¥ 21

16. CONTINGENT LIABILITIES

At March 31, 2019, the Group had the following contingent liabilities:

	Thousands of U.S. Dollars	
	Millions of yen	U.S. Dollars
Guarantees and similar items of bank loans	¥14	\$ 130

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17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ (1,087)	¥ 481	\$ (9,795)
Reclassification adjustments to profit or loss	460	414	4,145
Amount before income tax effect	(627)	896	(5,649)
Income tax effect	165	(275)	1,487
Total	(461)	621	(4,161)
Deferred (loss) gain on derivatives under hedge accounting:			
Gains arising during the year	(133)	19	(1,201)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(133)	19	(1,201)
Income tax effect	40	(6)	367
Total	(92)	13	(834)
Foreign currency translation adjustments:			
Adjustments arising during the year	(186)	6	(1,680)
Total	(186)	6	(1,680)
Defined retirement benefit plans			
Gains arising during the year	32	114	290
Reclassification adjustments to profit or loss	20	23	183
Amount before income tax	52	137	473
Income tax effect	(16)	(42)	(145)
Total	36	95	328
Share of other comprehensive loss in associates:			
Losses arising during the year		2	
Reclassification adjustments to profit or loss		(81)	
Total		(79)	
Total other comprehensive income	¥ (704)	¥ 658	\$ (6,348)

18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2019 and 2018, is as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
Year ended March 31, 2019				
Basic EPS				
Net income available to common shareholders	¥ 4,457	10,655	¥ 418.31	\$ 3.77
Effect of dilutive securities				
Warrants		62		
Diluted EPS				
Net income for computation	¥ 4,457	10,718	¥ 415.87	\$ 3.75
Year ended March 31, 2018				
Basic EPS				
Net income available to common shareholders	¥ 4,730	10,654	¥ 443.97	
Effect of dilutive securities				
Warrants		52		
Diluted EPS				
Net income for computation	¥ 4,730	10,707	¥ 441.78	

19. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2019, were approved at the shareholders' meeting of the Company held on June 25, 2019:

	Millions of yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥50.00 (\$0.45) per share	¥532	\$4,800

20. SEGMENT INFORMATION

The Group is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group's reportable segments consist of the Plant & Energy Business, Industrial Machinery Business, Electronics Business, Pharmaceuticals Business, and Aviation Business.

- Plant & Energy Business: Machinery and equipment for energy development and production, oil and gas refining, chemical, engineering, construction, and pulp and paper industries.
- Industrial Machinery Business: Machinery and equipment for plastics, rubber, automobiles, steel, and food industries.
- Electronics Business: Machinery and equipment for the industries of electronics, IT, electric machinery, precision, optical, audio, and musical instruments.
- Pharmaceuticals Business: Machinery and equipment for pharmaceuticals and medical industries.
- Aviation Business: Machinery and equipment for aviation and disaster prevention.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

	Millions of yen									
	2019									
	Reportable segments					Subtotal	Other	Total	Reconciliations	Consolidated
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business						
Sales										
Sales to external customers	¥ 35,701	¥ 52,987	¥ 59,029	¥ 9,814	¥ 4,262	¥ 161,797	¥ 94	¥ 161,891		¥ 161,891
Intersegment sales or transfers	676	574	1,279	87		2,618	27	2,646	¥ (2,646)	
Total	36,378	53,562	60,309	9,902	4,262	164,415	122	164,538	(2,646)	161,891
Segment profit (loss)	753	2,578	2,855	955	288	7,431	3	7,435	138	7,573
Segment assets	25,146	32,206	29,924	8,027	3,075	98,379	584	98,963	13,597	112,561
Other:										
Depreciation	257	27	64	132	2	482	43	526	248	774
Impairment loss (Note 3)	900					900		900		900
Investment in an equity method company		1,109				1,109		1,109		1,109
Increase in property, plant and equipment and intangible assets	¥ 16	¥ 28	¥ 23	¥ 118	¥ 0	¥ 186	¥ 91	¥ 278	¥ 109	¥ 387

	Millions of yen									
	2018									
	Reportable segments					Subtotal	Other	Total	Reconciliations	Consolidated
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business						
Sales										
Sales to external customers	¥ 63,803	¥ 51,752	¥ 58,490	¥ 8,165	¥ 3,415	¥ 185,628	¥ 57	¥ 185,686		¥ 185,686
Intersegment sales or transfers	564	782	833	243		2,424	31	2,455	¥ (2,455)	
Total	64,368	52,535	59,323	8,408	3,415	188,052	89	188,142	(2,455)	185,686
Segment profit (loss)	752	1,913	2,891	667	209	6,433	(49)	6,384	10	6,394
Segment assets	21,822	29,856	30,728	6,298	2,130	90,835	628	91,464	10,915	102,379
Other:										
Depreciation	263	17	81	103	25	492	18	510	294	805
Impairment loss (Note 4)									24	24
Investment in an equity method company		968				968		968		968
Increase in property, plant and equipment and intangible assets	¥ 0	¥ 44	¥ 74	¥ 162	¥ 0	¥ 282	¥ 48	¥ 330	¥ 194	¥ 525

Thousands of U.S. Dollars

	2019									
	Reportable segments						Other	Total	Reconciliations	Consolidated
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Pharmaceuticals Business	Aviation Business	Subtotal					
Sales										
Sales to external customers	\$ 321,668	\$ 477,410	\$ 531,849	\$ 88,429	\$ 38,407	\$ 1,457,764	\$ 851	\$ 1,458,616		\$ 1,458,616
Intersegment sales or transfers	6,094	5,178	11,530	787		23,590	251	23,841	\$ (23,841)	
Total	327,762	482,589	543,379	89,216	38,407	1,481,355	1,102	1,482,458	(23,841)	1,458,616
Segment profit (loss)	6,787	23,227	25,731	8,606	2,602	66,955	32	66,988	1,247	68,235
Segment assets	226,561	290,171	269,614	72,328	27,707	886,384	5,262	891,647	122,510	1,014,157
Other:										
Depreciation	2,318	244	578	1,190	18,875	4,351	388	4,739	2,242	6,982
Impairment loss (Note 3)	8,113					8,113		8,113		8,113
Investment in an equity method company		9,992				9,992		9,992		9,992
Increase in property, plant and equipment and intangible assets	\$ 147	\$ 254	\$ 209	\$ 1,071	\$ 702	\$ 1,682	\$ 827	\$ 2,510	\$ 985	\$ 3,495

Notes: 1) Transfers between segments are made at arm's-length prices.
2) Segment profit is adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
3) The impairment loss in the plant & energy business segment was due to the result of reconsideration for the business project involving the acquisition of exclusive domestic rights for manufacture and sales of binary power generation system. It was determined that achievement of the future earning target requires more time, and the book value was written down to the recoverable amount.
4) Because part of the research-and-development facilities for the plant factory project became idle, the book value of the assets was written down to the recoverable amount. ¥24 million was recognized as an impairment loss.

(4) Information about products and services

Information about products and services is omitted as it is presented in the description of reportable segments.

(5) Information about geographical areas

a. Sales

Millions of Yen						
2019						
Japan	China	Asia	North America	Europe	Other	Total
¥81,122	¥31,407	¥32,124	¥14,333	¥2,815	¥87	¥161,891

Millions of Yen						
2018						
Japan	China	Asia	North America	Europe	Other	Total
¥109,979	¥21,940	¥36,539	¥12,559	¥3,379	¥1,287	¥185,686

Thousands of U.S. Dollars						
2019						
Japan	China	Asia	North America	Europe	Other	Total
\$730,900	\$282,979	\$289,439	\$129,137	\$25,369	\$789	\$1,458,616

Notes: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

Millions of Yen			
2019			
Japan	Asia	Other	Total
¥2,801	¥197	¥81	¥3,080

Millions of Yen			
2018			
Japan	Asia	Other	Total
¥2,964	¥137	¥82	¥3,184

Thousands of U.S. Dollars			
2019			
Japan	Asia	Other	Total
\$25,238	\$1,781	\$738	\$27,758

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daiichi Jitsugyo Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Daiichi Jitsugyo Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2019

DAIICHI JITSUGYO CO., LTD.

Date of Establishment

August 12, 1948

Paid-in Capital

¥5,105 million

Stock Exchange Listing

Tokyo Stock Exchange, First Section

Number of Employees

485 (Non-consolidated)

1,167 (Consolidated)

Transfer Agent and Registrar

Tokyo Securities Transfer Agent Co., Ltd.

Common Stock

Authorized: 32,000,000 shares

Issued: 11,086,400 shares

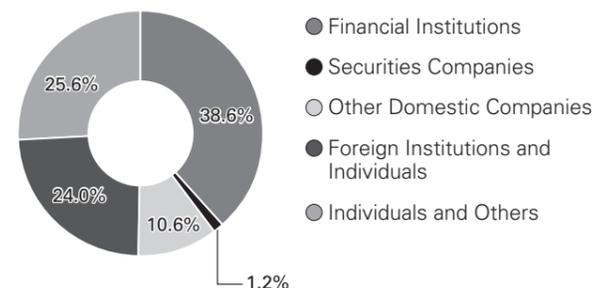
Number of shareholders: 4,507

Major Shareholders

	(% of total)
Japan Trustee Services Bank, Ltd.	5.13
Mizuho Bank, Ltd.	4.80
Sumitomo Mitsui Banking Corporation	4.79
The Master Trust Bank of Japan, Ltd.	4.14
MUFG Bank, Ltd.	3.50
Resona Bank, Limited.	3.18
Sompo Japan Nipponkoa Insurance Inc.	2.86

* Percentages of total shares issued are calculated based on the total number of shares issued excluding treasury stock.

Distribution of Ownership among Shareholders



Directors and Audit &

Supervisory Board Members (As of June 25, 2019)

President & CEO

Ichiro Uno*

Senior Managing Director & CFO

Itaru Kage*

Managing Directors

Shigeki Terakawa

Ryuichi Ninomiya

Masatoshi Ueno

Outside Directors

Yoshikazu Sakamoto

Yukie Tanaka

Standing Audit & Supervisory Board Member

Masahiko Mizumoto

Outside Audit & Supervisory Board Members

Toshihiko Matsumiya

Mitsuyoshi Koyama

Executive Officers

(As of June 25, 2019)

Managing Executive Officer

Daisuke Ozono

Pharma Business Div.

Executive Officers

Yuji Funawatari

DAIICHI JITSUGYO ASIA PTE. LTD.

Yasushi Marumoto

Plant & Energy Business Div.

Shigehiro Aoyama

Automotive Business Div.

Shinji Otsuki

Electronic Systems Business Div.

Shoichiro Okada

Industrial Machinery Business Div.

Osamu Fukawa

Administration & Accounting Div.

* : Representative Director

SIGNIFICANT SUBSIDIARIES

OVERSEAS

- DJK EUROPE GMBH
Consolidated subsidiary
- DAIICHI JITSUGYO ASIA PTE. LTD.
Consolidated subsidiary
- DAIICHI JITSUGYO (THAILAND) CO., LTD.
Consolidated subsidiary
- DAIICHI PROJECT SERVICE CO., LTD.
Consolidated subsidiary
- DAI-ICHI JITSUGYO (MALAYSIA) SDN. BHD.
Consolidated subsidiary
- DAIICHI JITSUGYO (PHILIPPINES), INC.
Consolidated subsidiary
- DJK FACTORY SOLUTIONS (PHILIPPINES), INC.
- PT. DJK INDONESIA
Consolidated subsidiary
- DAIICHI JITSUGYO (VIETNAM) CO., LTD.
Consolidated subsidiary
- DAIICHI JITSUGYO INDIA PVT. LTD.
Consolidated subsidiary
- SHANGHAI YISHI TRADING CO., LTD.
Consolidated subsidiary
- DAIICHI JITSUGYO (GUANGZHOU) TRADING CO., LTD.
Consolidated subsidiary
- DAIICHI JITSUGYO (HONG KONG) LIMITED
Consolidated subsidiary
- DJK (TAIWAN) CORP.
- DAIICHI JITSUGYO (AMERICA), INC.
Consolidated subsidiary
- DJK GLOBAL MEXICO, S.A. DE C.V.
Consolidated subsidiary
- DAIICHI JITSUGYO DO BRASIL COMERCIO DE MAQUINAS LTDA.

DOMESTIC

- DAIICHI MECHA-TECH CORPORATION
Consolidated subsidiary
- DAIICHI JITSUGYO VISWILL CO., LTD.
Consolidated subsidiary
- DAIICHI ENGINEERING CO., LTD.
- DJK SOLAR SOLUTION CO., LTD.
Consolidated subsidiary

SIGNIFICANT AFFILIATES

DOMESTIC

- SULZER DAIICHI K.K.
- ASANO LABORATORIES CO., LTD.



Note: The locations of the bases shown here include the branches and offices of the Company as well as those of the DJK Group companies.

CORPORATE SOCIAL RESPONSIBILITY

Top commitment

The DJK Group is committed to fulfilling its social responsibilities globally in accordance with its management philosophy of contributing to social prosperity. The DJK Group aims for corporate growth and the development of a sustainable society by focusing on environmental considerations, thorough legal compliance, and enhanced relations with stakeholders, while maintaining its role as part of the worldwide distribution channel of economic society.

Management outlook based on a keen awareness of social responsibility





DAIICHI JITSUGYO CO., LTD.

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