



ANNUAL REPORT  
**2020**

Year ended March 31, 2020

# Philosophy

## Corporate Principles

協力一致  
堅実運営  
積極活動

Unified cooperation  
Sound management  
Proactive corporate activity

## Founding Spirit

As a trading company, DAIICHI JITSUGYO CO., LTD. ("DJK") strives to facilitate the logistics of an economic society in order to contribute to social prosperity. Corporate activities are based on a proactive approach and spirit of unified cooperation. The company aims for stable growth based on sound management, while striving to improve the lifestyles and welfare of its employees.

## Action Guidelines

**Aiming to become a preferred international corporation, we will strive to contribute to society with the appropriate pride and a sense of responsibility. Our code of conduct is as follows.**

- We contribute to the development of society by engaging in business activities with honesty and sincerity, basically with a caring heart toward people, work and the Company.
- Based on the recognition of future trends from a global perspective, we strive for development and innovation by enhancing our originality/ingenuity and collecting more information.
- With sincerity and trust as our motto, we work to help customers.
- Setting high goals instead of indulging in tepidity, we continue to address challenges with courage and faith to be a leader in the industry in which we operate.
- We strive to create a motivating and rewarding workplace by maintaining physical and mental soundness and politeness.
- While trying to understand other people's feelings or situations and emphasizing teamwork, we fulfill our own responsibilities.
- With constant cost awareness, we value things and time, thereby improving business performance.

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## Disclaimer regarding forward-looking statements

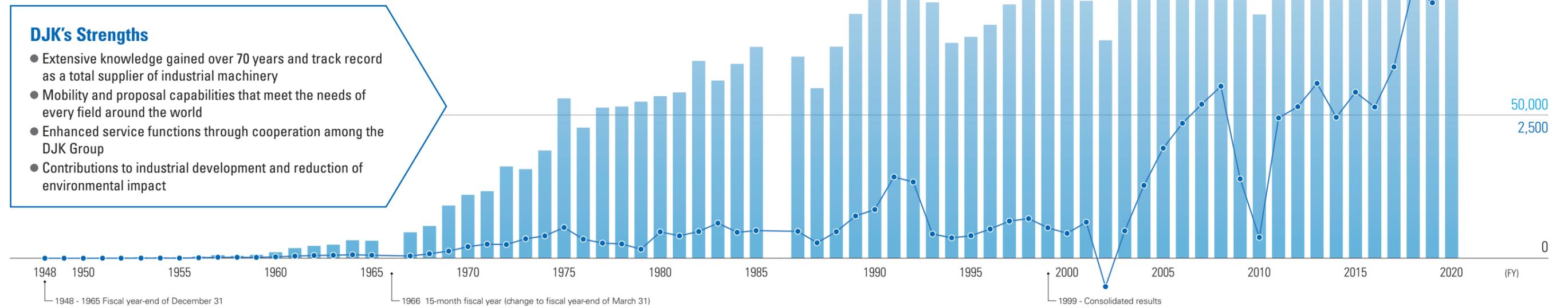
Statements made in this annual report with respect to DJK's forecasts and business targets that are not historical facts, are forward-looking statements about the future performance of DJK and its consolidated subsidiaries and are based on information currently available. Readers are cautioned that for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

# Our 72-year Journey as an Industrial Machinery Supplier

Founded shortly after World War II, DJK initially focused only on selling and buying machines amid the momentum of that time. We have steadily continued sales without resorting to speculation, earning trust as a sincere and steady company, and expanding our business scope. Now, we engage in business fields all over the world, and the many business models created in those fields to meet a wide variety of needs form the source of our growth. The role we should play in the future goes beyond the framework of a trading company. DJK will continue to take on challenges.

## DJK's Strengths

- Extensive knowledge gained over 70 years and track record as a total supplier of industrial machinery
- Mobility and proposal capabilities that meet the needs of every field around the world
- Enhanced service functions through cooperation among the DJK Group
- Contributions to industrial development and reduction of environmental impact



- 1950 - 1953 Korean War
- 1954 - Beginning of the rapid economic growth period

## Establishment - 1950s

We began with operations in business fields in core industries, such as shipbuilding, cement, and oil refining, and started transactions with major companies. Then we steadily built up relationships of trust and solidified our business foundation.

- 1948** Establishment with 480,000 yen in capital  
Establishment of headquarters in Shinagawa, Tokyo
- 1952** Pioneering the oil and oil refining industry and paper manufacturing industry  
Expansion into the Kansai region with establishment of Osaka Office
- 1959** Entry into the plastics industry



Headquarters at time of founding



Success in oil refining business

- 1964 Tokyo Olympics
- 1973 / 1979 Oil shocks

## 1960s - 1970s

We expanded business areas and products handled in line with expanding equipment demand due to rapid economic growth. Built a support system at manufacturing sites, and gradually increased overseas business.

- 1962** Establishment of first overseas office in Taiwan  
Listing on the Second Section of the Tokyo Stock Exchange
- 1964** Entry into the automotive industry
- 1968** Establishment of a representative office in New York
- 1970** Founding of Daiichi Machinery Service Co., Ltd. (currently Daiichi Mecha-tech Corporation)
- 1971** Establishment of a representative office in Singapore
- 1972** Founding of a local subsidiary in USA (later become regional headquarters for the Americas)
- 1974** Listing on the First Section of the Tokyo Stock Exchange



Entry into the automotive industry (injection molding machines for automotive manufacturers)



Founding of a local subsidiary in USA (Chicago Office)

- 1991 Bursting of the bubble economy
- 1995 Great Hanshin-awaji Earthquake

## 1980s - 1990s

We created a new business model in response to changing customer needs. We gained more know-how in a wide range of fields, including sales of multiple facility systems and overseas local procurement.

- 1982** Entry into the pharmaceuticals and electronics industries
- 1984** Received an award from the Minister of International Trade and Industry as a company contributing to trade
- 1986** Completion of D.S.T. Center
- 1987** Founding of Ahlstrom Daiichi Co., Ltd. (currently Sulzer Daiichi K.K.)
- 1989** 32nd increase of capital brings total capitalization to 5,105 million yen
- 1990** Entry into the aviation industry
- 1991** Establishment of a liaison office in Shanghai
- 1997** Founding of a local subsidiary in China (regional headquarters for China)



Entry into the electronics industry (printed circuit board assembly systems for digital manufacturers)



Completion of D.S.T. Center

- 2008 Global financial crisis
- 2011 Great East Japan Earthquake
- 2018 - US-China trade friction

## 2000s -

We create business to uncover DJK's value by utilizing the solution capabilities we have cultivated so far, striving for stable business growth while aiming to realize a sustainable society.

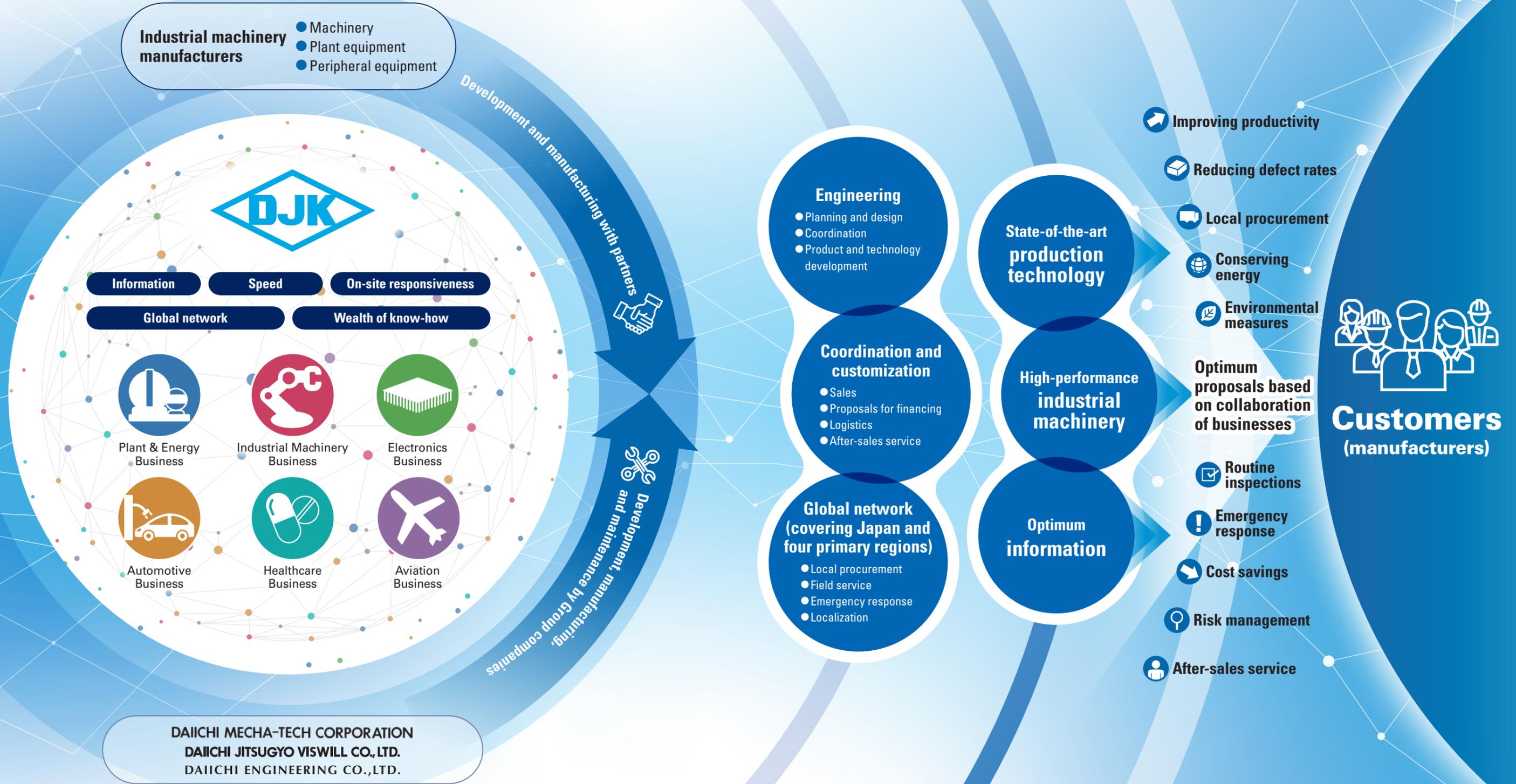
- 2001** Establishment of a representative office in Frankfurt
- 2005** Founding of a local subsidiary in Singapore (regional headquarters for Southeast Asia)  
Founding of Daiichi Jitsugyo Viswill Co., Ltd. by taking over Kanebo Vision System Co., Ltd.
- 2007** Acquisition of ISO14001 certification for all offices in Japan  
Acquisition of a BBB+ rating from Japan Credit Rating Agency, Ltd.
- 2008** Founding of a local subsidiary in Germany (regional headquarters for Europe)
- 2009** Making Asano Laboratories Co., Ltd. an equity-method affiliate
- 2013** Completion of Kasama Solar Power Plant in Ibaraki
- 2014** Completion of Iida Solar Power Plant in Nagano  
Founding of DJK Solar Solution Co., Ltd.
- 2015** Transition of business organization from a regional axis system to business axis system
- 2019** Founding of DC Energy GmbH (for sales of lithium-ion battery manufacturing equipment)



Founding of DC Energy GmbH

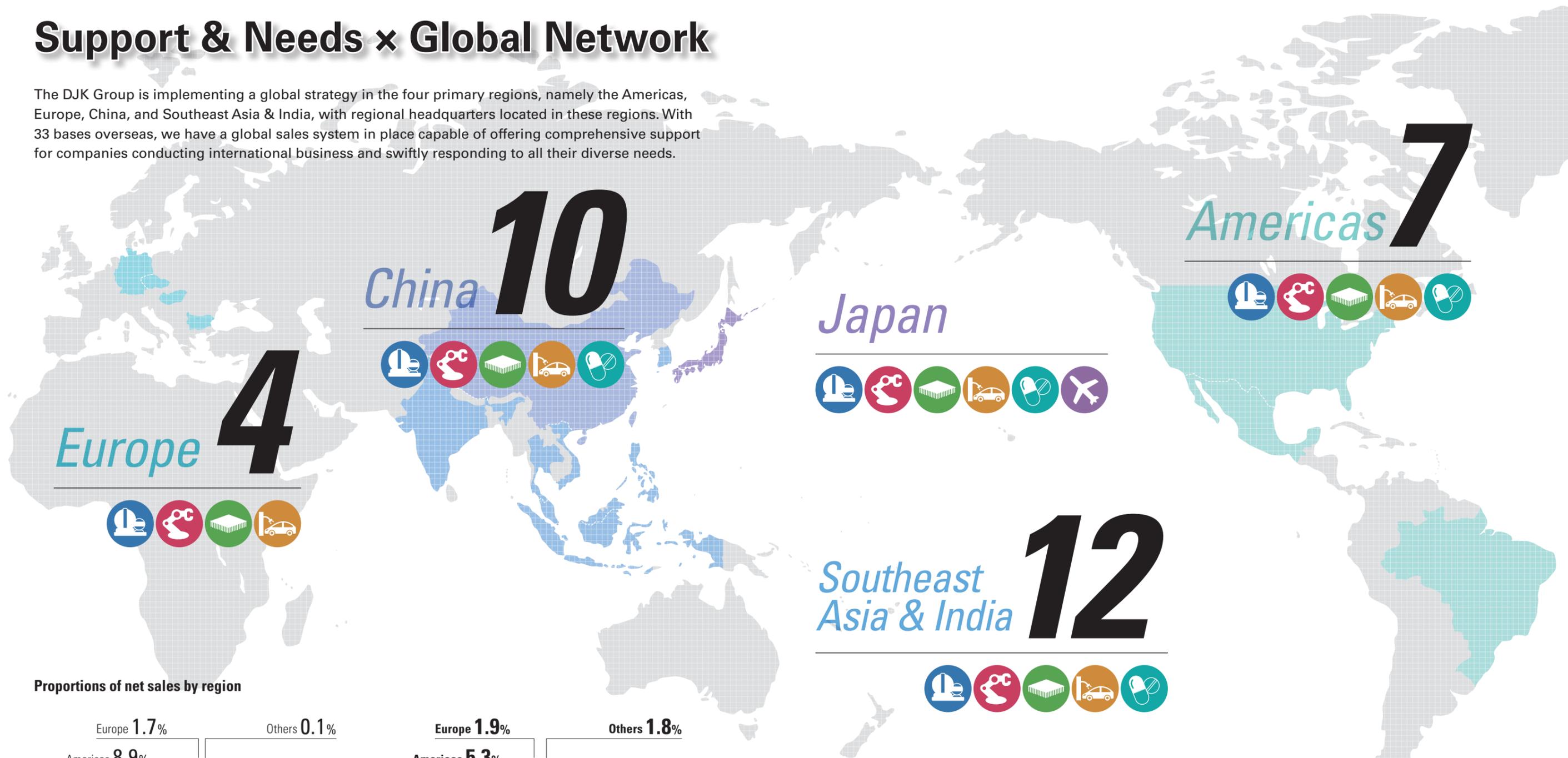
# One-stop Services x Total Solutions

The Company offers proposals for technological support and workload reduction at production sites and resolving other issues, and also offers one-stop solutions covering services from coordination of multiple pieces of equipment to after-sales services. Our support also covers logistics, financing, and management of various risks. Swiftly offering the optimum solutions in collaboration with Group companies in Japan and overseas, we are committed to creating value on a global scale.

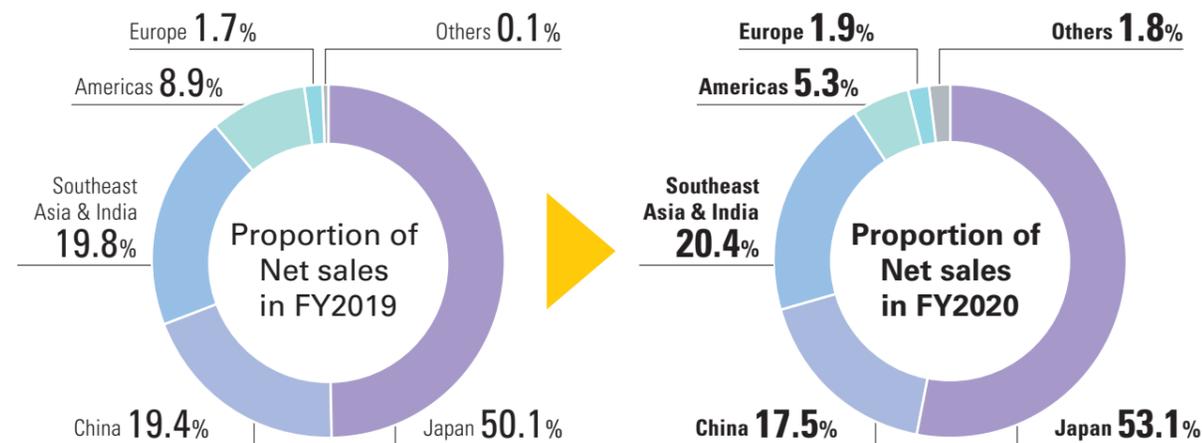


# Support & Needs x Global Network

The DJK Group is implementing a global strategy in the four primary regions, namely the Americas, Europe, China, and Southeast Asia & India, with regional headquarters located in these regions. With 33 bases overseas, we have a global sales system in place capable of offering comprehensive support for companies conducting international business and swiftly responding to all their diverse needs.



Proportions of net sales by region

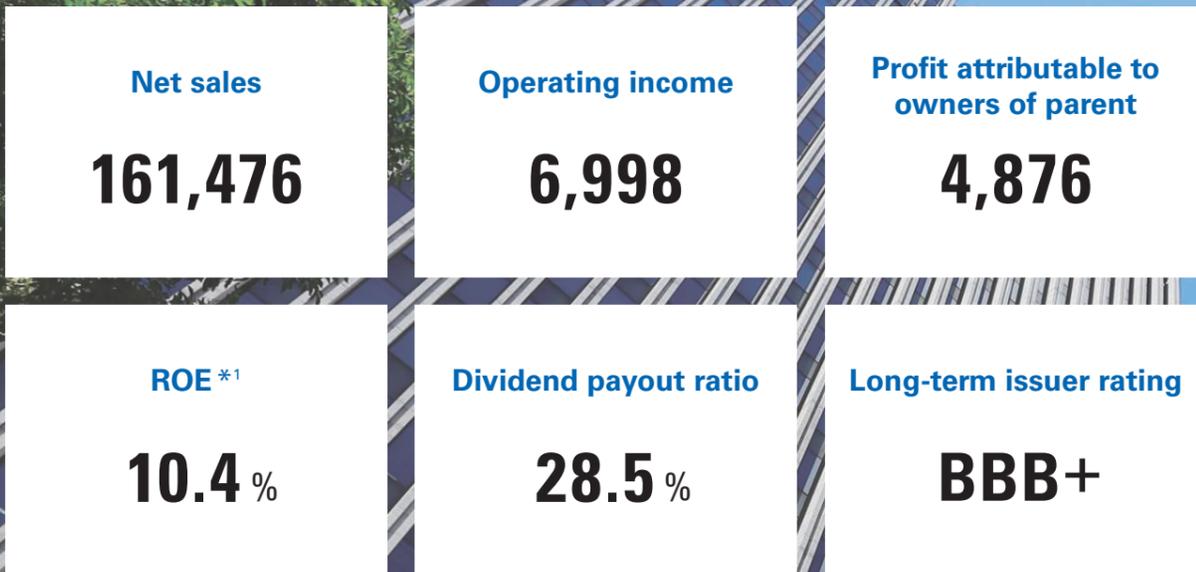


(As of June 30, 2020)

# Consolidated Financial Highlights

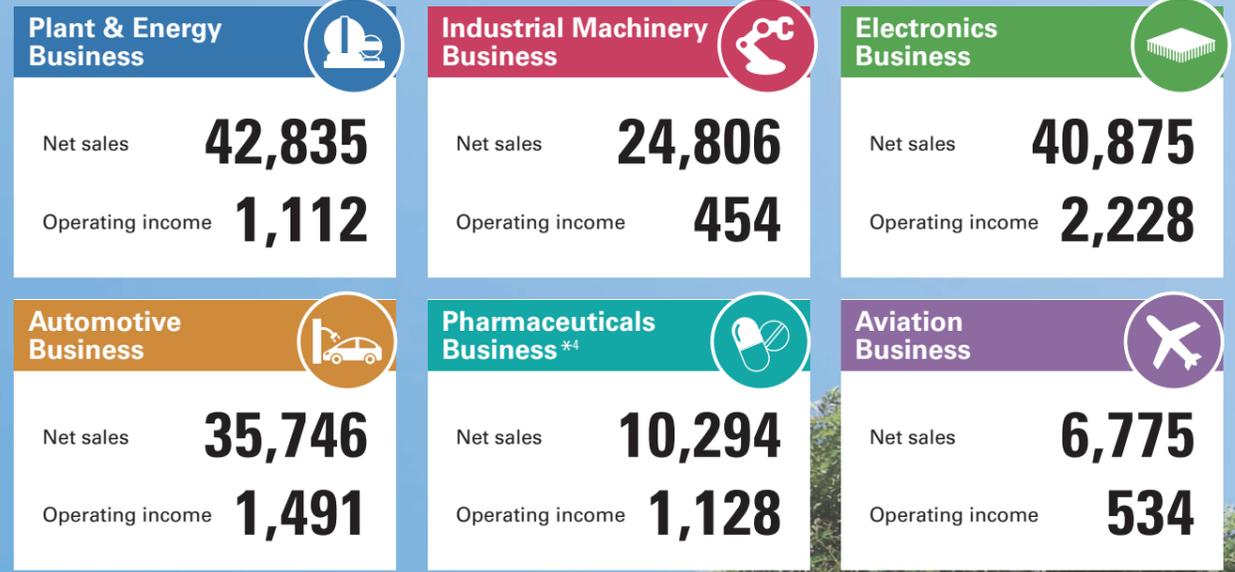
## Selected Financial Data

(Millions of yen)

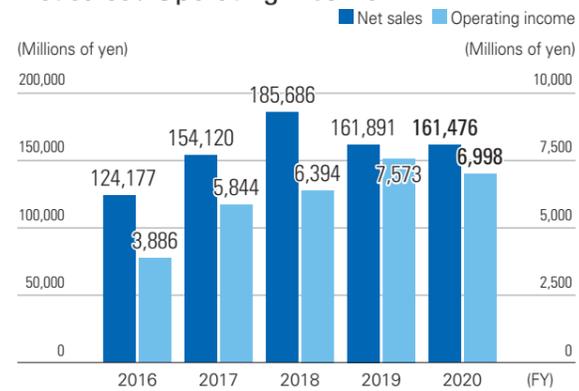


## Net Sales and Operating Income by Segment

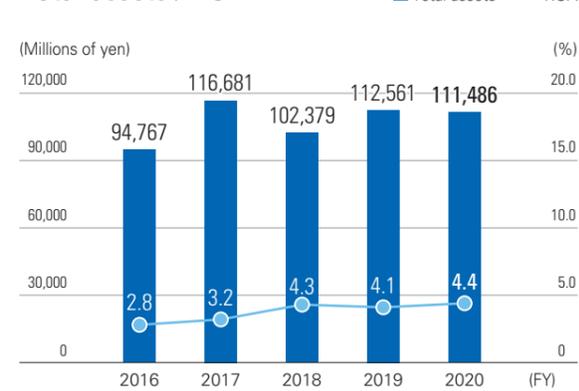
(Millions of yen)



### Net sales / Operating income



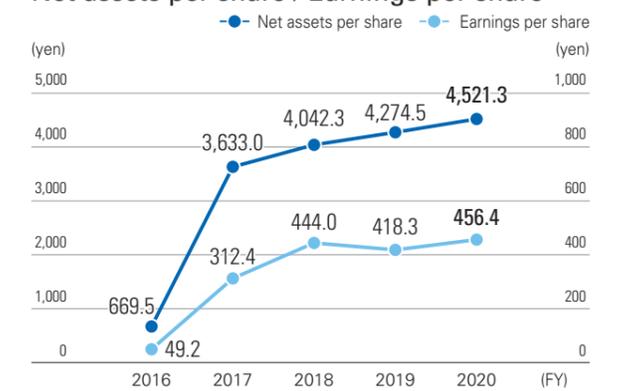
### Total assets / ROA\*2



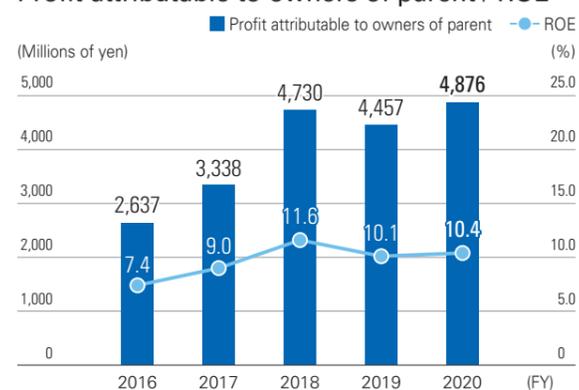
### Net assets / Shareholders' equity ratio



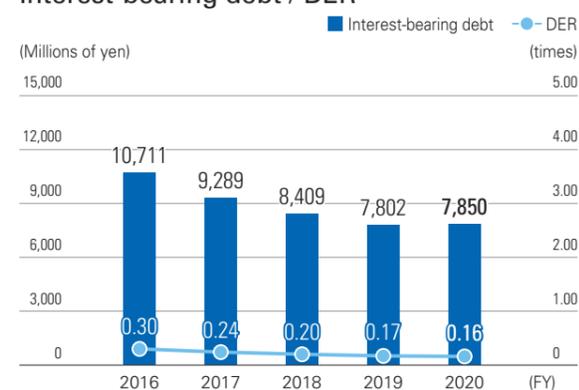
### Net assets per share / Earnings per share\*5



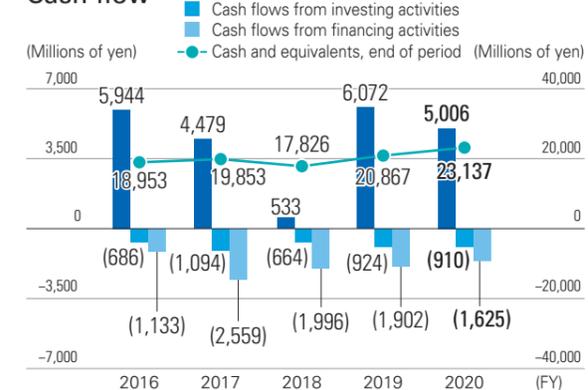
### Profit attributable to owners of parent / ROE\*1



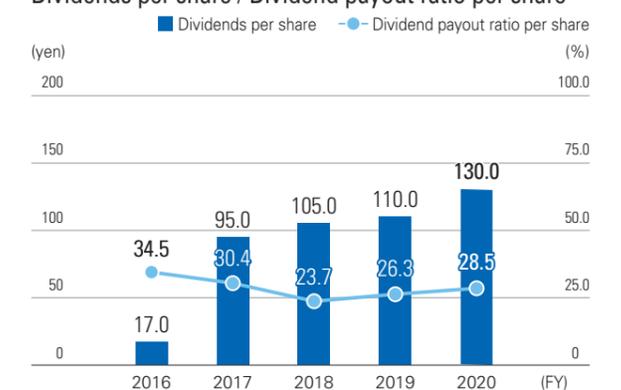
### Interest-bearing debt / DER\*3



### Cash flow



### Dividends per share / Dividend payout ratio per share\*5



\*1: ROE (Return On Equity)

\*2: ROA (Return On Assets (profit attributable to owners of parent))

\*3: DER (Debt to Equity Ratio)

\*4: The name of the Pharmaceuticals Business segment was changed to Healthcare Business in the year ending March 31, 2021.

\*5: As of October 1, 2017, common shares were consolidated on a 5-to-1 basis. Per share amounts for the fiscal year ended March 31, 2017 were calculated, assuming that the share consolidation took place at the beginning of the year. For the fiscal year ended March 31, 2016, the amount before the share consolidation is stated.

# Turning global change into business opportunities. Exert dynamic flexibility and adaptability to achieve innovation.

We would like to express our appreciation to our stakeholders for your continued support. DJK has completed financial accounting for the period between April 1, 2019 and March 31, 2020. Below, we provide an overview of our earnings performance and other relevant information.

President & CEO  
Ichiro Uno



**Q** Please provide a general evaluation and indicate the characteristics of the fiscal year ended March 2020 earnings.

**Amid turbulent times, our business portfolio functions to achieve earnings largely on par with plans, and I view our fiscal year results as commendable.**

Looking at the fiscal year ended March 2020 consolidated earnings, orders received and net sales were slightly below goals but overall figures were largely on par with original plans. Furthermore, we set a record high for year-end profit.

Looking at our operating environment, the first half of the year was impacted by US-China trade friction while the second half was hit by the global economic shutdown caused by the COVID-19 pandemic since the start of the New Year. Overall, the entire fiscal year was a period of obstacles and challenges. Although some projects we expected to record as sales by the end of the year were postponed, applying the strengths of our portfolio of six businesses enabled us to achieve these full-year results.

Looking at business-specific results, this year the largest contributors to orders received and net sales were, in order, the Plant & Energy Business, the Electronics Business, and the Automotive Business while the Electronics

Business and the Automotive Business followed by the Pharmaceuticals (currently Healthcare) Business significantly contributed to operating income.

Looking at overseas region-specific results, Southeast Asia, India, and China, in that order, accounted for approximately 80% (by delivery destination) of overseas sales. At the same time, strong equipment demand in Europe resulted in increased earnings year over year.

Overall, in addition to the Automotive Business, which we launched in the first year of our medium-term business plan, performing as expected, our young generation of executive officers took leadership roles of each division to identify ahead of the competition the themes appropriate for our current market environment and work towards reforms that will increase our core competence. I believe it is these efforts that enabled us to achieve favorable performance despite the challenging environment.

**Q** Please tell us about the progress and results of business-specific strategies, as well as your future forecasts.

**We engage in business models based on aiming to be a Next-generation Engineering Trading Firm, our 10-year vision for achieving sustainable growth, while expanding and enhancing our selection of environmentally and socially-conscious products.**

#### ● Plant & Energy Business

Recent years have seen growth boom in businesses related to lithium-ion batteries (LIB). In particular, this fiscal year we were able to participate in extremely large projects driven by the acceleration of battery manufacturing in the EU. Additionally, DC Energy GmbH, the LIB manufacturing equipment sales company established as a joint venture in Germany with CIS Co., Ltd. (Korea), is receiving consistent inquiries. Overall, we are responding to industry needs. In the field of next-generation energy, the Binary Power Generation Business is shifting towards a positive trajectory and we started activities as the exclusive distributor in Japan for high-efficiency, thin film lightweight flexible solar panels. At the same time, we are providing superior Japanese technology, products,

and services to contribute to sustainable development, including the reduction of greenhouse effect gases in developing nations. We will proactively use the Joint Crediting Mechanism (JCM), which will enable the two countries to share the benefits of these efforts, while continuing efforts towards the realization of a carbon-free society.

#### ● Industrial Machinery Business

The Industrial Machinery Business is currently transforming from a business centered on machinery injection molding for materials such as synthetic resins to expand into machines for processes such as coating and exterior inspections, and multifunction machinery featuring automated functions. The business is also beginning to see progress in the industrial 3D printing system business,

## Interview with the President

which is based on advanced forming technology. We are excited about the volume of inquiries this business is receiving. This business is also aggressively engaging in new markets and new product development in a wide range of domains and fields, including medical equipment such as catheter manufacturing devices, food, logistics materials, and housing-related products. Most recently, equipment demand related to plastic containers and wrapping materials is on a slight decline but, similar to how our Electronics Business and Automotive Business were born from our Industrial Machinery Business, we will continue to expand our field of activities in order to serve as a foundation for developing new businesses.

### ● Electronics Business

In addition to sales of electronic component mounting machines, the mainstay product for this business, the Electronics Business recorded increased sales of automation machinery such as the assembly machines and transport robots uses in preceding and follow-up processes, and sales of the smart factory systems that enable overall factory control. In particular, the Electronics Business maintained favorable sales of these systems in areas such as China and Southeast Asia. We also reevaluated our supply chain, which was weighted heavily towards China, and began shifting production sites to countries such as Vietnam, the Philippines, and Thailand. In Europe, particularly in Eastern Europe, we are seeing the emergence of other companies offering electronics manufacturing services (EMS). We will use our overseas networks to follow movements related to 5G (5th generation mobile communications) systems and digital transformation (DX), and focus on securing orders for equipment demand from around the world.

### ● Automotive Business

Branched off from the cross-points between the Electronics Business and the Industrial Machinery Business, the Automotive Business is off to a smooth start. Amid what some are calling a once-in-a-century paradigm shift in the automotive industry, our new equipment proposals based on the concept of products essential to next-generation vehicles are beginning to gain traction. The Automotive Business engages in proposal activities based on various themes, including for motors and inverters, electronic braking systems, in-vehicle cameras, radars, and sensors, and weight reduction for seats and body parts. The business is beginning to see the results of those efforts.

In particular, with the dramatic shift from internal combustion engines to EV, customers have praised our initiatives to collaborate with partner companies to pro-

vide proposals linked with the various facilities related to motors and inverters, including motor simulators, inspection devices, and all aspects of production lines. To further increase our competitiveness, we will advance product and partner development activities not only in Japan but also in China and Southeast Asia to exert our presence in the automotive industry, which is known for its extensive supply chains.

### ● Pharmaceuticals Business (currently Healthcare Business)

Focused on pill exterior inspection machines, the Pharmaceuticals (Healthcare) Business offers mainstay products such as pill printing machines and wrapping machines as well as medical equipment and machines related to liquid formulations.

The digital revolution has driven a shift from casual (C) to serious (S) and the impact of COVID-19 has resulted in increased health awareness. Amid such an environment, we expect business growth in a wide variety of fields, from dietary supplements and preventative medicine to regenerative medicine. Based on this outlook, from April 2020 we changed the business name from the Pharmaceuticals Business to the Healthcare Business. We established a new Engineering Department within the organization and will link operations with consolidated subsidiaries Daiichi Jitsugyo Viswill (manufacturing function) and Daiichi Mecha-Tech (services function) to enhance our business model that enables one-stop service provision. By expanding business domains and one-stop solutions, we will aim to double earnings figures.

### ● Aviation Business

Ahead of the Tokyo Olympic and Paralympic Games, sales of ground support equipment and airport facility equipment were extremely favorable. Although the Games were postponed, we were able to fulfill our role in providing high-function equipment and parts without delay. Segment sales still comprise a small ratio of overall net sales but the operating income margin is increasing significantly even when compared to other businesses. We have successfully grown this business to a point of recording notable performance. In particular, this fiscal year the business made incredibly strong contributions to profits.

In the disaster prevention domain, the business is expanding its line of special vehicles and large-scale rescue vehicles dispatched in emergency situations and products such as aid tents. We will promote business expansion by developing products that provide value from the perspective of disaster preparation.

**Q** Please tell us about the status of progress for your medium-term business plan FACE2021.

**To achieve our medium- to long-term vision of promoting sustainable growth by becoming a Next-generation Engineering Trading Firm, we launched three company-wide projects to more aggressively promote reforms to our internal structure and awareness.**

We embraced becoming a Next-generation Engineering Trading Firm as our vision for being able to demonstrate our reason for being 10 years, 20 years from now, and being able to achieve sustainable growth. We position the three-year period of FACE2021 as the period during which we solidify the foundation towards realizing that vision.

We are making steady progress towards our qualitative goals. As part of our goal to innovate business to match current market needs, which is aimed at further increasing our profitability, in FY2019 we launched the Automotive Business and in FY2020 we expanded the Pharmaceuticals Business into the more expansive Healthcare Business.

## 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).



● 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 ( ).

Regarding internal reforms aimed at strengthening management promotion capabilities and increasing corporate quality, we evaluated results from the first fiscal year, after which we determined the need to accelerate initiatives. To promote more specific initiatives and greater speed, we launched three company-wide projects: (1) Develop human resources, (2) establish and operate engineering centers, and (3) establish and strengthen our global IT structure. We designated supervisors for each project and established a structure to enable more aggressive promotion of these projects.

For our Group to achieve sustainable growth and transform into a company that can contribute to society, now is the time when we must reaffirm our commitment to our founding spirit and (1) enhance our business activities and governance based on the three core themes of our Corporate Principles: Unified Cooperation, Sound Management, and Proactive Corporate Activity, (2) embrace a free and open corporate culture, and (3) embrace the spirit *Sampo-Yoshi* (the "Three Goods": Good for the customer, Good for the seller, and Good for society). Now is the time when we must unite as a company towards these initiatives.

The key to Project 1, develop human resources, is that we further foster the awareness of each employee. To achieve this, we will prioritize developing human resources who are able to embrace and further develop the DJK spirit. To further increase the competitiveness of local staff, which represents the majority of Group employees, we are focusing on building an environment that enables local subsidiaries to autonomously train and develop local human resources as we aim for the development of human resources who are able to act globally in accordance with the DJK spirit.

Regarding Project 2, establish and operate engineering centers, currently engineers from each division are engaged in technical collaborations with business partners to pursue business development. However, in the future, we will use collaborations with our Group company Daiichi Mecha-Tech and partner companies as a springboard to transform into a companywide engineering group that serves the entire organization as we make continuous improvements to our engineering functions.

As part of initiatives related to Project 3, establish and strengthen our global IT structure, we started using IT to promote global information sharing and establish an

advantage over the competition. After the government's emergency declaration related to the COVID-19 pandemic, we started operating systems to enable the immediate adoption of a telecommuting structure for all domestic offices. This structure has enabled us to conduct operations

without any significant obstacles. We will continue to apply our dynamic adaptability to such sudden and dramatic change, and further apply IT to establish new work styles in a post-coronavirus world as we strive to provide new value to our business partners and stakeholders.

**Q Tell us about identified risks and future forecasts.**  
**While it is difficult to forecast the future due to the impact of the coronavirus, we will continue comprehensive business activities based on the perspective of a with-coronavirus and post-coronavirus society.**

Although we have seen delivery schedules delayed due to the impact of COVID-19, at present we have no businesses that have been completely shut down by the coronavirus. We are also assuming that deliveries for some previously received orders may be postponed but at this point it is unknown if such delays will last several months or longer.

Reports out of China indicate that the country is beginning to implement economic stimulation measures. However, the impact of the coronavirus could be prolonged in various countries. In our business activities, we believe there is a need to establish strategies based on the perspective of both a coronavirus and a post-coronavirus society. In particular, we recognize the need to focus on India, in which we have engaged in initiatives for potential rapid growth, and to prepare for the potential elongation

of conditions around the world.

Due to the potential for partner company businesses to be subsequently impacted, we have a heightened awareness of the need for capital recovery. We will focus not only on new orders but also on further reinforcing governance for existing projects.

While changes in our market environment caused by current conditions present risks, these changes also have the potential to present new opportunity. In particular, we expect the future will see the rapid permeation of IoT and the rapid acceleration of digital transformation (DX). In response to these new developments, our Group will carefully identify growth markets and players in all segments to ensure we do not miss the opportunity for selection and concentration.

**Q Please provide a message for your stakeholders.**  
**We will improve and enhance information disclosure to strengthen our reputation as a company capable of sustainable growth, and conduct management that embraces change and risk as new opportunity.**

We view this year as a period during which, even from the perspective of achieving sustainable growth, we were able to take powerful steps towards the future. The global upheaval caused by the COVID-19 pandemic has created severe conditions in which we must start the second year of our medium-term business plan. However, we recognize there is the continued possibility of similar risks. We will apply these experiences towards engaging in management that goes beyond simply working surviving the current environment. We will work to turn change and risk into opportunities to improve our corporate value.

And amid an increasing need for providing information that promotes constructive dialogue with stakeholders,

we recognize that we must further expand and enhance our information disclosure. We will evaluate the need for fundamental reviews of existing practices to determine if current information provision is sufficient or if we can identify areas for improvement. We will make constant improvements as we work to continue earning the trust of our stakeholders.

We want our stakeholders to look forward to DJK's initiatives as we aim to achieve the goals of our current medium-term business plan, and we ask for your continued support as we continue working to achieve sustainable growth.



## Plant & Energy Business

Proportion of Net sales  
**26.5%**

### Description of Business

In the field of plant construction, the Company offers equipment and highly specialized technologies based on a wealth of long experience. In the field of rechargeable battery manufacturing, we aim to expand our business by broadening our product portfolio of lithium ion battery manufacturing-related equipment. We are also focusing on the field of renewable energies, which will become indispensable in the next generation, such as binary power generation and biomass power generation.

### Enjoyed favorable sales of various plant equipment and lithium-ion battery manufacturing equipment

Net sales and operating income increased from the previous year owing to the recording of sales of equipment for overseas large-scale fertilizer plants and favorable sales of lithium-ion battery manufacturing equipment. Orders received remained unchanged from the previous year, as demand for plant equipment for chemical companies and for large-scale projects involving lithium-ion battery manufacturing equipment for overseas markets remained strong.

Orders received  
**¥47,452 million**   
Up 0.7% year-on-year

Net sales  
**¥42,835 million**   
Up 20.0% year-on-year

Operating income  
**¥1,112 million**   
Up 47.7% year-on-year

### • Future Initiatives •

The Plant & Energy Business segment has been seeing its LIB manufacturing-related business grow rapidly in recent years. In the consolidated fiscal year under review, battery manufacturing in Europe picked up pace and there was a steady stream of business queries at DC Energy GmbH, a German joint company we had established with CIS Co., Ltd. of South Korea to sell lithium-ion battery manufacturing equipment, which demonstrated that it met the needs of industry. With regard to next-generation energy, our binary power generation system business is starting to gain traction, and we also began activities as an exclusive distributor of highly efficient thin-film lightweight flexible solar panels in Japan. We will also continue to bolster our efforts toward realizing a decarbonized society, contributing to sustainable development to reduce greenhouse gases in developing nations through the provision of Japan's excellent technology, products, and services, while aggressively utilizing the "Joint Crediting Mechanism," a scheme whereby the achievements of these reductions are assessed as contributions by both Japan and the partner country.

## Industrial Machinery Business

Proportion of Net sales  
**15.4%**

### Description of Business

In the field of manufacturing of household appliances, housing equipment, food packaging, medical equipment and others, the Company mainly proposes coordinating optimal factory automation (FA), flexible manufacturing systems (FMSs), automatic assembly lines, and peripheral equipment to reduce workload and workforce with the aim of increasing productivity. In addition, we also contribute to cost reduction through overseas local procurement and procurement from a third country.

### Demand for various equipment for plastic products remained weak

Net sales and operating income declined from the previous year, due to low sales of molding equipment and peripheral equipment for plastic products, as well as for automated assembly lines. Orders received remained weak despite equipment demand for plastics products and for housing facility companies. We will strengthen the cultivation of new fields and areas that will be the pillars of our business.

Orders received  
**¥19,022 million**   
Down 44.5% year-on-year

Net sales  
**¥24,806 million**   
Down 22.0% year-on-year

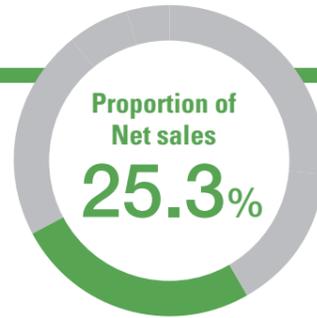
Operating income  
**¥454 million**   
Down 63.3% year-on-year

### • Future Initiatives •

The Industrial Machinery Business segment has been striving to evolve from a business focused on injection molding of materials, including synthetic resins, to a business dealing with more composite materials by providing machines with automated processing such as painting and visual inspections. Those efforts are expanding the industry's domain. The industrial 3D printing system business, with its high-level molding technology, is also recently demonstrating full-fledged movement, and numerous business queries have made us expect more orders in the future. In addition, we aggressively worked to cultivate new markets and materials, broadly entering into domains and areas such as catheter manufacturing devices and other medical equipment, food packaging, distribution materials, housing-related equipment and others. Just as it gave rise to the Electronics Business and Automotive Business segments, the Industrial Machinery Business segment is expanding its activities into fields so as to be a parent for the creation of other new businesses.

(Note) Reportable segments have been revised from the fiscal year under review.

## Electronics Business



### Description of Business

In the fields such as consumer electronics and mobility electronics, the Company offers solutions to reform manufacturing processes with its state-of-the-art technology and experience, mainly for printed circuit board assembly systems, electronic device systems, and automation equipment. We are striving to create innovative technologies for next-generation electronics through expansion of technical resources and process development.

### Sales of equipment related to the manufacturing of electronics parts declined, but demand in emerging economies was strong

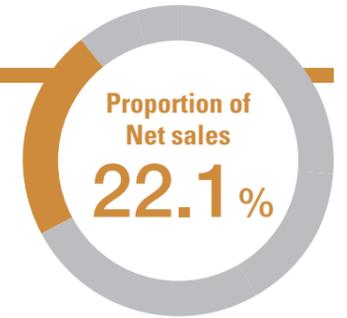
Net sales and operating income decreased from the previous year, due to falling sales of equipment related to the manufacturing of electronics parts for IT and digital-related device manufacturers. Orders received also decreased from the previous year, despite demand for equipment related to the manufacturing of electronics parts owing to increased production of device-related products primarily in emerging economies. We will continue to make concerted efforts that lead to obtaining orders.

<b>Orders received</b>	¥41,490 million	Down 3.3% year-on-year
<b>Net sales</b>	¥40,875 million	Down 15.9% year-on-year
<b>Operating income</b>	¥2,228 million	Down 17.5% year-on-year

### • Future Initiatives •

In addition to sales of its mainstay printed circuit board assembly systems, the Electronics Business segment saw sales rise for systems for smart factories, including combined equipment covering front- and back-end processes and systems for automation that uses transport robots. They maintained a strong performance mainly in China and Southeast Asia. Manufacturers are rethinking their supply chain, which used to rely heavily on China, and moving their production bases to Vietnam, Philippines, Thailand and other locations. In Europe, mainly in Eastern Europe, manufactures are beginning contract electronics manufacturing service (EMS). Utilizing its overseas network, the DJK Group is making concerted efforts to obtain orders in each region while keeping pace with trends in fifth-generation (5G) mobile communications systems and digital transformation (DX).

## Automotive Business



### Description of Business

The Company is focusing on automobile assembly equipment, interior / exterior auto parts, powertrain components and car-mounted devices as well as making integrated proposals of equipment suitable for various processes, including resin / metal molding and processing, surface treatment, assembly and inspections, which are part of manufacturing of components used for the products mentioned above. In addition, we help spread use of next-generation automobiles by offering advanced production equipment amid rapid changes in the automobile industry towards self-driving vehicles and electrification.

### Demand for various equipment for automotive manufacturing decreased somewhat but sales were strong

Net sales increased somewhat and operating income remained essentially unchanged from the previous year, reflecting strong demand for equipment associated with automated assembly lines, paint lines, and on-board electronic component manufacturing for the automotive-related industry. Orders received declined slightly despite demand for paint lines and automated assembly lines in automotive manufacturing. We will strengthen activities to meet demand in various regions.

<b>Orders received</b>	¥36,459 million	Down 10.9% year-on-year
<b>Net sales</b>	¥35,746 million	Up 13.1% year-on-year
<b>Operating income</b>	¥1,491 million	Down 0.1% year-on-year

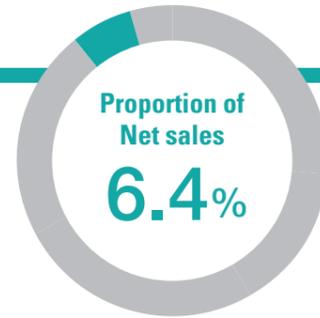
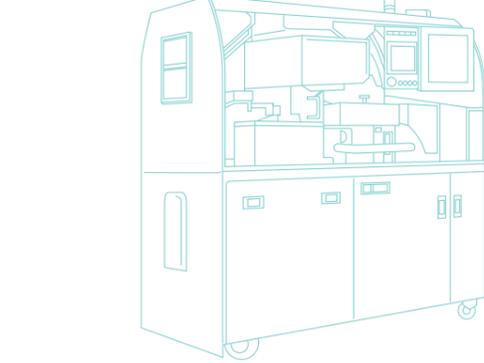
### • Future Initiatives •

The Automotive Business segment launched smoothly, having risen from the intersection of electronics and industrial machinery to become an independent entity. Based on the concept of a portfolio of products required for the next-generation of automobiles, the new equipment proposals we offer are starting to take off. Particularly well received by customers are the efforts to tailor proposals in recognition of the dramatic shift away from internal combustion engines to electrification, from assembly of all kinds of equipment for motors and inverters, and working together with partners who manufacture motor simulators, inspection devices and equipment throughout the production line. We are working to further enhance competitiveness by not only looking to Japan, but to China and Southeast Asia regions as well, to cultivate new sources of materials and partners, while at the same time making our presence known in the automotive industry with a wide-spread supply chain base.

(Note) Reportable segments have been revised from the fiscal year under review.

## Divisional Review

### Pharmaceuticals Business



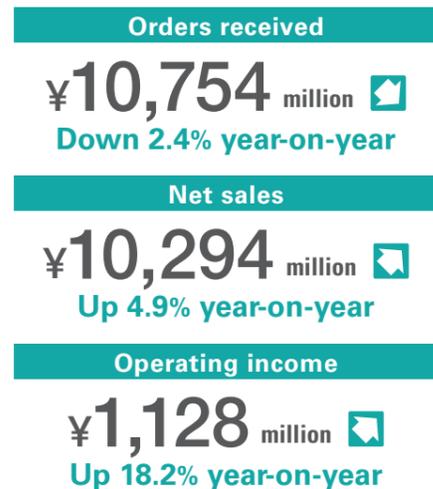
#### Description of Business

Mainly in the field of pharmaceuticals, the Company offers various types of equipment including visual inspection systems for tablets and capsules, tablet printing inspection systems, and automatic packaging lines for solid and injectable drugs. To demonstrate its competitive edge in the industry, we are also proactively working with equipment manufacturers, including our group company Daiichi Jitsugyo Viswill Co., Ltd., and other business partners to develop new systems for the next generation with the aim of bringing them into the market.

\* The name of the Pharmaceuticals Business segment was changed to Healthcare Business in the year ending March 31, 2021.

#### Enjoyed favorable sales of tablet visual inspection systems and packaging equipment

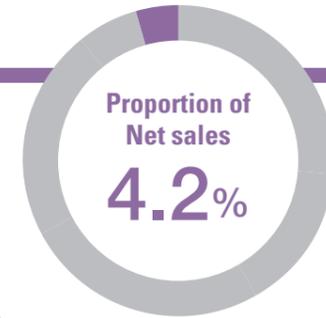
Net sales and operating income increased from the previous year, owing to favorable sales of equipment for tablet visual inspection systems, and tablet printing and packaging equipment. Orders received decreased slightly from the previous year due to a moderate decline in equipment demand for medical device manufacturers and contract manufacturers, primarily in Japan. We will continue efforts to keep sales at a high level.



#### • Future Initiatives •

In addition to mainstay products such as tablet printing and packaging equipment, most notably tablet visual inspection systems, the Pharmaceuticals Business segment expanded products associated with medical equipment and injectable drugs. As awareness of health-related issues is expected to grow further on the impact of COVID-19, we are orienting this business for the expansion of a broad range of fields, specifically dietary supplements, preventive medicine and regenerative medicine domains, and changed the segment's name to the Healthcare Business segment in April 2020. Having established the Engineering Department within this segment, we plan to further empower the business by offering a one-stop production line order style by combining three organizations—the Pharmaceuticals Business segment, Group companies Daiichi Jitsugyo Viswill (manufacturing function) and Daiichi Mecha-tech (service function). By expanding business domains and a one-stop solution, we aim to double performance figures.

### Aviation Business



#### Description of Business

In the fields of aviation and airports, the Company supplies ground support machinery and equipment used in airports mainly to airlines, ground handling agents and airport operators. In the field of disaster preparedness, we provide national and local governments in Japan with specialized vehicles for firefighting. We import its main products from Europe and the United States, and customizes them for the environments where they will be used and the buyers' needs. In addition, we have a group of experts to provide high-quality after-sales services.

#### Enjoyed a significant increase in sales of ground-support equipment for airplanes and airport facility-related equipment

Net sales and operating income increased significantly from the previous year as sales of ground-support equipment for airplanes and airport facility-related equipment remained favorable. Orders received decreased slightly despite demand for various equipment, including specialized vehicles for airport facility companies. We will continue to make concerted efforts to develop equipment that will increase safety and efficiency.



#### • Future Initiatives •

In preparation for the Tokyo Olympic and Paralympic Games, the Aviation Business segment saw extremely favorable sales of ground-support equipment and airport facility-related equipment. Despite the postponement of the event, the DJK Group played its role by having accomplished delivery, without delay, of highly functional equipment and devices. Although the proportion of the segment sales in the sales of the entire Group is still relatively low, the operating income margin has increased significantly, compared to other segments, to a level where it has established its presence. In the field of disaster preparedness, we are enhancing our lineup of products for specialized vehicles and large-scale rescue vehicles used in emergencies. We will strive to develop products that provide serviceability from the perspective of disaster preparedness, while working to achieve business growth.

(Note) Reportable segments have been revised from the fiscal year under review.

# Management Outlook Based on a Keen Awareness of Social Responsibility

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.



## Environment

### Approach on Environment

**As a highly respected industry partner, the DJK Group's goal is to contribute to the development of a highly innovative global society.**

**As a trusted global business partner, the DJK Group aspires to be a valued partner for our stakeholders. We utilize DJK's total solutions for our customers to overcome the serious challenges posed by environmental issues.**

- We will contribute to reducing amounts of energy and resources used, and seek to limit environmental pollution by our customers through environmentally friendly merchandise.
- We will comply with all laws, regulations, and accords related to our merchandise and corporate activities.
- In pursuit of constant improvement, we will carry out environmental management of our business by all employees and directors companywide.

### Initiatives for Renewable Energy and Next-Generation Energy

DJK owns two solar power plants in Japan (Kasama in Ibaraki and Iida in Nagano) and sells the electricity that they generate. It has also installed solar panels on the roof of Daiichi Mecha-tech Corporation, a DJK Group company, to generate power that is partially used for self-consumption.

In addition, we are expanding sales of binary cycle power generation systems that generate electricity by utilizing unused heat, such as exhaust heat from factories, and other unused resources, such as scrap wood. The systems have been introduced and are operating throughout Japan.

We are actively committed to the renewable energy and next-generation energy business because it not only contributes to reduction of environmental impacts but also to communities through local production and consumption of energy.



DJK Kasama solar power plant (Kasama, Ibaraki)



Biomass power plant (Tamana, Kumamoto) Source: Bamboo Energy Co., Ltd.



Roof of Daiichi Mecha-tech Corporation (Kawaguchi, Saitama)



Woody biomass power plant (Kushima, Miyazaki)

# Environment

## Promoting Wider Use of Eco-friendly Products

While handling diverse industrial equipment, we are strengthening sales of products that contribute to resolving issues regarding production, such as recycling and saving of raw materials, labor saving, and manpower saving. We aim to realize a sustainable society on a global scale by vigorously proposing products that lead to enhancement of production efficiency, cutback of running costs, and reduction of environmental impacts.

### Primary Eco-friendly Products and Products Contributing to Society

- Binary power generation system
- Lithium-ion battery manufacturing equipment
- Energy-saving, automation robots
- Powered wear
- Disaster materials and equipment

### FY2019

**Project:** Introduction of a biomass boiler in a chemical plant

**Partner country:** Vietnam

**Expected GHG\* reduction:** 16,882t-CO<sub>2</sub> per year

### FY2020

**Project:** Introduction of a biomass cogeneration system in a food plant

**Partner country:** Vietnam

**Expected GHG\* reduction:** 24,115t-CO<sub>2</sub> per year

\* Greenhouse gas

## Adoption for the Joint Crediting Mechanism Business

The Ministry of the Environment and Global Environment Centre Foundation (GEC), a public interest incorporated foundation that is an executive organ of the ministry, solicits proposals for "Financing Programme for Joint Crediting Mechanism (JCM) Model Projects." The proposals that we submitted were adopted for the last two consecutive years.

We will continue to actively participate in these efforts and contribute to society.

## Tradable Green Certificate

As an initiative to work toward promoting the spread of renewable energy, the Company purchased "green power" (25,000kWh) from Next Energy & Resources Co., Ltd., via an agreement under the Green Power Certificate System\*.

"Green power" refers to power generated from natural energy sources, such as solar, wind power, geothermal, small hydroelectric, and biomass. The framework enables the electric energy volume of any "green power" purchased to be considered renewable energy use.

While further increasing the attention given to environmental considerations in future business activities, we will promote the spread of renewable energy through various methods.

\* A framework to trade environmental added value for energy generated from renewable sources in the form of "Green Power Certificates," which is traded by the certificate issuer receiving approval from a third-party certification institution (Japan Quality Assurance Organization).



## Acquired ISO14001 Certification

We have acquired certification for ISO14001, an international standard for environmental management.



## Promoting Introduction of Eco-friendly Cars

For sales fleet used in Japan, we are promoting the adoption of hybrid vehicles and eco-driving, which is safe and has a low environmental impact. As of March 2020, more than 80% of our company cars are hybrid vehicles, and we will continue to reduce greenhouse gas emissions by introducing more environmentally friendly vehicles.

## Initiatives for Green Procurement

We are strengthening our initiatives to use Eco Mark certified products, recyclable products, and environmentally friendly ink materials for office supplies and printed materials that are often used in everyday life in the course of business. We will continue to expand the procurement of eco-friendly office supplies and other products, both in terms of promoting sustainable practices and raising awareness among our employees.



## Human resources

### Human Resource Training

At DJK, human resources are regarded as the most important asset, and we are making concerted efforts for human resource development so that each employee can play an active and meaningful role at work. Furthermore, in addition to efforts to rebuild our personnel system in Japan and overseas and to strengthen employee education, we are also taking initiatives to improve the working environment, including working styles, aiming to realize the vision of becoming a “next-generation engineering trading firm.”

We will further accelerate investment in human resources in order to provide high added value to society and to facilitate DJK’s sustainable development.



### Diversity Management

The DJK Group has more than 1,000 employees, and a wealth of human resources supports its business activities. Active utilization of talented personnel regardless of gender, nationality, or social background is essential for future corporate growth in global business expansion. The Group believes that a sense of group-wide unity and commitment to working in an organization can be firmly embedded in the mind of each employee by disseminating the corporate philosophy and management policy of the Company. To this end, training for local personnel is provided not only in local countries, but also periodically in Japan. Through these initiatives, some local personnel have become supervisors of local subsidiaries. Going forward, the Company will actively work on the development of human resources as an important issue, aiming at enlarging business scale and evolving the business.

### Promotion of a Comfortable Work Environment

Aiming at creating a workplace where each employee can feel more motivated and demonstrate their abilities to the fullest, the Company has undertaken initiatives for the development of the workplace environment and workstyles. As part of the initiatives, the Company promotes a better work-life balance by introducing flextime and providing recommended days or months to be taken for paid leave.

The Company has also established a working environment which supports an early return to work from maternity leave and childcare leave for employees who seek a balance between work and childcare. In addition, childcare services are available in cases of sudden illness of their children, sudden business trips or working overtime, and the Company also provides a subsidy system to assist the utilization of support services for nursery enrollment. The Company will further expand its initiatives by focusing on a balance between not only work and childcare, but also work and caregiving as well, such that employees can enjoy long careers with peace of mind.

	FY2018	FY2019	FY2020
Average length of service (years)	12.7	12.7	12.3
Male (years)	13.6	13.6	13.0
Female (years)	10.2	10.2	10.3
Paid leave utilization rate (%)	59.0	59.0	56.0
Number of employees taking childcare leave	11	10	9
Number of employees working shorter hours	5	5	3
Number of employees taking nursing care leave	0	0	0

## Other Initiatives



### Communication with Shareholders and Investors

DJK prizes fairness, accuracy, and continuity, and strives to provide information promptly to shareholders and investors based on the principle of accurately conveying important information related to investment decisions. In addition to information disclosure that complies with regulations on timely disclosure, we also proactively disclose effective information to facilitate an understanding of DJK.

We also strive to communicate directly with our shareholders and investors to promote an understanding of our performance and business strategies. Specifically, in addition to meetings with analysts and institutional investors, we also hold results briefing meetings twice every year and publish explanatory videos and related materials, as well as business reports and annual reports on our corporate website.

### Donations and Collaboration

- Donation to the Japanese Red Cross Society
- Contributions for disaster-stricken areas in Japan and abroad and in-house fundraising activities
- Donation of news bulletin boards to neighboring primary schools
- Foreign coin collection activity for the UNICEF



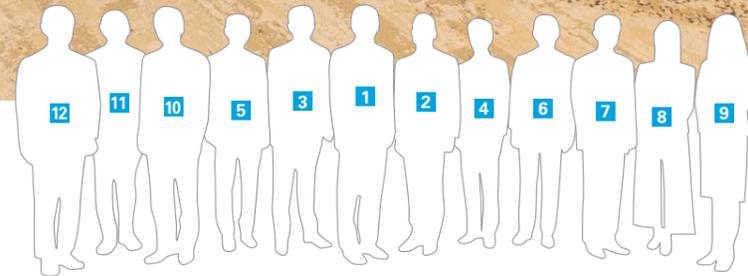
### Promoting the Vitalization of Local Communities

We participate in the “Ochanomizu Robot Club,” together with SESSAME (Society of Embedded Software Skill Acquisition for Managers and Engineers) and Awaji Area Management Association.

In this program, we show children the fun and excitement of programming through regular robot programming workshops held at WATERRAS, a facility adjacent to Ochanomizu sola city.

As a general machinery trading company, DJK shall contribute to creating a bright future and prosperous society by supporting the innovation and challenging spirit of the children who will support the future of Japan through these initiatives.

\* Activities have been suspended since January 2020 in order to counter the spread of COVID-19.



**Directors and Audit & Supervisory Board Members** (As of June 24, 2020)

**1 Ichiro Uno**

Representative Director, President & CEO

- April 1982 Joined the Company
- April 2013 Executive Officer, General Manager, Osaka Business Div. and Branch Manager of Osaka Branch
- June 2016 Managing Director
- April 2017 Representative Director, President & CEO (to present)

**2 Itaru Kage**

Representative Director, Senior Managing Director & CFO

- April 1982 Joined the Company
- April 2013 Executive Officer, General Manager, Administration Div.
- April 2016 Managing Executive Officer, General Manager, Accounting Div.
- June 2017 Managing Director, Managing Executive Officer, General Manager, Accounting Div.
- April 2019 Senior Managing Director & CFO
- June 2019 Representative Director, Senior Managing Director & CFO (to present)

**3 Shigeki Terakawa**

Managing Director

- April 1980 Joined the Company
- April 2011 Executive Officer, General Manager, Osaka Business Div. and Branch Manager of Osaka Branch
- June 2013 Managing Director
- April 2019 Managing Director, President of Osaka Branch (to present)

**4 Ryuichi Ninomiya**

Managing Director

- April 1984 Joined the Company
- April 2011 Executive Officer, General Manager, Nagoya Business Div. and Branch Manager of Nagoya Branch
- April 2019 Executive Officer, President of Nagoya Branch
- June 2019 Managing Director, President of Nagoya Branch (to present)

**5 Masatoshi Ueno**

Managing Director

- April 1985 Joined the Company
- April 2013 Executive Officer, General Manager, Electronics Business Div.
- June 2019 Managing Director (to present)

**6 Masahiko Mizumoto**

Managing Director

- April 1983 Joined the Company
- June 2016 Standing Audit & Supervisory Board Member
- June 2020 Managing Director (to present)

**7 Yoshikazu Sakamoto**

Outside Director

- April 1975 Joined Tokyo Regional Taxation Bureau
- July 2010 Ishida Tax and Accounting Office
- September 2010 Registered as a tax accountant Yoshikazu Sakamoto Tax Account Office (to present)
- June 2015 Director of the Company (to present)

**8 Yukie Tanaka**

Outside Director

- April 1992 Joined Nomura Co., Ltd.
- December 1998 Established Dual, Inc.
- May 2000 Has been engaged in news gathering, writing and editing services for specialized magazines as a writer since resigning from Dual Inc. (to present)
- June 2016 Director of the Company (to present)

**9 Namika Yamada**

Outside Director

- January 2018 Registered as an attorney at law
- January 2019 Joined Kowa Law Office (to present)
- May 2019 Supporting Member, Compliance Team, Ministry of Education, Culture, Sports, Science and Technology (to present)
- June 2019 Compliance Hotline Contact Person, All Japan Judo Federation (to present)
- June 2020 Director of the Company (to present)

**10 Akihiro Kawai**

Standing Audit & Supervisory Board Member

- April 1984 Joined the Company
- June 2020 Standing Audit & Supervisory Board Member (to present)

**11 Toshihiko Matsumiya**

Outside Audit & Supervisory Board Member

- April 1971 Joined Pioneer Corporation
- July 1972 Joined Ryutsu-Giken Co., Ltd.
- October 1979 Joined Deloitte Haskins & Sells (current Deloitte Touche Tohmatsu LLC)
- March 1983 Registered as a certified public accountant
- July 1991 Partner of Tohmatsu & Co. (current Deloitte Touche Tohmatsu LLC)
- October 2011 Established Toshihiko Matsumiya Certified Public Accountancy Office (to present)
- June 2012 Audit & Supervisory Board Member, the Company (to present)

**12 Mitsuyoshi Koyama**

Outside Audit & Supervisory Board Member

- April 1981 Joined Tokyo Regional Taxation Bureau
- September 2015 Registered as a tax accountant
- Established Mitsuyoshi Koyama Tax Accountants Office (to present)
- June 2016 Audit & Supervisory Board Member, the Company (to present)

**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**

**Board of Directors**

Our Board of Directors comprises nine directors (including three 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.

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.

**Audit & Supervisory Board**

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

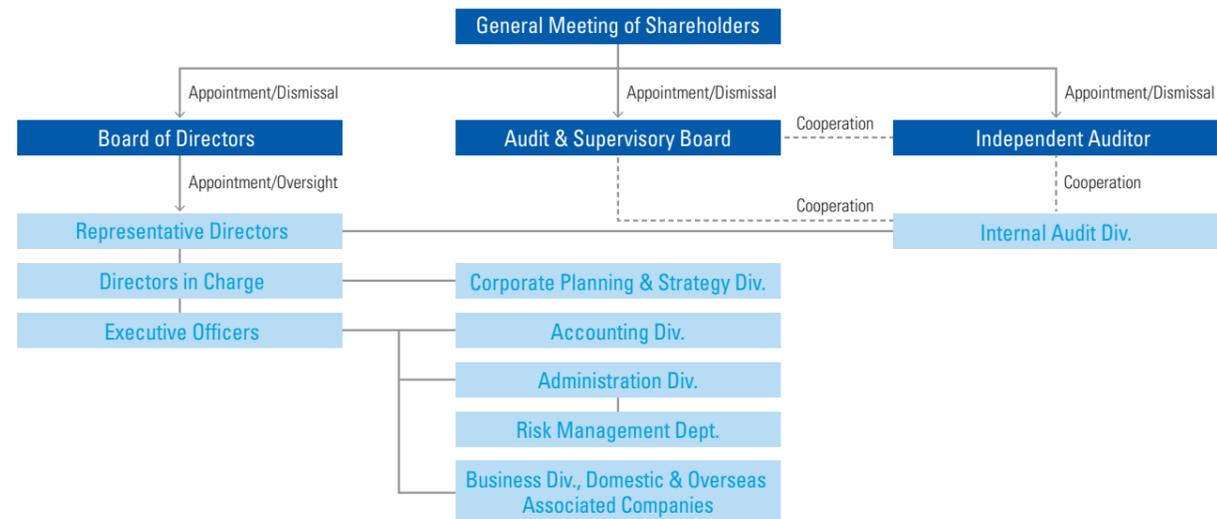
important internal meetings to monitor the business execution performance of directors from an objective perspective. Audit & Supervisory Board members work to ensure the effective implementation of the audit by receiving reports on and explanations of the audit plan and results from independent auditor; exchanging opinions on the areas to be covered by the audit, the audit methods, and the audit results; sharing information; and taking other measures.

**Independent Auditor and the Internal Audit System**

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.

**Corporate Governance System**



**Grounds for Selection as Outside Directors and Outside Audit & Supervisory Board Members**

Name	Grounds for Selection
<b>Outside Director</b>	
<b>Yoshikazu Sakamoto</b>	He has acquired extensive expert knowledge about finance, banking, tax affairs, and so forth through many years of service at the National Tax Agency. Being qualified as an outside director in terms of character and judgment, we believe that he can exercise proper oversight over our management.
<b>Yukie Tanaka</b>	We believe that, as a female officer at the Company, she can provide advice and exercise oversight appropriately from an objective point of view regarding the Company's best form at this time of change in the business environment due to working conditions and diversity, as well as regarding improvement in IR and public relations activities by drawing on her experience, and that she can properly carry out her duties as an outside director.
<b>Namika Yamada</b>	She possesses wide-ranging knowledge as an attorney. In light of the current trend toward increasingly global management, we believe that, as a female officer at the Company, she can provide advice and exercise oversight appropriately from a legal point of view regarding the Company's best form at the time of change in the business environment due to working conditions and diversity, and she can carry out her duties as an outside director.
<b>Outside Audit &amp; Supervisory Board Member</b>	
<b>Toshihiko Matsumiya</b>	As a certified public accountant, he is knowledgeable about finance and accounting and has broad experience and insight, and we believe he is qualified as an outside Audit & Supervisory Board member.
<b>Mitsuyoshi Koyama</b>	As a public tax account, we believe he can utilize his extensive knowledge about finance and accounting in our audit system, and is qualified to carry out his duties as an outside Audit & Supervisory Board member.

**ANALYSIS AND EVALUATION OF THE OVERALL EFFECTIVENESS OF THE BOARD OF DIRECTORS**

We have conducted a questionnaire with all directors and auditors on the effectiveness of the Board of Directors. As a result, the effectiveness of the Board of Directors was analyzed and evaluated as basically appropriate. However, we have come to a conclusion that the Board of Directors needs to be conducted in such a way that mid- to long-term management strategy, and each director's suggestions, be put on board meeting agendas and discussed to

improve the overall effectiveness of the Board of Directors.

To achieve this, we will periodically evaluate the effectiveness of the Board of Directors, along with review of the way the Board of Directors discuss matters to be resolved, as well as the way progress is reported to the Board of Directors.

**INTERNAL CONTROL SYSTEM**

We have established a "Basic Internal Control Policy" to ensure that the directors perform their duties in compliance with laws and regulations and DJK's articles of incorporation, and to ensure the appropriateness of our operations as a corporation.

From the perspective of further strengthening corporate governance, the directors endeavor to build an effective

internal control system and establish a structure for company-wide legal compliance, while Audit & Supervisory Board members audit the effectiveness and functioning of the internal control system. If and when necessary, Audit & Supervisory Board members provide advice or recommend improvements to directors.

## Corporate Governance

### Establishing an Internal Control System

1. Systems to ensure that directors comply with laws and regulations and Articles of Incorporation in the execution of their business duties
2. System to store and manage information on business execution by directors
3. Systems providing rules to manage possible losses and other matters of the Company, and its subsidiaries
4. Systems to ensure that directors carry out job execution effectively
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
6. System to ensure the fairness of operations of the corporate group comprising the parent company and its subsidiaries
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

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

### Compliance

Each director, executive officer and employee maintains high ethical standards and carries out duties appropriately at all times based on the "Daiichi Jitsugyo Code of Conduct," which sets forth the basic principles that must be observed when carrying out duties. In addition, we have established the Internal Audit Division under the direct control of the President & CEO to work on the early detection of serious legal violations at DJK and other compliance-related issues. We are also working to appropriately operate the internal reporting systems established inside and outside the Company, and to develop and maintain the compliance system, as well as participating in internal and external training, and conducting educational activities within the Company to understand and raise awareness of compliance.

### OFFICERS' REMUNERATION

We have established a policy regarding the determination of and calculation method for the amount of remuneration for officers, in order to encourage medium- to long-term growth of business performance and corporate value. The remuneration system is commensurate with the duties of each officer.

Directors other than outside directors receive a combination of fixed and performance-linked remuneration, while Audit & Supervisory Board members and outside directors receive only fixed remuneration, from the standpoint of the

independence of their duties.

DJK's performance-based remuneration rewards results and performance, and we set the degree of achievement of company performance targets as an evaluation index common to all officers in order to further clarify their responsibilities in improving business and corporate value.

For the current fiscal year, performance targets are the goals laid out in the annual plan, and the remuneration calculation is based on the financial results for the fiscal year ending March 31, 2020.

Officer classification	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Number of applicable officers
		Fixed remuneration	Stock options	Performance-linked remuneration (bonuses)	
Director	325	213	18	93	8
Standing Audit & Supervisory Board Member	22	22	—	—	1
Outside Director	10	10	—	—	2
Outside Audit & Supervisory Board Member	10	10	—	—	2

Bonuses paid to six directors based on a resolution made at the 96th Ordinary General Meeting of Shareholders held on June 25, 2019, are not included.

### CROSS-SHAREHOLDINGS

With respect to the classification of investment shares held purely for investment purposes and investment shares for other purposes, we classify shares that are necessary for the purpose of business expansion, business creation, maintenance and strengthening of cooperative structures, and business operations as investment shares for purposes other than pure investment purposes.

DJK's policy is to hold shares of another company as cross-shareholdings only when the Board of Directors

considers that they contribute to the medium- to long-term improvement of DJK's corporate value. Factors taken into account are the purpose, medium- to long-term economic rationality, and necessity of each shareholding including whether there is a benefit commensurate with capital cost. If the Board of Directors judges that the rationality of shareholding cannot be verified, the shares are sold taking into consideration the situation of the cross-shareholding partner.

#### Number of cross-shareholdings and amount recorded on balance sheet

	Number of cross-shareholdings	Total amount recorded on balance sheet (millions of yen)
Unlisted shares	19	726
Other shares	42	4,791

### INFORMATION DISCLOSURE

To enhance the transparency of its business, the Company proactively discloses information through its Corporate Communicative Department. In addition, as one of its IR activities, the Company holds results briefing meetings every fiscal year to report on and explain business condi-

tions and the future direction of the DJK Group to shareholders and investors. At the same time, we promptly and appropriately disclose management information via our website and other forms of communication.

### ELIMINATION OF ANTISOCIAL FORCES

The Basic Internal Control Policy and the Code of Conduct stipulate that we should take a firm stance against antisocial forces and eliminate all relationships with them.

Primary responsibility for dealing with unjust demands is assigned to the Administration Group of the head office, and the general manager of the Risk Management

Department is responsible for protection against unjust demands. The Administration Group of head office joins the Special Violence Prevention Measures Association, actively participates in training sessions and regular block meetings hosted by the association, and collects and manages information on antisocial forces.

(Note) For more details on corporate governance, please visit the following webpages.

Securities Report ► <https://www.djk.co.jp/ir/securities.html> (Japanese only)

Corporate Governance Report (Corporate Governance Webpage) ► <https://www.djk.co.jp/en/ir/governance.html>

## Consolidated 13-Year Financial Summary

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

	Millions of yen					Millions of yen					Thousands of U.S. Dollars (Note 1)			
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
<b>For the year:</b>														
Net sales	¥135,050	¥127,285	¥85,058	¥108,079	¥125,502	¥128,229	¥122,102	¥143,361	¥124,177	¥154,120	¥185,686	¥161,891	¥161,476	\$1,483,749
Gross profit	17,255	14,287	11,104	15,224	16,813	16,710	17,363	18,922	18,164	20,476	22,362	24,269	23,938	219,965
Operating income	5,273	2,893	941	4,243	5,098	4,590	4,074	4,341	3,886	5,844	6,394	7,573	6,998	64,306
Net income attributable to owners of parent	3,000	1,384	363	2,448	2,643	3,051	2,459	2,897	2,637	3,338	4,730	4,457	4,876	44,806
Comprehensive income	—	—	—	2,159	3,008	4,485	3,430	4,482	1,480	3,781	5,391	3,759	3,890	35,750
Overseas sales:	53,830	47,951	23,380	44,819	65,310	67,441	61,387	78,610	57,965	76,096	75,707	80,769	75,784	696,353
China	20,080	14,655	7,439	12,652	16,707	18,780	16,803	19,215	19,335	16,231	21,940	31,407	28,287	259,925
Asia	23,158	24,969	11,844	24,054	35,939	40,059	30,361	37,056	25,575	37,402	36,539	32,124	32,998	303,214
Americas	6,806	4,927	1,981	4,974	10,058	6,035	8,068	11,116	9,437	13,244	13,593	14,333	8,575	78,800
Europe	3,699	2,571	1,656	1,886	2,551	2,289	1,527	3,946	2,174	8,799	3,379	2,815	3,044	27,973
Other	86	828	459	1,251	54	276	4,626	7,276	1,443	418	254	87	2,877	26,439
Depreciation and amortization	382	357	326	356	353	316	352	874	847	850	805	774	890	8,182
Capital expenditures	633	263	443	381	427	1,065	1,052	4,050	968	937	525	387	1,166	10,718
<b>At year-end:</b>														
Total assets	¥82,532	¥64,066	¥55,096	¥73,322	¥83,759	¥81,478	¥81,443	¥91,835	¥94,767	¥116,681	¥102,379	¥112,561	¥111,486	\$1,024,414
Working capital	13,874	15,463	15,590	17,180	18,855	20,322	21,935	22,670	23,372	25,636	28,495	32,497	35,008	321,682
Interest-bearing debt	5,706	5,567	5,489	10,560	14,942	7,486	8,809	11,035	10,711	9,289	8,409	7,802	7,850	72,138
Total equity	24,115	21,694	22,082	23,777	26,167	29,013	31,197	35,310	36,006	38,794	43,194	45,710	48,446	445,160
<b>Per share of common stock (in yen and U.S. dollars):</b>														
Net income	¥52.83	¥25.76	¥6.97	¥46.90	¥50.55	¥57.97	¥46.45	¥54.46	¥49.24	¥62.47	¥443.97	¥418.31	¥456.38	\$4.19
Cash dividends	18.00	11.00	7.00	13.00	14.00	15.00	18.00	16.00	17.00	95.0 (19.0)	105.0 (21.0)	110.0 (22.0)	130.0 (26.0)	1.19 (0.24)
Shareholders' equity	423.39	410.63	416.63	445.88	485.23	545.78	586.85	659.44	669.51	726.61	4,042.28	4,274.47	4,521.29	41.54
<b>Other statistics:</b>														
Number of shares of common stock outstanding (in thousands)	56,269	52,099	52,119	52,213	52,565	52,881	53,002	53,400	53,652	53,240	10,656	10,655	10,692	—
Number of employees	931	942	974	992	1,008	1,043	1,069	1,080	1,064	1,097	1,134	1,167	1,209	—
<b>Key ratios (%):</b>														
Gross profit margin	12.8	11.2	13.1	14.1	13.4	13.0	14.2	13.2	14.6	13.3	12.0	15.0	14.8	—
Operating income margin	3.9	2.3	1.1	3.9	4.1	3.6	3.3	3.0	3.1	3.8	3.4	4.7	4.3	—
Return on sales	2.2	1.1	0.4	2.3	2.1	2.4	2.0	2.0	2.1	2.2	2.5	2.8	3.0	—
Return on assets	3.8	1.9	0.6	3.8	3.4	3.7	3.0	3.3	2.8	3.2	4.3	4.1	4.4	—
Return on equity	12.6	6.1	1.7	10.9	10.8	11.2	8.2	8.7	7.4	9.0	11.6	10.1	10.4	—
Asset turnover (times)	1.72	1.70	1.43	1.68	1.60	1.55	1.50	1.65	1.33	1.46	1.69	1.51	1.44	—
Current ratio	124.2	137.3	148.5	135.3	133.1	139.8	145.4	143.4	142.1	134.1	151.2	149.7	156.4	—
Equity ratio	28.9	33.4	39.4	31.8	30.5	35.4	38.2	38.3	37.9	33.2	42.1	40.5	43.4	—
Debt-to-equity ratio	0.24	0.26	0.25	0.45	0.59	0.26	0.28	0.31	0.30	0.24	0.20	0.17	0.16	—

Notes: 1. U.S. dollar figures have been converted from Japanese yen, for convenience only, at the rate of ¥108.83 to U.S.\$1.

2. Non-controlling 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 from March 31, 2017 to March 31, 2020.

4. Shares have been restated, as appropriate, to reflect a one-for-five reverse stock split effected on October 1, 2017.

## Management's Discussion and Analysis of Financial Conditions, Results of Operations and Cashflows

### PERFORMANCE

During the consolidated fiscal year under review, the Japanese economy continued on a course of moderate recovery up until the third quarter, reflecting continued improvements in corporate performance, as well as in the employment and income environments due to the positive effects of economic and financial measures taken by the Japanese government. However, uncertainty over the future persisted against a backdrop of ongoing global instability, reflecting concerns of a worldwide economic slowdown due to the impact of geopolitical risks surfacing in certain countries and regions, slowing growth in China and emerging economies, as well as a protectionist trend in the United States and COVID-19 that flared into a global pandemic while crude oil prices slumped.

Under these circumstances, in fiscal 2019, the first year of the mid-term management plan, we created the Automotive Business segment, a new segment separated from the Industrial Machinery Business segment and the Electronics Business segment. In addition, by seizing upon demand from growing CASE (Connected, Autonomous, Shared and Electric) investments in the 5G systems and automotive industries, our overall business performance remained solid until the beginning of the fourth quarter. Although orders began to slow down due to the impact of COVID-19, its impact was not significant and consolidated net sales for the fiscal year under review were ¥161,476 million, down ¥415 million, or 0.3%, remaining essentially unchanged from the previous year.

Cost of sales decreased ¥84 million, or 0.1%, from the previous year to ¥137,537 million. The gross profit margin declined 0.2 percentage points from 15.0% of the previous year to 14.8%, mainly reflecting a drop in the gross margin ratio for the industrial machinery business. As a result, gross profit declined ¥330 million, or 1.4%, to ¥23,938 million.

Selling, general and administrative expenses increased ¥244 million, or 1.5%, from the previous year to ¥16,940 million mainly due to an increase in personnel expense.

As a result, operating income decreased ¥575 million, or 7.6%, to ¥6,998 million, and the operating margin fell to 4.3% from 4.7% of the previous year.

Non-operating income decreased ¥67 million, or 7.5%, from the previous year to ¥828 million mainly due to a decline in purchase discounts. Non-operating expenses increased 1.2%, to ¥400 million, which was on par with the previous year. As a result, net non-operating income amounted to ¥427 million, a decrease of ¥71 million, and ordinary income decreased ¥646 million, or 8.0%, to ¥7,426 million.

A net extraordinary loss of ¥236 million was recorded after subtracting an ¥84 million gain on sales of investment securities reported as an extraordinary income item from a ¥321 million loss on valuation of investment securities reported as an extraordinary loss item.

Profit attributable to owners of parent increased ¥418 million, or 9.4%, to ¥4,876 million after subtracting ¥2,309 million in net income taxes (including deferred income taxes) and ¥3 million in net income attributable to non-controlling interests from ¥7,189 million in income before income taxes.

The return on equity (ROE) for the consolidated fiscal year under review increased 0.3 percentage points to 10.4% from 10.1% of the previous year. We will continue to maintain and improve the ROE ratio to pursue even higher profitability in accordance with the basic policies of the mid-term management plan while strengthening our capital base.

### FINANCIAL POSITION

As of March 31, 2020, total assets amounted to ¥111,486 million, decreasing ¥1,074 million, or 1.0%, from the end of the previous fiscal year. Current assets decreased ¥785 million, or 0.8%, to ¥97,033 million. Fixed assets decreased ¥289 million, or 2.0%, to ¥14,453 million.

The decrease in current assets was mainly due to decreases in notes and accounts receivable-trade caused by the collection of receivables, despite an increase in cash and deposits. The decrease in fixed assets primarily resulted from decreases in property, plant and equipment and intangible assets due to depreciation as well as a drop in fair values of investment.

Total liabilities amounted to ¥63,040 million, decreasing ¥3,811 million, or 5.7%, from the previous year. Current liabilities fell ¥3,296 million, or 5.0%, to ¥62,025 million, and long-term liabilities decreased ¥514 million, or 33.6%, to ¥1,014 million.

The primary factors for the decrease in current liabilities were decreases in notes and accounts payable-trade associated with the repayment of debt, despite an increase in accounts prepaid. The decrease in long-term liabilities mainly resulted from the repayment of long-term debt.

Total equity amounted to ¥48,446 million, increasing ¥2,736 million, or 6.0%, from the previous year. The main factor for this increase was the recording of ¥4,876 million in net income attributable to owners of parent, despite the payment of dividends. As a result, the equity ratio increased from 40.5% of the previous year to 43.4%.

Interest-bearing debt amounted to ¥7,850 million, increasing ¥48 million, or 0.6%, from the previous year. This consisted of short-term bank loans of ¥7,427 million (including the current portion of long-term debt), long-term debt of ¥75 million and other debt of ¥347 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 0.16 times, down from 0.17 times at the end of the previous fiscal year.

We intend to continue our efforts 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 medium-term business plan FACE2021.

### ANALYSIS OF CASH FLOWS

Regarding cash flows for the year ended March 31, 2020, cash and cash equivalents at the end of the fiscal year under review increased ¥2,270 million from a year earlier, amounting to ¥23,137 million.

#### Cash Flows from Operating Activities

Net cash provided by operating activities for the consolidated fiscal year under review totaled ¥5,006 million, or a cash decrease of ¥1,065 million from the previous fiscal year. This was mainly due to the recording of income before income taxes, despite a decrease in trade payables.

#### Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥910 million, or a cash increase of ¥13 million from the previous fiscal year. The principal factors were payments for purchase of marketable and investment securities and purchase of intangible assets, despite proceeds from the sales of investment securities.

#### Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥1,625 million, or a cash increase of ¥276 million from the previous fiscal year. This was mainly attributable to the repayment of debt and the payment of dividends.

(Note) Statements made in this annual report with regard to future performance were determined as of the end of the consolidated fiscal year under review.

## Management's Discussion and Analysis of Financial Conditions, Results of Operations and Cashflows

### 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, and are put to use for M&A and alliance activities. 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 banks and other financial institutions.

DJK has signed trade commitment agreements with five banks for a total credit line of ¥10,000 million to en-

sure flexible and stable means of funding. DJK manages its liquidity risk by keeping the liquidity on hand at the level of a typical one-month period of consolidated sales in order to deal with funding requirements that arise on account of sudden changes in the world situation.

With regard to shareholder returns, DJK positions the return of profit to shareholders as a key management issue, and the distribution of appropriate dividends in accordance with performance is our basic policy. We will continue to strive to recognize the appropriate cost of capital through dialogue with investors and others for the sake of business investments and shareholder returns.

### SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS USED IN SUCH ESTIMATES

The DJK Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan (Japanese GAAP). The preparation of these consolidated financial statements requires DJK to make a variety of estimates that may impact the amounts of assets and liabilities on the book closing date, or the amounts of income and expenses during the financial reporting period. These estimates are based on historical experience and a range of factors deemed to be reasonable in light of the situation at the time, including the impact of COVID-19. The DJK Group makes decisions based on the estimates of the book value of assets and liabilities, which are information not available from other sources. Nonetheless, in the event there are changes to assumptions or in the business environment, there may be the possibility that estimates and future performance differ.

Items that require accounting estimates and judgments that may significantly impact the management results of the DJK Group are as follows.

#### 1. Investment Securities

In the event the market value or real value of investment securities falls below their book value and it is deemed that the decline in market value or real value is not temporary, the DJK Group may post a valuation loss. To determine whether or not the decline in market value or real value is temporary, the DJK Group make its determination, on a quarterly basis, based on standards that include the period and degree of the decline, the issuer's financial condition or performance outlook, the intent to hold on to

the securities for a period sufficient enough that a recovery of market value can be expected, and other factors.

The DJK Group believes that its criteria to determine a valuation loss are rational, but, in the event that there are changes with regard to individual investments on account of changes to assumptions based on evolving markets or economic or business conditions of an unforeseen nature, this may exert an impact on the value of investment securities

#### 2. Impairment Loss on Fixed Assets

In the event that the recoverable value of an asset group of fixed assets falls below book value, the DJK Group posts the difference as an impairment loss. However, as 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, in the event the future usage method of the fixed asset is altered, or, if there are fluctuations in market price, a new impairment loss may arise and this may exert an impact on the DJK Group's business performance.

#### 3. Allowance for Doubtful Accounts

Almost all of the monetary claims held by the DJK Group are trade receivables. Allowance for doubtful accounts is recorded for those claims and calculated based on systematic and ongoing reviews, evaluations, historical records of loss, current economic events and conditions, estimated fair value of collateral and related sufficiency,

as well as other relevant factors. Based on currently available information, we consider that allowance for doubtful accounts is sufficient, but if we receive information indicating change to future anticipated cash flow, changes to economic or other occurrences or situations, additional allowances may become necessary. In the event that there needs to be a significant increase to the allowance for doubtful accounts as a result of these factors, this may exert an impact on the future management performance of the DJK Group.

#### 4. Allowance for After-sales Service

The DJK Group records expenses for maintenance or adjustments anticipated to arise after a transaction is completed as "allowance for after-sales service." Calculation of allowance for after-sales service is based on agreements, etc. concluded with customers. The DJK Group has prior consultation with customers and if there will possibly be wear to parts that the DJK Group should shoulder the expense for or frequent adjustment work will be needed, the DJK Group obtains additional estimates from suppliers. Costs for after-sales service are estimated for each individual piece of equipment. We consider that the amount of allowance for after-sales service is valid. However, in the event that assumptions and the actual result differs due to the inclusion of uncontrollable uncertainties in these assumptions, or in the event of changes to the assumptions, this may exert an impact on the management results of the DJK Group.

#### 5. Retirement Benefit Obligations and Expense

Retirement benefit obligations and expenses are calculated with discount rates, amount of benefits earned, interest expenses, expected rate of return on long-term plan assets, mortality rates and other factors taken into account. Actual results that differ from the assumptions

are accumulated and amortized over future periods and, therefore, as a general rule affect recognized expense in future periods.

The most critical assumptions impacting the calculation of pension obligations and expenses are the discount rates and the expected long-term rates of returns on plan assets. Discount rates are determined by the rates of high-quality bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. The expected rates of return for long-term pension assets are set after considering current and anticipated pension asset distribution, the composition of plan assets held, and the current and future anticipated long-term return rates.

DJK Group considers that the assumptions and methods used are appropriate, but in the event that the assumptions and the actual result differs due to the inclusion of uncontrollable uncertainties in these assumptions, or in the event of changes to the assumptions, this may exert an impact on the retirement benefit obligations and expenses of the DJK Group.

#### 6. Deferred Tax Assets

The factors used to assess the recoverability of deferred tax assets are the future reversal of existing taxable temporary differences, the future taxable income and available tax planning strategies that are prudent and feasible. Of the temporary differences of tax loss carried forward, tax exemptions and future deductions, the DJK Group recognizes only the deferred tax assets that are highly likely to be able to deduct future taxable income.

We consider that the accounting for deferred tax assets represents our current best estimate based on all available evidence. Unanticipated events or changes could result in re-evaluating the recoverability of deferred tax assets.

## Business Risks

From among the matters concerning business and accounting conditions stated in this annual report, the key risks that management recognizes as having the potential to significantly impact the financial conditions, management performance, and cash flow status of consolidated Group companies are as follows.

Matters with regard to the future stated within this

document are risks the DJK Group has deemed to have the potential to arise within the next several years, as of the end of the consolidated fiscal year under review. However, risks are not limited to the matters raised here, and there are risks which are difficult to predict. For this reason the details stated here and actual results may vary.

### 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 for various types of machinery and fixtures, which it sells domestically, imports, and exports. Overseas, under the three-year medium-term business plan, FACE2021, which extends from April 2019 to March 2022, the DJK Group is accelerating its overseas business development based on its global four axes network, which it has pursued to strengthen its profit-earning capacity. The DJK Group's business performance may, therefore, fluctuate on account of economic trends both in Japan and internationally. Political and economic trends in China and the Asia region, as well as in North, Central and South Americas and Europe, have the potential to expand business oppor-

tunities for the DJK Group, while on the other hand, added to the concerns of a slowdown in the global economy due to the impact of growing protectionism in nations worldwide, stagnating growth in China and emerging economies, and trade frictions between the United States and China, there is the impact of the spread of COVID-19, and the chilling effect on economic activities in these regions also has the potential to be a factor in the deteriorating results of the DJK Group. Chiefly, the DJK Group recognizes that there is a high degree of risk to business performance in line with the reorganization of the supply chain, which had been heavily reliant on China, and investments, which hinge on political trends in the United States.

### RISK OF INCREASED PROPORTION OF OVERSEAS SALES

Japanese companies continued to enter overseas markets and transfer 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 grow its business opportunities. In response, the DJK Group is making concerted efforts at cross-border trade, leveraging its coordination capabilities as a trading company in order to support with the delivery of products and services from either Japan or overseas locations to domestic and international customers. Overseas sales still accounted for almost half of consolidated net sales in the fiscal year under review, despite proportionately decreasing to 46.9% from 49.9%

of the previous fiscal year. With the ongoing steady implementation of the medium-term business plan FACE2021, it is expected that there will be a tendency for a rising ratio of overseas sales. For this reason, a possibility exists whereby the international financial environment, tax systems, exchange rate trends, trends in crude oil and raw material prices, shipping cost trends, 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.

### BUSINESS DEVELOPMENT RISK

DJK's business model starts with specialized agency services for machinery manufacturers, extending to a broadening range of support that covers production as-

sistance, technology support and other services to customers' plants in line with technological innovation. This means that we are growing the scope of our business

from transactions that had involved only goods (products) to transactions performed as intangible items (services). In particular, in our business involving lithium-ion batteries (LIB), we handle all manner of devices and services in their manufacture, including the materials process, manufacturing process, and inspection process. The LIB market is seeing rising demand, primarily in the automobile industry, which is debating the prohibition of internal combustion engine vehicle sales, as well as the electronic device industry that is looking to improve the function and efficiency of batteries, and capital investments are being made in Europe and countries around the world. As risks for markets and business, the DJK Group anticipates that as accidents occur in tandem with an increase in large-scale plant projects, this will lead to increased legal re-

sponsibility and incurring expenses, and a decline in market value as technology becomes obsolete. In response, DJK has taken steps to bolster its market capabilities with its sights set on avoiding risk and capturing business opportunities, raising its competitiveness by hiring engineers and putting in place a system that evaluates such personnel, taking an aggressive stance toward the European electric vehicles (EVs) market through the establishment of its joint company in Germany, and strengthening its legal and administrative units involved in the conclusion of contracts. Nonetheless, it is impossible to completely eliminate risks, including those stated above, and in the event a risk does arise, that may exert an impact on the performance and financial condition of DJK.

### RISK RELATED TO INTEREST RATES AND THE PROCUREMENT OF FUNDS

Having signed trade commitment agreements with five banks, DJK procures funds as necessary. The interest-bearing debt of the DJK Group for the year ended March 31, 2020 amounted to ¥7,850 million. Going forward, DJK will continue to pursue the systematic and stable procurement of working capital, and the reduction of interest expenses. However, in the event of instability in financial markets, or if a credit rating agency lowers the DJK Group's credit rating on account of a deterioration in the DJK Group's credit strength, there is no guarantee that DJK will be able to secure funds in a timely manner under

conditions favorable to the DJK Group, and it is possible that this will be a factor that constrains the Group's operating activities. This also has the potential to exert an impact the DJK Group's management performance and financial position. In addition, 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 negatively impact 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, 2020, the total notes and accounts receivable-trade of the DJK Group amounted to ¥42,744 million, or 38.3% of total assets. As a result, DJK is exposed to the risk of losses on account of the credit of its customers worsening or their businesses failing. In addition, DJK places orders with each supplier for the production of various machinery and equipment upon receiving orders for products and services 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. However, if the customer experiences a liquidity crisis or a chain reaction bankruptcy due to a deterioration in the business environment, or a specific major debtor experiences business problems which lead to an inability to recover the extended credit, it may be impossible to completely avoid such risk, thus resulting in a negative impact on the business results and financial position of the DJK Group.

## Business Risks

### BUSINESS DEVELOPMENT RISK RELATED TO MEDIUM-TERM BUSINESS PLAN

Under FACE2021, the medium-term business plan that began in April 2019, the DJK Group's basic policies are to create new value and improve DJK's corporate quality while coping with the difficulties of the operating environment, as well as to further evolve business axes that match well with the times and strengthen profit-earning capacity. Nonetheless, being unable to neglect the impact of COVID-19 it is conceivable that the disease will impact sales activities and delivery schedules. Moreover, de-

pending upon the business environment of customers or companies with which DJK indirectly conducts business, there are possibilities that they will face credit problems in a chain reaction. In addition, depending on the cost required for strategic business development and whether or not the timing and scale of the effective allocation of business development is appropriate, the DJK Group could lose earnings opportunities and increase its financial burden, impacting performance and financial position.

### IT SYSTEMS RISK

Every year the DJK Group becomes increasingly dependent on IT systems and networks as it carries out its operating activities. DJK strives to heighten security, perform computer system data backups and other measures in order to protect systems and data. However, in the event systems or communications networks suffer a major outage on account of natural disasters, computer virus infec-

tion, unauthorized access, constraints to power supply, major power outage, malfunction, trouble or other reason, business operations, chiefly order receiving with customers may be hindered, incurring great cost or causing serious damage to the reputation of the DJK Group, with the potential of exerting a negative impact on performance 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 different possible disasters, introduced a safety confirmation system and put in place measures such as

disaster-training 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.

## Financial Section

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# CONSOLIDATED BALANCE SHEET

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2020

ASSETS	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Current assets:</b>			
Cash and cash equivalents (Note 14)	¥ 23,137	¥ 20,867	\$ 212,604
Time deposits (Note 14)	877	972	8,063
Receivables (Note 14):			
Notes receivable	3,310	3,992	30,415
Accounts receivable	35,944	39,332	330,280
Unconsolidated subsidiaries and associated companies	0	2	4
Other	4,099	4,600	37,665
Electronically recorded monetary claims (Note 14)	3,489	2,656	32,066
Inventories (Note 4)	13,076	13,553	120,152
Accounts prepaid	12,159	11,016	111,732
Other current assets	1,043	1,028	9,586
Allowance for doubtful accounts	(104)	(202)	(961)
<b>Total current assets</b>	<b>97,033</b>	<b>97,818</b>	<b>891,610</b>
<b>Property, plant and equipment</b> (Note 5):			
Land	527	527	4,849
Buildings and structures	2,219	1,746	20,392
Machinery and equipment	1,465	1,338	13,468
Furniture and fixtures	1,302	1,302	11,972
Leased assets (Note 13)	921	612	8,467
Construction in progress	83	37	763
<b>Total</b>	<b>6,520</b>	<b>5,564</b>	<b>59,913</b>
Accumulated depreciation	(2,959)	(2,483)	(27,197)
<b>Net property, plant and equipment</b>	<b>3,560</b>	<b>3,080</b>	<b>32,715</b>
<b>Investment and other assets:</b>			
Investment securities (Notes 3 and 14)	5,530	6,615	50,821
Investment in unconsolidated subsidiaries and associated companies	2,074	1,780	19,062
Manufacturing and sales right	91	113	837
Software	257	368	2,367
Long-term deposits	713	733	6,555
Deferred tax assets (Note 10)	435	464	3,997
Assets for retirement benefits (Note 7)	1,130	1,159	10,390
Other assets	867	569	7,973
Allowance for doubtful accounts	(208)	(143)	(1,917)
<b>Total investment and other assets</b>	<b>10,892</b>	<b>11,661</b>	<b>100,088</b>
<b>TOTAL</b>	<b>¥111,486</b>	<b>¥112,561</b>	<b>\$1,024,414</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Current liabilities:</b>			
Short-term bank loans (Notes 6 and 14)	¥ 7,032	¥ 6,833	\$ 64,620
Current portion of long-term debt (Notes 6 and 14)	395	453	3,631
Payables (Note 14):			
Notes payable	399	1,262	3,670
Accounts payable	32,485	37,856	298,499
Unconsolidated subsidiaries and associated companies	1,172	1,276	10,769
Other	206	131	1,894
Income taxes payable	1,289	1,215	11,844
Accrued expenses	1,729	1,749	15,888
Advances received	15,941	13,242	146,480
Allowance for after-sales service	667	492	6,132
Other current liabilities	706	807	6,494
<b>Total current liabilities</b>	<b>62,025</b>	<b>65,321</b>	<b>569,927</b>
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6 and 14)	75	470	692
Liability for retirement benefits (Note 7)	402	360	3,702
Deferred tax liabilities (Note 10)	141	411	1,296
Other long-term liabilities	395	286	3,633
<b>Total long-term liabilities</b>	<b>1,014</b>	<b>1,529</b>	<b>9,325</b>
<b>Commitments and contingent liabilities</b> (Notes 13 and 15)			
<b>Equity</b> (Notes 8, 9, and 19):			
Common stock, authorized, 32,000,000 shares; issued, 11,086,400 shares in 2020 and 2019	5,105	5,105	46,908
Capital surplus	3,788	3,786	34,811
Stock acquisition rights	78	144	723
Retained earnings	39,071	35,369	359,014
Treasury stock — at cost, 393,570 shares in 2020 and 431,154 shares in 2019	(890)	(974)	(8,182)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	1,316	1,961	12,098
Deferred (loss) on derivatives under hedge accounting	(85)	(77)	(784)
Foreign currency translation adjustments	(61)	276	(566)
Defined retirement benefit plans	101	98	930
<b>Total</b>	<b>48,424</b>	<b>45,689</b>	<b>444,951</b>
Non-controlling interests	22	20	208
<b>Total equity</b>	<b>48,446</b>	<b>45,710</b>	<b>445,160</b>
<b>TOTAL</b>	<b>¥111,486</b>	<b>¥112,561</b>	<b>\$1,024,414</b>

## CONSOLIDATED STATEMENT OF INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2020

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Net sales</b>	<b>¥ 161,476</b>	¥161,891	<b>\$1,483,749</b>
<b>Cost of sales</b>	<b>137,537</b>	137,622	<b>1,263,784</b>
Gross profit	<b>23,938</b>	24,269	<b>219,965</b>
<b>Selling, general and administrative expenses</b> (Notes 11 and 12)	<b>16,940</b>	16,695	<b>155,659</b>
Operating income	<b>6,998</b>	7,573	<b>64,306</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>314</b>	270	<b>2,892</b>
Interest expense	<b>(56)</b>	(33)	<b>(522)</b>
Purchase discount	<b>183</b>	242	<b>1,688</b>
Gain on sales of subsidiaries and affiliates	—	3	—
(Loss) gain on sales of property, plant and equipment	<b>(17)</b>	27	<b>(163)</b>
Gain on sales of investment securities	<b>33</b>	0	<b>305</b>
Impairment loss (Note 5)	—	(900)	—
Loss on valuation of investment securities	<b>(258)</b>	(465)	<b>(2,372)</b>
Other – net	<b>(7)</b>	20	<b>(71)</b>
Other income (expense) – net	<b>191</b>	(835)	<b>1,755</b>
<b>Income before income taxes</b>	<b>7,189</b>	6,738	<b>66,061</b>
<b>Income taxes</b> (Note 10):			
Current	<b>2,308</b>	2,243	<b>21,209</b>
Deferred	<b>1</b>	30	<b>12</b>
Total income taxes	<b>2,309</b>	2,274	<b>21,221</b>
<b>Net income</b>	<b>4,879</b>	4,463	<b>44,840</b>
<b>Net income attributable to non-controlling interests</b>	<b>3</b>	6	<b>33</b>
<b>Net income attributable to owners of the parent</b>	<b>¥ 4,876</b>	¥ 4,457	<b>\$ 44,806</b>
	Yen		U.S. Dollars (Note 1)
<b>Per share of common stock</b> (Notes 2t and 17):			
Basic net income	<b>¥ 456.38</b>	¥ 418.31	<b>\$ 4.19</b>
Diluted net income	<b>454.43</b>	415.87	<b>4.18</b>
Cash dividends applicable to the year (Note 8)	<b>130.00</b>	110.00	<b>0.99</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2020

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Net income	<b>¥ 4,879</b>	¥ 4,463	<b>\$ 44,840</b>
Other comprehensive income (loss) (Note 16):			
Unrealized (loss) on available-for-sale securities	<b>(644)</b>	(461)	<b>(5,920)</b>
Deferred (loss) on derivatives under hedge accounting	<b>(8)</b>	(92)	<b>(73)</b>
Foreign currency translation adjustments	<b>(339)</b>	(186)	<b>(3,121)</b>
Defined retirement benefit plans	<b>2</b>	36	<b>26</b>
Total other comprehensive loss	<b>(989)</b>	(704)	<b>(9,089)</b>
Comprehensive income	<b>¥ 3,890</b>	¥ 3,759	<b>\$ 35,750</b>
Total comprehensive income attributable to:			
Owners of the parent	<b>¥ 3,888</b>	¥ 3,752	<b>\$ 35,727</b>
Non-controlling interests	<b>2</b>	7	<b>22</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2020

	Thousands						Millions of yen						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
<b>BALANCE, APRIL 1, 2018</b>	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)
<b>BALANCE, MARCH 31, 2019</b>	10,655	5,105	3,786	144	35,369	(974)	1,961	(77)	276	98	45,689	20	45,710
Net income attributable to owners of the parent					4,876						4,876		4,876
Cash dividends, ¥110.00 per share					(1,174)						(1,174)		(1,174)
Purchase of treasury stock	(0)					(3)					(3)		(3)
Disposal of treasury stock	0		2			87					89		89
Net change in the year				(65)			(644)	(8)	(338)	2	(1,053)	2	(1,051)
<b>BALANCE, MARCH 31, 2020</b>	<b>10,692</b>	<b>¥5,105</b>	<b>¥3,788</b>	<b>¥78</b>	<b>¥39,071</b>	<b>¥(890)</b>	<b>¥1,316</b>	<b>¥(85)</b>	<b>¥(61)</b>	<b>¥101</b>	<b>¥48,424</b>	<b>¥22</b>	<b>¥48,446</b>

	Thousands of U.S. Dollars (Note 1)												
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity	
<b>BALANCE, MARCH 31, 2019</b>	\$46,908	\$34,789	\$1,326	\$324,998	\$(8,951)	\$18,019	\$(710)	\$2,543	\$904	\$419,828	\$185	\$420,014	
Net income attributable to owners of the parent				44,806						44,806		44,806	
Cash dividends, \$1.01 per share				(10,790)						(10,790)		(10,790)	
Purchase of treasury stock					(35)					(35)		(35)	
Disposal of treasury stock			21		803					825		825	
Net change in the year			(603)			(5,920)	(73)	(3,110)	26	(9,682)	22	(9,660)	
<b>BALANCE, MARCH 31, 2020</b>	<b>\$46,908</b>	<b>\$34,811</b>	<b>\$723</b>	<b>\$359,014</b>	<b>\$(8,182)</b>	<b>\$12,098</b>	<b>\$(784)</b>	<b>\$(566)</b>	<b>\$930</b>	<b>\$444,951</b>	<b>\$208</b>	<b>\$445,160</b>	

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2020

	Millions of yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>Operating activities:</b>			
Income before income taxes	¥ 7,189	¥ 6,738	\$ 66,061
Adjustments for:			
Income taxes – paid	(2,261)	(2,041)	(20,781)
Depreciation and amortization	890	774	8,182
Impairment loss		900	
Gain on sales of subsidiaries and affiliates		(3)	
Gain on sales of investment securities	(33)	(0)	(305)
Loss on valuation of investment securities	258	465	2,372
Changes in operating assets and liabilities:			
Decrease in allowance for after-sales service	174	198	1,607
Decrease (increase) in notes and accounts receivable – trade	3,037	(3,848)	27,906
Increase in advance payments to suppliers	(1,237)	(3,574)	(11,369)
Decrease (increase) in inventories	520	(158)	4,785
(Decrease) increase in notes and accounts payable – trade	(6,265)	5,445	(57,572)
Increase in advances from customers	2,818	2,907	25,900
Other – net	(85)	(1,732)	(784)
Total adjustments	(2,182)	(665)	(20,057)
Net cash provided by operating activities	5,006	6,072	46,003
<b>Investing activities:</b>			
Acquisition of property, plant and equipment	(387)	(205)	(3,564)
Proceeds from sales of property, plant and equipment	13	49	121
Acquisition of intangible assets	(405)	(90)	(3,729)
Acquisition of marketable and investment securities	(447)	(248)	(4,114)
Proceeds from sales of investment securities	233	9	2,142
Payments of loans receivable	(2)		(18)
Collection of loans receivable	5	4	46
Payments of long-term deposits	(18)	(68)	(166)
Other – net	99	(373)	915
Net cash used in investing activities	(910)	(924)	(8,366)
<b>Financing activities:</b>			
Decrease in short-term bank loans – net	200	(141)	1,837
Repayment of long-term debt	(453)	(463)	(4,164)
Dividends paid	(1,173)	(1,277)	(10,783)
Repayments of finance lease obligations	(195)	(14)	(1,795)
Other – net	(3)	(5)	(31)
Net cash used in financing activities	(1,625)	(1,902)	(14,937)
<b>Foreign currency translation adjustments on cash and cash equivalents</b>	<b>(199)</b>	<b>(205)</b>	<b>(1,835)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,270</b>	<b>3,040</b>	<b>20,864</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>20,867</b>	<b>17,826</b>	<b>191,740</b>
<b>Cash and cash equivalents, end of year</b>	<b>¥ 23,137</b>	<b>¥ 20,867</b>	<b>\$ 212,604</b>

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIICHI JITSUGYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Year ended March 31, 2020

### 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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥108.83 to \$1, the approximate rate of exchange at March 31, 2020. 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, 2020, include the accounts of the Company and its 17 significant (17 in 2019) 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 2019) 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 25 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.

**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.

**u. New Accounting Pronouncements**

*(Accounting Standard for Revenue Recognition)*

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.

*(Accounting Standard for Fair Value Measurement)*

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020. The New Accounting Standards shall be applied prospectively, however, under certain circumstances, it is permitted to be applied retrospectively. 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 the future applicable periods.

**3. MARKETABLE AND INVESTMENT SECURITIES**

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-current:			
Marketable equity securities	¥ 4,791	¥ 5,603	\$ 44,023
Government bonds	9	9	90
Other	729	1,001	6,707
Total	¥ 5,530	¥ 6,615	\$ 50,821

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, 2020 and 2019, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,902	¥2,418	¥ 529	¥4,791
Held-to-Maturity	¥ 9	¥ 0		¥ 10
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, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 26,671	\$ 22,221	\$ 4,868	\$ 44,023
Held-to-Maturity	\$ 90	\$ 2		\$ 92

**4. INVENTORIES**

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Merchandise and finished products	¥ 11,180	¥ 11,991	\$ 102,731
Work in process	1,361	1,108	12,508
Raw materials and supplies	534	454	4,912
Total	¥ 13,076	¥ 13,553	\$ 120,152

**5. LONG-LIVED ASSETS**

Year ended March 31, 2020

No impairment loss was recognized in 2020.

Year ended March 31, 2019

The Group recognized an impairment loss of ¥900 million. 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.

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

Short-term bank loans at March 31, 2020 and 2019, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.40% to 3.00% and 0.40% to 3.98% at March 31, 2020 and 2019, respectively.

Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Loan from financial institution, due serially to 2021, with interest rates ranging to 0.95% (2020 and 2019)			
Unsecured	¥ 434	¥ 793	\$ 3,993
Loan from financial institution, due serially to 2020, with interest rates ranging to 0.92% (2019)			
Unsecured		50	
Loan from financial institution, due serially to 2021, with interest rates ranging to 0.85% (2020 and 2019)			
Unsecured	36	80	330
Total	470	923	4,324
Less current portion	(395)	(453)	(3,631)
Long-term debt, less current portion	¥ 75	¥ 470	\$ 692

Annual maturities of long-term debt as of March 31, 2020, were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. Dollars
2021	¥ 395	\$ 3,631
2022	75	692
2023		
2024		
2025		
2026 and thereafter		
Total	¥ 470	\$ 4,324

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, 2020, was as follows:

	Millions of yen	Thousands of U.S. Dollars
Maximum amount of the loan commitment	¥ 10,000	\$ 91,886
Amount loaned	6,000	55,131
Unused credit balance	¥ 4,000	\$ 36,754

**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 ¥26 million (\$246 thousand) and ¥19 million at March 31, 2020 and 2019, 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, 2020 and 2019, consisted of the following:

**Contributory funded defined benefit pension plan**

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 3,335	¥ 3,122	\$ 30,646
Current service cost	218	207	2,011
Interest cost	13	14	126
Actuarial (gain) losses	(49)	55	(455)
Benefits paid	(154)	(85)	(1,418)
Others	35	20	323
Balance at end of year	¥ 3,399	¥ 3,335	\$ 31,232

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 4,153	¥ 3,937	\$ 38,164
Expected return on plan assets	19	21	175
Actuarial (losses) gain	(59)	87	(550)
Contributions from the employer	195	192	1,795
Benefits paid	(154)	(85)	(1,418)
Balance at end of year	¥ 4,153	¥ 4,153	\$ 38,166

(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
	2020	2019	2020
Funded defined benefit obligation	¥ 3,022	¥ 2,994	\$ 27,776
Plan assets	(4,153)	(4,153)	(38,166)
	(1,130)	(1,159)	(10,390)
Unfunded defined benefit obligation	376	340	3,456
Net asset arising from defined benefit obligation	¥ (754)	¥ (818)	\$ (6,933)

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥ 376	¥ 340	\$ 3,456
Assets for retirement benefits	(1,130)	(1,159)	(10,390)
Net asset arising from defined benefit obligation	¥ (754)	¥ (818)	\$ (6,933)

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 218	¥ 207	\$ 2,011
Interest cost	13	14	126
Expected return on plan assets	(19)	(21)	(175)
Amortization of prior service cost	24	24	228
Recognized actuarial (gains)	(3)	(4)	(36)
Unfunded retirement benefit plans cost	35	20	323
Extra retirement payment	47	37	432
Others	23	34	217
Net periodic benefit costs	¥ 340	¥ 314	\$ 3,127

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the Year ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥ 24	¥ 24	\$ 228
Actuarial (gains) losses	(14)	27	(131)
Total	¥ 10	¥ 52	\$ 97

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 122	¥ 147	\$ 1,124
Unrecognized actuarial (gains)	(274)	(289)	(2,524)
Total	¥ (152)	¥ (141)	\$ (1,400)

**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, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	64.3%	61.7%
Equity investments	9.3	21.0
General account	5.2	5.2
Others	21.2	12.1
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, 2020 and 2019, were set forth as follows:

	2020	2019
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 ¥102 million (\$946 thousand) for the year ended March 31, 2020.

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.

**9. STOCK OPTIONS**

The stock options outstanding as of March 31, 2020, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2011 Stock Options	18 Persons	17,400 Shares	September 2, 2011	¥1 (\$0.01)	From September 2, 2011 to September 1, 2041
2013 Stock Options	19 Persons	25,000 Shares	September 3, 2013	¥1 (\$0.01)	From September 3, 2013 to September 2, 2043
2015 Stock Options	15 Persons	23,400 Shares	September 2, 2015	¥1 (\$0.01)	From September 2, 2015 to September 1, 2045
2017 Stock Options	15 Persons	26,800 Shares	September 4, 2017	¥1 (\$0.01)	From September 4, 2017 to September 3, 2047
2019 Stock Options	12 Persons	23,600 Shares	September 4, 2019	¥1 (\$0.01)	From September 4, 2019 to September 3, 2049

The stock option activity is as follows:

For the Year ended March 31, 2020	2011 Stock Options (Shares)	2013 Stock Options (Shares)	2015 Stock Options (Shares)	2017 Stock Options (Shares)	2019 Stock Options (Shares)
<u>Non-vested</u>					
March 31, 2019 — Outstanding					23,600
Granted					
Canceled					
Vested					
March 31, 2020 — Outstanding					23,600
<u>Vested</u>					
March 31, 2019 — Outstanding	6,400	13,600	17,600	26,800	
Vested					23,600
Exercised	5,200	8,000	11,800	13,600	
Canceled					
March 31, 2020 — Outstanding	1,200	5,600	5,800	13,200	23,600
Exercise price	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)	¥ 1 (\$ 0.01)
Average stock price at exercise	¥ 3,154 (\$ 28.98)	¥ 3,154 (\$ 28.98)	¥ 3,154 (\$ 28.98)	¥ 3,154 (\$ 28.98)	
Fair value price at grant date	¥ 1,665 (\$ 15.30)	¥ 1,740 (\$ 15.99)	¥ 2,630 (\$ 24.17)	¥ 2,635 (\$ 24.21)	¥ 2,148 (\$ 19.74)

**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 30.6% for the years ended March 31, 2020 and 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 83	¥ 95	\$ 768
Allowance for bonus payable	295	244	2,718
Liability for retirement benefits	83	74	768
Evaluation loss on investment securities	153	83	1,410
Allowance for after-sales service	218	158	2,005
Investment in and advances to unconsolidated subsidiaries and associated companies	298	303	2,746
Revenue recognition for tax purposes	322	359	2,959
Impairment loss	359	447	3,303
Tax loss carryforwards	105	98	969
Other	652	551	5,994
Less valuation allowance	(742)	(662)	(6,825)
Total	1,830	1,753	16,819
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(583)	(829)	(5,357)
Assets for retirement benefits	(317)	(325)	(2,919)
Cost of sales recognition for tax purposes	(214)	(200)	(1,969)
Retained earnings in certain foreign countries	(287)	(268)	(2,644)
Other	(133)	(76)	(1,227)
Total	(1,536)	(1,700)	(14,119)
Net deferred tax assets	¥ 293	¥ 52	\$ 2,700

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 is as follows:

March 31, 2020	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							¥105 ¥105
Less valuation allowances for tax loss carryforwards							(105) (105)
Net deferred tax assets relating to tax loss carryforwards							

March 31, 2020	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							\$969 \$969
Less valuation allowances for tax loss carryforwards							(969) (969)
Net deferred tax assets relating to tax loss carryforwards							

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, 2020, with the corresponding figures for 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	3.6	3.6
Exclusion from charges against revenue	(2.7)	(2.1)
Tax deduction	(0.3)	(0.3)
Per capita portion of inhabitant tax	0.3	0.4
Lower income tax rates applicable to income in certain foreign countries	(1.4)	(1.8)
Less valuation allowance	1.2	0.5
Elimination of inter-company dividend income	1.4	0.7
Retained earnings in certain foreign countries	0.3	3.3
Investment gain on equity method	(0.6)	(0.6)
Other—net	(0.3)	(0.5)
Actual effective tax rate	32.1%	33.8%

**11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses for the fiscal years ended March 31, 2020 and 2019, principally consisted of the following:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Salaries and fees	¥6,345	¥6,203	\$58,303
Retirement benefit costs	401	374	3,688
Depreciation and amortization	597	401	5,493
Research and development costs	329	338	3,027
Rental expense	¥1,243	¥1,371	\$11,429

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2020 and 2019, were ¥329 million (\$3,027 thousand) and ¥338 million, respectively.

### 13. LEASES

#### (1) As Lessee

Total rental expenses including lease payments under finance leases for the years ended March 31, 2020 and 2019, were ¥701 million (\$6,441 thousand) and ¥845 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			
	2020	2019	2020			
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 181	¥ 436	¥ 14	¥ 436	\$ 1,671	\$ 4,010
Due after one year	165	704	30	1,141	1,522	6,477
Total	¥ 347	¥ 1,141	¥ 45	¥ 1,577	\$ 3,194	\$ 10,488

#### (2) As Lessor

The Group leases machinery, equipment, and other assets.

Total rental revenues for the years ended March 31, 2020 and 2019, were ¥134 million (\$1,233 thousand) and ¥104 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars	
	2020	2019	2020	
Due within one year	¥ 151	¥ 49	\$ 1,389	
Due after one year	270	122	2,489	
Total	¥ 422	¥ 171	\$ 3,879	

### 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, 2020 and 2019.

##### 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, 2020 and 2019.

#### (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, 2020	Millions of yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 23,137	¥ 23,137	
Time deposits	877	877	
Receivables	43,354	43,325	¥ (28)
Electronically recorded monetary claims	3,489	3,489	
Marketable and investment securities			
Held-to-maturity	9	10	0
Equity securities	4,791	4,791	
Total	¥ 75,660	¥ 75,632	¥ (28)

Payables	¥ 34,263	¥ 34,257	¥ (5)
Short-term bank loans	7,032	7,032	
Income taxes payable	1,289	1,289	
Long-term debt	470	469	(1)
Total	¥ 43,055	¥ 43,048	¥ (6)

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, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$ 212,604	\$ 212,604	
Time deposits	8,063	8,063	
Receivables	398,365	398,105	\$ (260)
Electronically recorded monetary claims	32,066	32,066	
Marketable and investment securities			
Held-to-maturity	90	92	2
Equity securities	44,023	44,023	
Total	\$ 695,215	\$ 694,957	\$ (258)

##### 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
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥2,804	¥2,782	\$25,769

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

At March 31, 2020	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years
Cash and cash equivalents	¥23,137		
Time deposits	877		
Receivables	42,100	¥1,253	
Electronically recorded monetary claims	3,489		
Marketable and investment securities			
Government bonds		9	
<b>Total</b>	<b>¥69,606</b>	<b>¥1,263</b>	

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	
<b>Total</b>	<b>¥ 72,013</b>	<b>¥ 419</b>	

At March 31, 2020	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	\$ 212,604		
Time deposits	8,063		
Receivables	386,850	\$ 11,515	
Electronically recorded monetary claims	32,066		
Marketable and investment securities			
Government bonds		90	
<b>Total</b>	<b>\$ 639,585</b>	<b>\$ 11,605</b>	

- 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 ¥258 million about other securities this fiscal year.

## Derivative Transactions to Which Hedge Accounting Is Applied

At March 31, 2020	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	¥ 6,209	¥ 200	¥ (118)
U.K. £	-	751		6
EURO €	-	106	23	1
THB	-	23		1
CNY	-	8		(0)
Buying				
U.S. \$	Released Order	1,813	118	14
EURO €	-	1,494		(22)
DKK	-	331	105	(4)
KRW	-	198		(1)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
EURO €	Receivables	238		Note 2
U.S. \$	-	139		Note 2
CNY	-	28		Note 2
Buying				
U.S. \$	Payables and other	621		Note 2
CNY	-	85		Note 2
EURO €	-	9		Note 2
THB	-	4		Note 2
<b>Total</b>		<b>¥ 12,064</b>	<b>¥ 448</b>	<b>¥ (124)</b>

At March 31, 2020	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.S. \$	Order Backlog	\$ 57,058	\$ 1,844	\$ (1,092)
U.K. £	-	6,905		58
EURO €	-	982	217	9
THB	-	213		9
CNY	-	74		(0)
Buying				
U.S. \$	Released Order	16,659	1,091	133
EURO €	-	13,734		(207)
DKK	-	3,049	967	(45)
KRW	-	1,825		(13)
Assigned transactions				
Foreign currency forward contracts:				
Selling				
EURO €	Receivables	2,191		Note 2
U.S. \$	-	1,285		Note 2
CNY	-	257		Note 2
Buying				
U.S. \$	Payables and other	5,714		Note 2
CNY	-	782		Note 2
EURO €	-	86		Note 2
THB	-	39		Note 2
<b>Total</b>		<b>\$ 110,858</b>	<b>\$ 4,121</b>	<b>\$ (1,147)</b>

- 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, 2020	Millions of yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP ¥	¥ 245		¥ (0)	¥ (0)
S \$	146		4	4
U.S. \$	50		(0)	(0)
EURO €	0		0	0
Buying				
JP ¥	2,493		(14)	(14)
U.S. \$	115		1	1
S \$	24		(1)	(1)
EURO €	4		(0)	(0)
HK \$	3		0	0
<b>Total</b>	<b>¥ 3,084</b>		<b>¥ (11)</b>	<b>¥ (11)</b>

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)
<b>Total</b>	<b>¥ 4,071</b>		<b>¥ 4</b>	<b>¥ 4</b>

At March 31, 2020	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling				
JP ¥	\$ 2,256		\$ (6)	\$ (6)
S \$	1,347		42	42
U.S. \$	459		(7)	(7)
EURO €	1		0	0
Buying				
JP ¥	22,916		(137)	(137)
U.S. \$	1,058		10	10
S \$	229		(10)	(10)
EURO €	41		(0)	(0)
HK \$	29		0	0
<b>Total</b>	<b>\$ 28,338</b>		<b>\$ (108)</b>	<b>\$ (108)</b>

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
<b>Total</b>		<b>¥ 7,275</b>	<b>¥ 545</b>	<b>¥ (112)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Gains arising during the year	¥ (857)	¥ (1,087)	\$ (7,877)
Reclassification adjustments to profit or loss	(33)	460	(305)
Amount before income tax effect	(890)	(627)	(8,183)
Income tax effect	246	165	2,262
Total	(644)	(461)	(5,920)
Deferred loss on derivatives under hedge accounting:			
Gains arising during the year	(11)	(133)	(106)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(11)	(133)	(106)
Income tax effect	3	40	33
Total	(8)	(92)	(73)
Foreign currency translation adjustments:			
Adjustments arising during the year	(339)	(186)	(3,121)
Total	(339)	(186)	(3,121)
Defined retirement benefit plans			
(Loss) gain arising during the year	(14)	32	(136)
Reclassification adjustments to profit or loss	20	20	192
Amount before income tax	6	52	56
Income tax effect	(3)	(16)	(29)
Total	2	36	26
<b>Total other comprehensive loss</b>	<b>¥ (989)</b>	<b>¥ (704)</b>	<b>\$ (9,089)</b>

### 17. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2020 and 2019, 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, 2020				
Basic EPS				
Net income available to common shareholders	¥ 4,876	10,684	¥ 456.38	\$ 4.19
Effect of dilutive securities				
Warrants		45		
Diluted EPS				
Net income for computation	¥ 4,876	10,730	¥ 454.43	\$ 4.18
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

### 18. SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2020, were approved at the shareholders' meeting of the Company held on June 24, 2020:

	Millions of yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥70.00 (\$0.64) per share	¥748	\$6,877

### 19. 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, Automotive 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, steel, and food industries.
- Electronics Business: Machinery and equipment for the industries of electronics, IT, electric machinery, precision, optical, audio, and musical instruments.
- Automotive Business: Machinery and equipment for automotive industries.
- 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) Matters of Changes in Reportable Segments

With the establishment of a new automotive business from the current consolidated fiscal year, the group reviewed the method of dividing business segments and changed the reportable segment from the conventional Industrial Machinery Business and Electronics Business to Industrial Machinery Business, Electronics Business and Automotive Business.

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

	Millions of yen									
	2020									
	Reportable segments						Subtotal	Other	Total	Reconciliation
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Automotive Business	Pharmaceuticals Business	Aviation Business					
Sales										
Sales to external customers	¥42,835	¥24,806	¥40,875	¥35,746	¥10,294	¥6,775	¥161,334	¥142	¥161,476	¥161,476
Intersegment sales or transfers	413	590	370	604	204		2,183	27	2,211	¥(2,211)
Total	43,248	25,396	41,246	36,351	10,499	6,775	163,518	169	163,688	(2,211)
Segment profit (loss)	1,112	454	2,228	1,491	1,128	534	6,950	(21)	6,928	69
Segment assets	28,325	16,216	23,138	18,069	8,546	2,408	96,703	686	97,390	14,096
Other:										
Depreciation	116	35	83	57	140	1	434	92	527	363
Impairment loss (Note 4)										
Investment in an equity method company		1,220					1,220		1,220	1,220
Increase in property, plant and equipment and intangible assets	¥9	¥67	¥63	¥20	¥115	¥32	¥309	¥372	¥682	¥483
										¥1,166

	Millions of yen									
	2019									
	Reportable segments						Subtotal	Other	Total	Reconciliation
Plant & Energy Business	Industrial Machinery Business	Electronics Business	Automotive Business	Pharmaceuticals Business	Aviation Business					
Sales										
Sales to external customers	¥35,701	¥31,815	¥48,590	¥31,612	¥9,814	¥4,262	¥161,797	¥94	¥161,891	¥161,891
Intersegment sales or transfers	676	911	1,279	680	87		3,634	27	3,662	¥(3,662)
Total	36,378	32,727	49,869	32,292	9,902	4,262	165,432	122	165,554	(3,662)
Segment profit	753	1,238	2,702	1,492	955	288	7,431	3	7,435	138
Segment assets	25,146	21,548	25,661	14,920	8,027	3,075	98,379	584	98,964	13,597
Other:										
Depreciation	257	22	36	32	132	2	482	43	526	248
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	¥15	¥12	¥23	¥15	¥118	¥0	¥186	¥91	¥278	¥109
										¥387

Thousands of U.S. Dollars											
2020											
Reportable segments											
	Plant & Energy Business	Industrial Machinery Business	Electronics Business	Automotive Business	Pharmaceuticals Business	Aviation Business	Subtotal	Other	Total	Reconciliations	Consolidated
Sales											
Sales to external customers	\$ 393,601	\$ 227,934	\$ 375,590	\$ 328,462	\$ 94,596	\$ 62,260	\$ 1,482,444	\$ 1,305	\$ 1,483,749		\$ 1,483,749
Intersegment sales or transfers	3,796	5,425	3,407	5,554	1,879		20,064	256	20,321	\$(20,321)	
Total	397,397	233,360	378,998	334,017	96,475	62,260	1,502,509	1,561	1,504,070	(20,321)	1,483,749
Segment profit (loss)	10,222	4,176	20,477	13,704	10,373	4,911	63,865	(198)	63,667	638	64,306
Segment assets	260,268	149,007	212,614	166,030	78,529	22,126	888,575	6,308	894,884	129,529	1,024,414
Other:											
Depreciation	1,069	327	763	529	1,289	15	3,996	848	4,844	3,338	8,182
Impairment loss (Note 4)											
Investment in an equity method company		11,218					11,218		11,218		11,218
Increase in property, plant and equipment and intangible assets	\$ 91	\$ 624	\$ 582	\$ 186	\$ 1,060	\$ 300	\$ 2,846	\$ 3,424	\$ 6,271	\$ 4,446	\$ 10,718

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) No impairment loss was recognized in 2020.

**(5) Information about products and services**

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

**(6) Information about geographical areas**

**a. Sales**

Millions of Yen						
2020						
Japan	China	Asia	Americas	Europe	Other	Total
¥85,692	¥28,287	¥32,998	¥8,575	¥3,044	¥2,877	¥161,476
Millions of Yen						
2019						
Japan	China	Asia	Americas	Europe	Other	Total
¥81,122	¥31,407	¥32,124	¥14,333	¥2,815	¥87	¥161,891
Thousands of U.S. Dollars						
2020						
Japan	China	Asia	Americas	Europe	Other	Total
\$787,395	\$259,925	\$303,214	\$78,800	\$27,973	\$26,439	\$1,483,749

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

**b. Property, plant and equipment**

Millions of Yen			
2020			
Japan	Asia	Other	Total
¥2,901	¥569	¥89	¥3,560
Millions of Yen			
2019			
Japan	Asia	Other	Total
¥2,801	¥197	¥81	¥3,080
Thousands of U.S. Dollars			
2020			
Japan	Asia	Other	Total
\$26,665	\$5,231	\$819	\$32,715

**INDEPENDENT AUDITOR'S REPORT**

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

**Opinion**

We have audited the consolidated financial statements of Daiichi Jitsugyo Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

June 24, 2020

## Group Companies

	Location	Business details
<b>Consolidated subsidiaries</b>		
DAIICHI MECHA-TECH CORPORATION	Kawaguchi, Saitama	Repair, manufacturing, and sales of various types of industrial machinery
DAIICHI JITSUGYO VISWILL CO., LTD.	Suita, Osaka	Development, manufacturing, and sales of visual inspection devices
DJK SOLAR SOLUTION CO., LTD.	Chiyoda-ku, Tokyo	Maintenance and management of solar power generation plants
DAIICHI JITSUGYO (AMERICA), INC.	Chicago, U.S.A.	Sales of various types of industrial machinery
DJK GLOBAL MEXICO, S.A. DE C.V.	Queretaro, Mexico	Sales of various types of industrial machinery
DJK EUROPE GMBH	Frankfurt, Germany	Sales of various types of industrial machinery
SHANGHAI YISHI TRADING CO., LTD.	Shanghai, China	Sales of various types of industrial machinery
DAIICHI JITSUGYO (HONG KONG) LIMITED	Hong Kong, China	Sales of various types of industrial machinery
DAIICHI JITSUGYO (GUANGZHOU) TRADING CO., LTD.	Guangzhou, China	Sales of various types of industrial machinery
DAIICHI JITSUGYO ASIA PTE. LTD.	Singapore	Sales of various types of industrial machinery
DAIICHI JITSUGYO (THAILAND) CO., LTD.	Bangkok, Thailand	Sales of various types of industrial machinery
DAIICHI PROJECT SERVICE CO., LTD.	Bangkok, Thailand	Construction contractor
DAIICHI JITSUGYO (MALAYSIA) SDN. BHD.	Kuala Lumpur, Malaysia	Sales of various types of industrial machinery
DAIICHI JITSUGYO (PHILIPPINES), INC.	Makati, Philippines	Sales of various types of industrial machinery
PT. DJK INDONESIA	Jakarta, Indonesia	Sales of various types of industrial machinery
DAIICHI JITSUGYO (VIETNAM) CO., LTD.	Hanoi, Vietnam	Sales of various types of industrial machinery
DAIICHI JITSUGYO INDIA PVT. LTD.	New Delhi, India	Sales of various types of industrial machinery

### Non-consolidated subsidiaries

FLOW DYNAMICS CO., LTD.	Chiyoda-ku, Tokyo	Manufacturing, and sales of various types of industrial machinery
DJK KOHSAN CO., LTD.	Chiyoda-ku, Tokyo	Sales of various types of industrial machinery
DAIICHI ENGINEERING CO., LTD.	Chiyoda-ku, Tokyo	Provision of environmental equipment engineering and sales of processing units in various industries
DAIICHI JITSUGYO DO BRASIL COMERCIO DE MAQUINAS LTDA.	Sao Paulo, Brazil	Sales of various types of industrial machinery
DC ENERGY GMBH	Frankfurt, Germany	Sales of lithium-ion battery manufacturing equipment
DJK (TAIWAN) CORP.	Taipei, Taiwan	Sales of various types of industrial machinery
DAIICHI MECHA-TECH (SHANGHAI) CORPORATION	Shanghai, China	Repair and manufacturing of various types of industrial machinery
DJK FACTORY SOLUTIONS(PHILIPPINES), INC.	Laguna, Philippines	Sales and purchases of trial machines and parts Maintenance of parts for use in assembly systems

### Equity-method affiliate

ASANO LABORATORIES CO., LTD.	Aichigun, Aichi	Manufacturing and sales of plastics vacuum forming machines
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### Non-equity method affiliate

SULZER DAIICHI K.K.	Chiyoda-ku, Tokyo	Import and sales of pumps, agitators and mixers, and related equipment for industrial applications
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## Corporate Data / Investor Information

### Corporate Data (As of March 31, 2020)

#### DAIICHI JITSUGYO CO., LTD.

Ochanomizu Sola City, 4-6 Kandasurugadai, Chiyoda-ku, Tokyo

**Date of Establishment** August 12, 1948

**Paid-in Capital** ¥5,105 million

#### Stock Exchange Listing

Tokyo Stock Exchange, First Section

**Securities Code** 8059

#### Branches & Offices

Osaka, Nagoya, Tohoku, Hiroshima, Fukuoka, Toyama

**Overseas Branches** Seoul

**Domestic Subsidiaries** 6

**Overseas Subsidiaries** 19

**Consolidated Subsidiaries** 17

#### Number of Employees

Non-consolidated: 508 Consolidated: 1,209

### Directors and Audit & Supervisory Board Members (As of June 24, 2020)

#### Directors

President & CEO	Ichiro Uno*
Senior Managing Director & CFO	Itaru Kage*
Managing Directors	Shigeki Terakawa Ryuichi Ninomiya Masatoshi Ueno Masahiko Mizumoto Yoshikazu Sakamoto Yukie Tanaka Namika Yamada
Outside Directors	

#### Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member	Akihiro Kawai
Outside Audit & Supervisory Board Members	Toshihiko Matsumiya Mitsuyoshi Koyama

#### Executive Officers

Managing Executive Officer	Daisuke Ozono
Executive Officers	Yuji Funawatari Yasushi Marumoto Shigehiro Aoyama Shinji Otsuki Shoichiro Okada Osamu Fukawa

\* Representative Director

### Common Stock (As of March 31, 2020)

**Authorized:** 32,000,000 shares

**Issued:** 11,086,400 shares

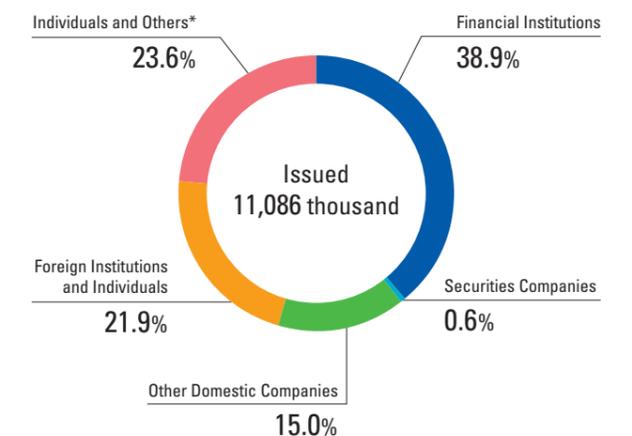
**Number of Shareholders:** 4,280

### Major Shareholders

	(% of total)
JAPAN TRUSTEE SERVICES BANK, LTD.	5.82
MIZUHO BANK, LTD.	4.78
SUMITOMO MITSUI BANKING CORPORATION	4.78
THE MASTER TRUST BANK OF JAPAN, LTD.	4.70
HIKARI TSUSHIN, K.K.	4.60
MUFG BANK, LTD.	3.49
RESONA BANK, LIMITED.	3.16

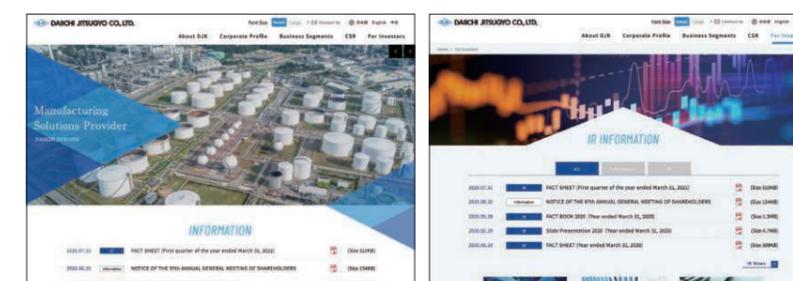
\* Percentages of total shares issued are calculated based on the total number of shares issued excluding 394 thousand shares of treasury stock.

### Distribution of Ownership among Shareholders



\* "Individuals and Others" includes 394 thousand shares of treasury stock (3.5%).

### Information on DJK's corporate website



#### DJK's corporate website

Visit our website to learn more about our business activities and information on IR and CSR, and to view our past news releases.



<https://www.djk.co.jp/en/>



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