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Document submitted	Annual Securities Report ("Yukashoken Hokokusho")
Applicable law clause	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Destination	Director General of the Kanto Finance Bureau
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Fiscal year	The 117th term (from April 1, 2019 to March 31, 2020)
Corporate name	TSUGAMI CORPORATION
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Telephone number	+81-3-3808-1711 (key number)
Contact person	Seiji Tsuishu, Representative Director, Administration
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo)

Chapter 1. Corporate Information

Section 1. Overview of the Company’s Situation

1. Changes in major financial data

(1) Consolidated financial data

Fiscal term	IFRS		
	115th term	116th term	117th term
Closing month and year	March 2018	March 2019	March 2020
Revenue (million yen)	56,794	68,486	49,310
Profit before tax (million yen)	6,151	10,384	4,259
Profit attributable to owners of the parent (million yen)	3,942	6,192	2,001
Comprehensive income attributable to owners of parent (million yen)	5,158	4,297	460
Equity attributable to owners of the parent (million yen)	31,591	33,244	32,480
Total assets (million yen)	66,761	69,692	61,860
Equity attributable to owners of the parent per share (yen)	595.14	641.69	628.14
Basic earnings per share (yen)	70.62	117.98	38.60
Diluted earnings per share (yen)	68.01	115.22	37.75
Percentage of equity attributable to owners of the parent (%)	47.3	47.7	52.5
Return on equity attributable to owners of the parent (%)	12.50	19.10	6.10
Price-earnings ratio (times)	18.95	7.22	19.54
Cash flows from operating activities (million yen)	6,278	1,643	7,994
Cash flows from investing activities (million yen)	-633	-1,362	-3,246
Cash flows from financing activities (million yen)	-478	355	-4,261
Cash and cash equivalents at the end of the term (million yen)	10,466	11,112	10,921
Number of employees (Average number of temporary employees in addition to the above)	2,445 (88)	2,326 (94)	2,223 (95)

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

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

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

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

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

(2) Financial data of the submitting company

Fiscal term	113th term	114th term	115th term	116th term	117th term
Closing month and year	March 2016	March 2017	March 2018	March 2019	March 2020
Net sales (million yen)	31,852	28,601	33,821	38,557	25,937
Ordinary income (loss) (million yen)	252	706	1,767	3,491	1,367
Net income (million yen)	292	1,253	3,072	3,125	803
Capital (million yen) (Number of shares issued) (thousand shares)	12,345 (74,919)	12,345 (64,919)	12,345 (55,000)	12,345 (55,000)	12,345 (55,000)
Net assets (million yen)	26,574	24,708	21,129	20,066	19,424
Total assets (million yen)	33,281	33,331	36,302	35,787	31,755
Net assets per share (yen)	386.23	400.56	385.68	377.75	364.21
Dividend per share (Of which, interim dividend per share) (yen)	16.00 (8.00)	16.00 (8.00)	18.00 (9.00)	21.00 (9.00)	24.00 (12.00)
Net income per share (yen)	4.34	19.96	55.03	59.54	15.50
Net income per share after residual equity adjustment (yen)	4.25	19.50	53.44	58.15	15.16
Capital adequacy ratio (%)	77.6	72.1	56.4	54.7	59.3
Earnings on equity (%)	1.05	5.03	13.81	15.61	4.18
Price-earnings ratio (times)	94.18	37.07	24.32	14.31	48.66
Dividend payout ratio (%)	368.4	80.1	32.7	35.3	154.9
Number of employees (Average number of temporary employees in addition to the above)	439 (93)	439 (83)	368 (70)	449 (81)	451 (80)
Total shareholder return (%) (Comparative indicator: TOPIX) (%)	71.2 (112.0)	127.4 (125.7)	227.2 (142.7)	151.9 (132.3)	110.4 (90.9)
Highest share price (yen)	788	783	1,834	1,486	1,226
Lowest share price (yen)	355	385	730	562	620

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

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

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

2. Corporate history

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

3. Businesses

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

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

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

(i) Japan

The Company manufactures and sells machine tools. The Company purchases certain parts and products from subsidiary PRECISION TSUGAMI (CHINA) CORPORATION.

(ii) China

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

(iii) India

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

(iv) South Korea

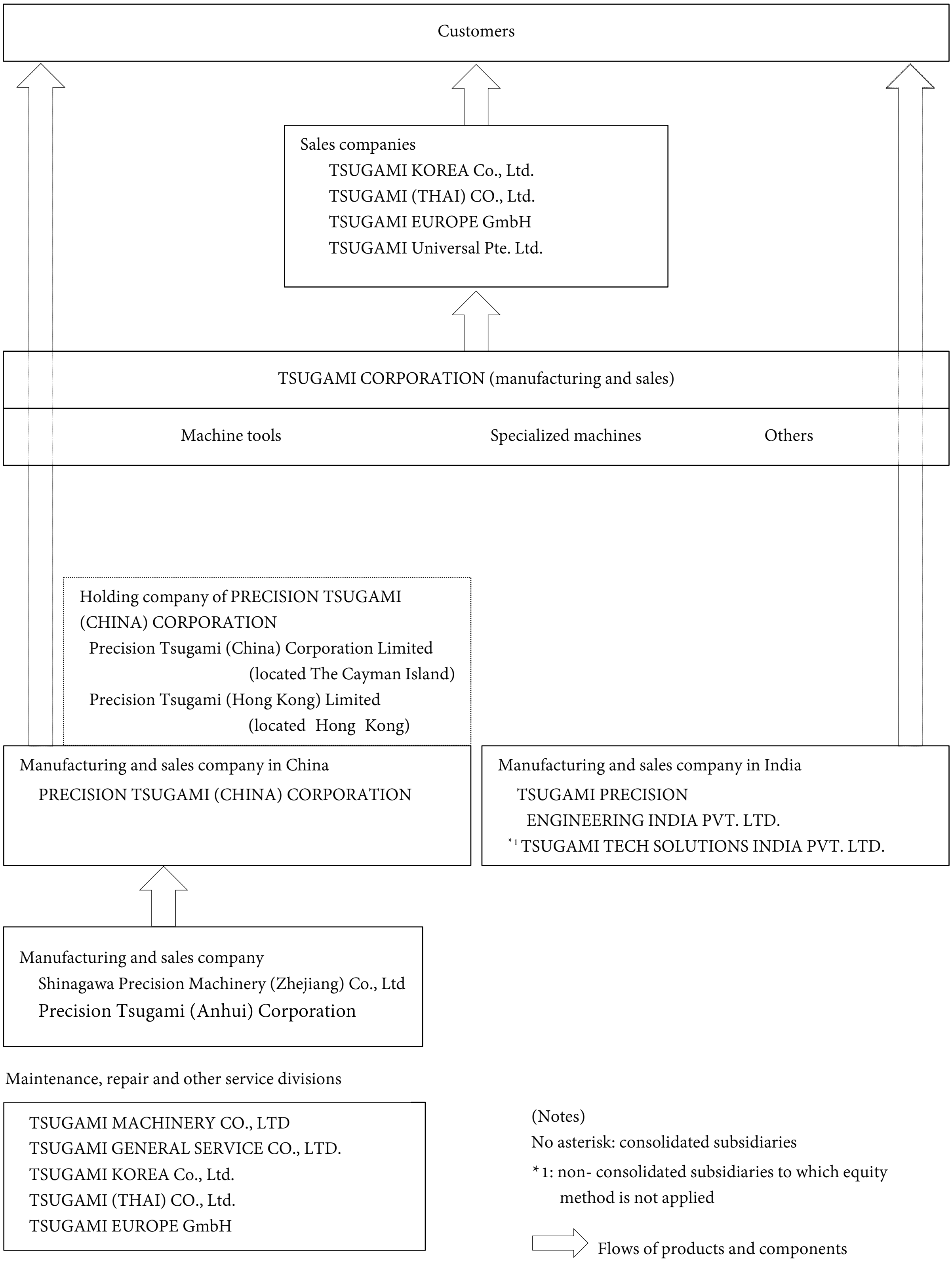
TSUGAMI Korea Co., Ltd. sells products of the Company.

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

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

(2) Business diagram

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



4. Situations of affiliates

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

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

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

Information on major profit and other items

(1) Revenue	¥30,521 million
(2) Profit before tax	¥3,537 million
(3) Profit	¥2,698 million
(4) Total equity	¥19,682 million
(5) Total assets	¥28,235 million

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

5. Employees

(1) Group employees

As of March 31, 2020

Business segment	Number of employees	
Japan	494	(95)
China	1,492	(--)
India	186	(--)
South Korea	23	(--)
Others	28	(--)
Total	2,223	(95)

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

2. The number of employees in China fell by 80 from the end of the previous fiscal year to 1,492, mainly due to a decrease in employees at PRECISION TSUGAMI (CHINA) CORPORATION in the fiscal year under review.

(2) Employees of the submitting company

As of March 31, 2020

Number of employees	Average age	Average service years	Average annual salary (thousand yen)
451 (80)	43.4	18.8	6,415

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees. Workers on loan from other companies to the Company (four employees) are included. Workers on loan from the Company to other companies (69 employees) are not included. The employees of the Company are classified into Japan Segment.

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

(3) Labor union

The labor union of the Company belongs to JAM, an industrial union. The number of union members, who have concluded union-shop contracts, is 269.

Labor-management relations are good.

Section 2. Business Situation

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

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

(1) Management Policy

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

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

(2) Management environment and priority issues to be addressed

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

(Challenges in the medium to long term)

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

(i) Introduction of new products targeting growth fields

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

(ii) Business strategies targeting growth regions

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

(iii) Management streamlining and customer satisfaction enhancement

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

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

(Actions to prevent COVID-19)

The spread of COVID-19 is affecting economic activities worldwide. The Group temporarily suspended operations at overseas production bases and revenue fell. Under these circumstances, the Group followed the policies of overseas governments and local administrative organs, and took the actions below in a timely manner to ensure the safety and health of employees and continue business activities.

- All employees took their temperature and checked their physical condition before they went to work. At factories, employees had their temperature taken before they entered the factory.
- The Head Office and the sales division, among other divisions, actively had employees work from home, and shortened work hours.
- At the factory in Japan (Nagaoka, Niigata Prefecture), employees received extra days off (six days maximum per person per month).
- The Group cancelled trade shows and other events. In principle, business trips were prohibited. Employees were requested not to hold face-to-face meetings and instead to hold conference calls or take other options.
- At overseas subsidiaries, employees worked from home or stayed home under the local government's policy.
- The Company gathered information on the business condition of overseas subsidiaries, the situation of employees, and the policies of overseas governments, among other information, and took the necessary steps.

As of the date of submission, the Group's production activities have not been seriously hampered, and sales activities are recovering gradually. The Group will continue to monitor the situation in each region and will take appropriate actions to prevent the spread of COVID-19 and to reduce the effects of infections on the Group's business.

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

2. Business and other risks

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

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

(1) Effects of business fluctuations

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

(2) Effects of changes in prices of raw materials

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

(3) Effects of fluctuations in exchange rates

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

(4) Effects of overseas operations

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

(5) Effects of matters relating to quality

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

(6) Effects relating to intellectual property rights

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

(7) Effects of the situation

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

(8) Effects of natural disasters

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

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

(9) Effects of the spread of COVID-19

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

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

(1) Overview of operating results, etc.

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

(i) Financial position and operating results

(Operating results)

In the fiscal year under review, the markets in Japan and overseas continued to be in an adjustment phase. In addition, they were affected by the spread of COVID-19. The environment surrounding TSUGAMI Corporation (the "Company") and its affiliates (the "Group") became increasingly challenging.
In this environment, revenue stood at ¥49,310 million (down 28.0% year on year). Operating profit came to ¥4,549 million (down 55.5% year on year). Profit attributable to owners of parent was ¥2,001 million (down 67.7% year on year).
Domestic revenue stood at ¥9,792 million (down 28.3% year on year), and overseas revenue was ¥39,518 million (down 27.9%).
The ratio of overseas revenue was 80.1%, the same level as in the previous fiscal year.

(Operating results by business segment)

a. In Japan, revenue decreased 33.8% year on year, to ¥26,315 million, and segment profit decreased 76.0% year on year, to ¥552 million.
b. In China, revenue decreased 35.5%, to ¥30,577 million, and segment profit decreased 58.2%, to ¥3,253 million.
c. In India, revenue decreased 15.5%, to ¥2,526 million, and segment profit decreased 10.4%, to ¥155 million.
d. In South Korea, revenue increased 107.7%, to ¥2,502 million, and segment profit increased 455.2%, to ¥327 million.
e. Revenue in "Other" increased 3.1% to ¥724 million, and segment profit came to ¥28 million (compared to a segment loss of ¥13 million in the same period of the previous fiscal year).

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

(Impact of the spread of COVID-19)

The spread of COVID-19 is affecting economic activities worldwide. The Group suspended operations at overseas production bases temporarily, and revenue fell, reflecting stagnant economic activities in each region.

・The factories in China suspended operation temporarily due to the extension of the Chinese New Year holidays announced by the Chinese government. Now, they are operating as usual.
・The India factory was shut down due to a lockdown, but it partially resumed operations.

(Financial position)

Assets totaled ¥61,860 million at the end of the fiscal year under review, decreasing ¥7,831 million from the end of the previous fiscal year.
The decrease resulted mainly from a fall of ¥4,891 million in trade and other receivables and ¥4,118 million in inventories, despite an increase of ¥777 million in property, plant and equipment and ¥732 million in intangible assets.
Liabilities totaled ¥22,787 million at the end of the fiscal year under review, decreasing ¥6,833 million from the end of the previous year.
The result was chiefly attributable to a fall of ¥3,996 million in trade and other payables, ¥2,254 million in borrowings, and ¥609 million in contract liabilities.
Equity totaled ¥39,073 million at the end of the fiscal year under review, decreasing ¥998 million from the end of the previous fiscal year.
This was largely due to an increase of ¥732 million in retained earnings, which was more than offset by a decrease of ¥1,537 million in other components of equity. The decrease in other components of equity includes a decrease of ¥171 million in financial assets measured at fair value through other comprehensive income and ¥1,366 million in exchange differences on translation of foreign operations-equity.
Reflecting the results above, the ratio of equity attributable to owners of parent came to 52.5%, rising from 47.7% at the end of the previous fiscal year.

(ii) Cash flows

Cash and cash equivalents amounted to ¥10,921 million at the end of the fiscal year under review, decreasing ¥190 million from the end of the previous fiscal year. A description of each cash flow during the fiscal year was as follows:

(Cash flows from operating activities)

Cash generated through operating activities was ¥7,994 million (cash generated of ¥1,643 million in the previous fiscal year).
The result principally reflected an increase in cash, including profit before tax of ¥4,259 million, depreciation of ¥1,242 million, a fall of ¥3,058 million in inventories, and a decrease of ¥4,470 million in trade and other receivables, and a decrease in cash due to a drop of ¥3,211 million in trade and other payables, a decline of ¥521 million in contract liabilities, and income taxes paid of ¥1,343 million.

(Cash flows from investing activities)
Cash used for investing activities was ¥3,246 million (cash used of ¥1,362 million in the previous fiscal year).
The cash outflow was primarily attributable to a decrease in cash, including the purchase of property, plant and equipment of ¥2,209 million and the purchase of intangible assets of ¥798 million.
(Cash flows from financing activities)
Cash used for financing activities was ¥4,261 million (cash generated of ¥355 million in the previous fiscal year).
The cash outflow resulted mainly from a decrease of ¥2,254 million in short-term borrowings and dividends paid of ¥1,244 million.

(iii) Production, orders received, and sales
a. Production performance
The table below shows production performance by segment for the fiscal year under review.

Business segment	Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020) (Million yen)	Year on year (%)
Japan	23,313	71.9
China	18,631	67.2
India	2,340	75.1
South Korea	--	--
Others	--	--
Total	44,284	70.0

(Note) 1. The amounts above are amounts before intra-Group transfers based on standard invoice prices.
2. The amounts above do not include consumption taxes.
3. In South Korea, the Group does not engage in production.

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

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

Business segment	Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020) (Million yen)	Year on year (%)
Japan	20,899	69.7
China	22,888	67.7
India	2,491	83.8
South Korea	2,446	213.9
Others	584	100.9
Total	49,310	72.0

(Note) 1. Transactions between the segments were canceled out.
2. The amounts above do not include consumption taxes.

(2) Analysis and consideration of operating results, etc. from the perspective of management
The recognition, analysis and consideration of operating results, etc. of the Group from the perspective of management are as follows.
Forward-looking statements in the text are judgments of the Company as of the end of the fiscal year under review.
(i) Recognition, analysis, and consideration of financial position and operating results
a. Analysis of operating results for the consolidated fiscal year under review
(Revenue)
Net sales for the fiscal year under review decreased 28.0% year on year, to ¥49,310 million.
By geographic region, revenue in Japan decreased 28.3% year on year, to ¥9,792 million. Overseas revenue fell 27.9% year on year, to ¥39,518 million. The ratio of overseas revenue stood at 80.1%.

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

(Million yen)

	China	Asia	America	Europe	Total
I Overseas revenue	23,005	9,084	4,607	2,821	39,518
II Consolidated revenue					49,310
III Ratio of overseas revenue to consolidated revenue (%)	46.7	18.4	9.3	5.7	80.1

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

(Operating profit)

Operating profit decreased 55.5% year on year, to ¥4,549 million. This was mainly due to lower sales.

(Profit attributable to owners of the parent)

Profit attributable to owners of the parent decreased 67.7% year on year, to ¥2,001 million. As with operating profit, this was also mainly due to lower sales.

(Segment)

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

Due to the correction that continued in markets in both Japan and abroad, as well as the global spread of COVID-19, revenue decreased by 35.5% year on year in the China segment and by 33.8% year on year in the Japan segment. Operating profit also declined year on year, reflecting a decrease in revenue.

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

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

c. Analysis and consideration of cash flows and information on financial source of capital and liquidity of funds

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

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

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

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

4. Significant management contracts

Not applicable.

5. Research and development activities

The Group is focusing on product development activities to quickly meet the needs of customers and develop high-precision, high-speed and high-rigidity machines promptly based on precision processing technologies that the Group has cultivated in product development and technology development for many years.

Total R&D expenses in the entire Group in the consolidated fiscal year under review were ¥1,863 million.

The R&D are mainly conducted in the Company (Japan).

The Company plays a central role in developing small, high-speed, high-precision machines that can be used for processing auto parts that are environmentally friendly, safe, and energy saving (electric power steering, next-generation brakes, environmentally-friendly engines) and high-precision products in the information and communications industries, especially personal computer-related products, such as hard disk drives (HDDs), parts for small information terminals, such as mobile phones and digital cameras, and super high-precision parts such as parts for medical equipment.

During the consolidated fiscal year under review, the Company developed the BW26/32J, SS267/327-III-5AX and S205/206-II CNC precision automatic lathe.

Section 3. Facilities

1. Overview of capital investment

Capital expenditures of the Group were ¥3,378 million (including some right-of-use assets).

Capital expenditures by business segment are as follows:

Capital expenditures in Japan were ¥956 million, which was allocated primarily to the construction of a new operating system.

Capital expenditures in China were ¥2,005 million, which was allocated primarily to production facilities at PRECISION TSUGAMI (CHINA) CORPORATION and Precision Tsugami (Anhui) Corporation, a subsidiary.

Capital expenditures in India were ¥365 million, which was allocated primarily to facilities at TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED, a subsidiary.

Capital expenditures in South Korea were ¥49 million, which was allocated primarily to facilities at TSUGAMI KOREA Co., Ltd., a subsidiary.

The Group’s own funds for the capital expenditures.

2. Major facilities

The table below shows major facilities of the Group.

(1) Submitting company

As of March 31, 2020

Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
			Buildings	Machinery and equipment	Land (m^2)	Other	Right-of-use assets	Total	
Nagaoka factory (Nagaoka-shi, Niigata)	Japan	Equipment for producing machine tools	1,696	242	246 (87,527)	165	230	2,582	441 (66)

(2) Overseas subsidiary

As of March 31, 2020

Corporate name	Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
				Buildings	Machinery and equipment	Land (m^2)	Other	Right-of-use assets	Total	
PRECISION TSUGAMI (CHINA) CORPORATION	China factory (Zhejiang, China)	China	Equipment for producing machine tools	2,430	1,747	--	96	495	4,769	1,420 (--)
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	China factory (Zhejiang, China)	China	Equipment for producing machine tools	271	115	--	12	45	444	72 (--)
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	India factory (Dt. Tamil Nadu, India)	India	Equipment for producing machine tools	290	111	--	41	257	699	186 (--)

(Note) 1. The book value in the “Other” column is a total value of tools, and equipment and fixtures and does not include construction in progress.

2. The number in parentheses in the number of employee’s column is the number of temporary employees.

3. Equipment introduction and retirement plans

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

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

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

Corporate name, factory	Location	Business segment	Facilities	Planned investments (Million yen)		Financing method	Planned start and completion date	
				Total	Amount paid		Start	Completion
Precision Tsugami (Anhui) Corporation	Anhui, China	China	Buildings, machinery and equipment	4,100	1,933	Self-financing	May 2018	December 2021
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	Dt. Tamil Nadu, India	India	Buildings, machinery and equipment	2,000	440	Self-financing	January 2019	March 2021

Section 4. Situation of Submitting Company

1. Shares of the Company

(1) Total number of shares and other information

(i) Total number of shares

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

(ii) Shares issued

Type	Number of shares issued at end of fiscal year (March 31, 2020)	Number of shares issued on the date of the submission of the report (June 18, 2020)	Stock exchange or registered financial instruments dealers association	Remarks
Common stock	55,000,000	55,000,000	The First Section of the Tokyo Stock Exchange	Number of shares per unit: 100
Total	55,000,000	55,000,000	--	--

(Note) The figures in the number of shares issued on the date of the submission of the report column do not include shares issued through the exercise of share acquisition rights from June 1, 2020 through the date of the submission of the report.

(2) Share acquisition rights

(i) Stock option system

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

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

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

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

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

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

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

Date of relevant resolution	June 20, 2014	June 20, 2014
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Titled executive officers and employees with similar positions 19
Number of share acquisition rights (Note 1)	71	37
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 71,000	Common stock 37,000
Amount to be paid for the exercise of share acquisition rights (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 8, 2014 to July 7, 2034	From July 8, 2014 to July 7, 2034
Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1)	Issue price: 453 Amount per share to be credited to capital: 227	Issue price: 453 Amount per share to be credited to capital: 227
Conditions for the exercise of share acquisition rights (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of share acquisition rights (Note 1)	The approval of the Board of Directors is required for the transfer of share acquisition rights.	The approval of the Board of Directors is required for the transfer of share acquisition rights.
Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1)	--	--

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

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

Date of relevant resolution	June 21, 2017	June 21, 2017
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Titled executive officers and employees with similar positions 25
Number of share acquisition rights (Note 1)	47	64 [60]
Type, number and content of shares underlying share acquisition rights (Note 1)	Common stock 47,000	Common stock 64,000 [60,000]
Amount to be paid for the exercise of share acquisition rights (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 7, 2017 to July 6, 2037	From July 7, 2017 to July 6, 2037
Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen) (Note 1)	Issue price: 707 Amount per share to be credited to capital: 354	Issue price: 707 Amount per share to be credited to capital: 354
Conditions for the exercise of share acquisition rights (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of share acquisition rights (Note 1)	The approval of the Board of Directors is required for the transfer of share acquisition rights.	The approval of the Board of Directors is required for the transfer of share acquisition rights.
Matters relating to the delivery of share acquisition rights in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 20, 2018	June 20, 2018
Positions and numbers of officers to receive stock options	The Company's directors 5	Titled executive officers and employees with similar positions 29
Number of share acquisition rights	430	750 [710]
Type, number and content of shares underlying share acquisition rights	Common stock 43,000	Common stock 75,000 [71,000]
Amount to be paid for the exercise of share acquisition rights (yen)	1	1
Exercise period	From July 7, 2018 to July 6, 2038	From July 7, 2018 to July 6, 2038
Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen)	Issue price: 772 Amount per share to be credited to capital: 386	Issue price: 772 Amount per share to be credited to capital: 386
Conditions for the exercise of share acquisition rights	(Note 2)	(Note 2)
Matters relating to the transfer of share acquisition rights	The approval of the Board of Directors is required for the transfer of share acquisition rights.	The approval of the Board of Directors is required for the transfer of share acquisition rights.
Matters relating to the delivery of share acquisition rights in association with reorganization acts	--	--

Date of relevant resolution	June 19, 2019	June 19, 2019
Positions and numbers of officers to receive stock options	The Company's directors 5	Titled executive officers and employees with similar positions 26
Number of share acquisition rights	560	900 [860]
Type, number and content of shares underlying share acquisition rights	Common stock 56,000	Common stock 90,000 [86,000]
Amount to be paid for the exercise of share acquisition rights (yen)	1	1
Exercise period	From July 6, 2019 to July 5, 2039	From July 6, 2019 to July 5, 2039
Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen)	Issue price: 753 Amount per share to be credited to capital: 377	Issue price: 753 Amount per share to be credited to capital: 377
Conditions for the exercise of share acquisition rights	(Note 2)	(Note 2)
Matters relating to the transfer of share acquisition rights	The approval of the Board of Directors is required for the transfer of share acquisition rights.	The approval of the Board of Directors is required for the transfer of share acquisition rights.
Matters relating to the delivery of share acquisition rights in association with reorganization acts	--	--

Date of relevant resolution	June 17, 2020	June 17, 2020
Positions and numbers of officers to receive stock options	The Company's directors 5	Titled executive officers and employees with similar positions 24
Number of share acquisition rights	440	800
Type, number and content of shares underlying share acquisition rights	Common stock 44,000	Common stock 80,000
Amount to be paid for the exercise of share acquisition rights (yen)	1	1
Exercise period	From July 7, 2020 to July 6, 2040	From July 7, 2020 to July 6, 2040
Issue price and amount per share to be credited to capital when shares are issued through the exercise of share acquisition rights (yen)	Issue price: -- Amount per share to be credited to capital: --	Issue price: -- Amount per share to be credited to capital: --
Conditions for the exercise of share acquisition rights	(Note 2)	(Note 2)
Matters relating to the transfer of share acquisition rights	The approval of the Board of Directors is required for the transfer of share acquisition rights.	The approval of the Board of Directors is required for the transfer of share acquisition rights.
Matters relating to the delivery of share acquisition rights in association with reorganization acts	--	--

(Note) 1. The contents at end of fiscal year under review (March 31, 2020) are stated. For the matters that were changed from the last day of the fiscal year under review to the last day of the month preceding the date of submission (May 31, 2020), their contents as of the last day of the month preceding the date of submission are stated in [ ]. For other matters, there is no change from the contents on the last day of the fiscal year under review.

2. The conditions for the exercise of share acquisition rights shall be stipulated in a resolution of the Board of Directors, of the Company and the "Subscription Rights to Share Allocation Agreement" concluded between the Company and the recipients of share acquisition rights, based on the resolution.

3. In the event of a stock swap or a stock transfer in which the Company will become a wholly owned subsidiary, obligations

relating to share acquisition rights that are not exercised or canceled shall be able to be transferred to the company that will become the parent company through the stock swap or stock transfer under certain conditions. Details shall be specified in the invitation to issuing of subscription.

(ii) Features of rights plan

Not applicable.

(iii) Other Important Matters on Share acquisition rights, etc.

Not applicable.

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

Not applicable.

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

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

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

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

(5) Ownership of shares by owner

As of March 31, 2020

Classification	Ownership of shares (one unit is 1,000 shares)								Fractional shares (shares)
	Government and local governments	Financial institutions	Securities companies	Other corporations	Foreign corporations and individuals		Individuals and others	Total	
					Entities other than individuals	Individuals			
Number of shareholders	--	47	80	142	148	9	8,381	8,807	--
Number of shares held (unit)	--	216,462	4,492	37,922	125,203	180	164,973	549,232	76,800
Holdings (%)	--	39.4	0.8	6.9	22.8	0.1	30.0	100.0	--

(Note) 1. Treasury shares (3,291,482 shares) includes 32,914 units in the individuals and others category and 82 fractional shares.

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

(6) Major shareholders

As of March 31, 2020

Name	Address	Number of shares held (thousand shares)	Ratio of holdings to the number of shares issued (%)
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	5,772	11.16
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	4,327	8.36
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	1-8-12, Harumi, Chuo-ku, Tokyo	2,592	5.01
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	1-13-1, Yurakucho, Chiyoda-ku, Tokyo	2,103	4.06
THE BANK OF NEW YORK MELLON 140051 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A.	1,534	2.96
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	1,516	2.93
The Hokuetsu Bank, Ltd.	2-2-14, Otedori, Nagaoka-shi, Niigata	1,484	2.86
THE BANK OF NEW YORK 133652 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	RUE MONTOYERSTRAAT 46, 1000 BRUSSELS, BELGIUM	1,102	2.13
Tsugami Customers' Shareholding Association	1-1-1, Higashi-Zao, Nagaoka-shi, Niigata	1,094	2.11
JP MORGAN CHASE BANK 385151 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	942	1.82
Total	--	22,469	43.45

(Note) 1. All shares held by Japan Trustee Services Bank, Ltd. relate to the trust service.

2. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.

3. All shares held by Mizuho Trust & Banking Co., Ltd. relate to the trust service.

4. The number of shares held by The Dai-ichi Life Insurance Company, Limited 3 thousand shares in separate pension accounts.

5. The Company received a report from Mitsubishi UFJ Financial Group, Inc. in its change report of the statement of large-value holdings submitted on February 3, 2020 that the company holds shares as described below as of January 27, 2020. However, the Company does not include the company in the major shareholders above because the Company has yet to confirm the substantive number of shares held as of the end of the fiscal year under review.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
MUFG Bank, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	Shares 530,257	0.96
Mitsubishi UFJ Trust and Banking Corporation	1-4-5, Marunouchi, Chiyoda-ku, Tokyo	Shares 1,325,800	2.41
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1, Yurakucho, Chiyoda-ku, Tokyo	Shares 1,515,900	2.76

6. The Company received a report from Nomura Asset Management Co.,Ltd. in its change report of the statement of large-value holdings submitted on March 18, 2020 that the company holds shares as described below as of March 13, 2020. However, the Company does not include the company in the major shareholders above because the Company has yet to confirm the substantive number of shares held as of the end of the fiscal year under review.

Name	Address	Number of shares held (shares)	Ratio of shares held (%)
NOMURA INTERNATIONAL PLC	1 Angel Lane,London EC4R 3AB,United Kingdom	Shares 420,200	0.76
Nomura Asset Management Co.,Ltd.	1-12-1, Nihonbashi, Chuo-ku, Tokyo	Shares 1,992,700	3.62

(7) Voting rights

(i) Shares issued

As of March 31, 2020

Classification	Number of shares		Number of voting rights	Remarks
Nonvoting shares		--	--	--
Shares with limited voting rights (Treasury shares)		--	--	--
Shares with limited voting rights (other shares)		--	--	--
Shares with complete voting rights (Treasury shares)	Common stock	3,291,400	--	--
Shares with complete voting rights (other shares)	Common stock	51,631,800	516,318	--
Fractional shares	Common stock	76,800	--	--
Total number of shares issued		55,000,000	--	--
Number of voting rights of all shareholders		--	516,318	--

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

(ii) Treasury shares

As of March 31, 2020

Owner	Address of owner	Number of shares held under the owner’s own name (shares)	Number of shares held under the name of any other person (shares)	Total number of shares held (shares)	Ratio of holdings to the number of shares issued (%)
Tsugami Corporation	12-20, Tomizawa-cho Nihonbashi, Chuo-ku, Tokyo	3,291,400	--	3,291,400	6.0
Total	--	3,291,400	--	3,291,400	6.0

2. Acquisition of Treasury shares

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

(1) Acquisition based on resolutions at the shareholders meeting

Not applicable.

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

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

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on January 22, 2019 (Acquisition period: from January 22, 2019 to June 18, 2019)	1,000,000	700,000,000
Treasury shares acquired before the fiscal year under review	--	--
Treasury shares acquired in the fiscal year under review	--	--
Number and total value of remaining Treasury shares	1,000,000	700,000,000
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	100.0	100.0
Treasury shares acquired in the current fiscal year	--	--
Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%)	100.0	100.0

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on June 19, 2019 (Acquisition period: from June 19, 2019 to November 11, 2019)	1,000,000	850,000,000
Treasury shares acquired before the fiscal year under review	--	--
Treasury shares acquired in the fiscal year under review	--	--
Number and total value of remaining Treasury shares	1,000,000	850,000,000
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	100.0	100.0
Treasury shares acquired in the current fiscal year	--	--
Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%)	100.0	100.0

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on November 12, 2019 (Acquisition period: from November 12, 2019 to May 13, 2020)	1,000,000	1,000,000,000
Treasury shares acquired before the fiscal year under review	--	--
Treasury shares acquired in the fiscal year under review	177,100	123,209,100
Number and total value of remaining Treasury shares	822,900	876,790,900
Ratio of Treasury shares that had not been acquired until the end of the fiscal year under review (%)	82.3	87.7
Treasury shares acquired in the current fiscal year	--	--
Ratio of Treasury shares that has not been acquired until the date of the submission of the report (%)	82.3	87.7

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

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

Classification	Number of shares	Total value (yen)
Treasury shares acquired in the fiscal year under review	370	379,876
Treasury shares acquired in the current fiscal year	115	102,694

(Note) The Treasury shares acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2020 to the date of the submission of the report.

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

Classification	Fiscal year under review		Current fiscal year	
	Number of shares	Total value disposed of (yen)	Number of shares	Total value disposed of (yen)
Acquired Treasury shares offered to prospective underwriters	--	--	--	--
Acquired Treasury shares cancelled	--	--	--	--
Acquired Treasury shares transferred in relation to mergers, stock swaps, and company splits	--	--	--	--
Other (Note 1,2)	78,300	72,153,300	11,000	9,999,000
Treasury shares held(Note 3)	3,291,482	--	3,280,597	--

(Note) 1. Exercise of share acquisition rights (78,300 shares, disposal of ¥72,153,300) in the fiscal year under review. Exercise of share acquisition rights (11,000 shares, disposal of ¥9,999,000) in the current fiscal year.

2. The Treasury shares disposed of in the current fiscal year does not include fractional shares transferred from June 1, 2020 to the date of the submission of the report.

3. The Treasury shares held in the current fiscal year does not include fractional shares repurchased or transferred from June 1, 2020 to the date of the submission of the report.

3. Dividend Policy

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

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

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

For the year ended March 31, 2020, the Company has decided to pay annual dividends of 24 yen per share including interim dividends of 12 yen per share and a year-end dividends of 12 yen per share.

Dividends are determined by the Board of Directors.

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

For the fiscal year ending March 31, 2021 the Company plans to pay annual dividends of 24 yen per share, including interim dividends of 12 yen per share and year-end dividends of 12 yen per share.

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

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

Resolution	Total amount of dividend (Million yen)	Dividend per share (yen)
Resolution of Board of Directors on November 12, 2019	622	12.00
Resolution of Board of Directors on May 27, 2020	620	12.00

4. Corporate Governance

(1) Corporate governance

(i) Basic policy on corporate governance

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

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

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

The Company is a company with an audit and supervisory committee, and five audit and supervisory committee members including four outside directors (four independent directors) who are the audit and supervisory committee members audit the execution of duties of directors (the members of the audit and supervisory committee are the five directors who are audit and supervisory committee members listed in (2) Officers, (i) Executive list; the chairperson is Kenji Yoneyama, the standing member of the audit and supervisory committee).

The number of directors (excluding directors who are the audit and supervisory committee members) is seven consisting of five inside directors and two outside directors (the members of the Board of Directors are the 12 directors listed in (2) Officers, (i) Executive list; the chairperson is Representative Director, Chairman and CEO Takao Nishijima).

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

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

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

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

(iii) Development of internal control system

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

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

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

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

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

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

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

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

iii. Rules and systems concerning risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1) The authority that auxiliary employees have

2) Organizations which auxiliary employees belong to

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

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

viii. System concerning reports to the audit and supervisory committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

xii. System for ensuring the reliability of financial reports

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

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

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

xiii. Systems for excluding antisocial forces

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

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

(iv) Other matters concerning corporate governance

a. Outline of contracts for limitation of liability

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

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

b. Decision-making body of dividends etc.

The Articles of Incorporation of the Company stipulate that the matters specified in each item of Article 459, Paragraph 1 of the Companies Act, including dividends, may be determined not by resolution of a shareholders meeting but by resolution of the Board of Directors, unless otherwise specified in laws and ordinances. This is intended to facilitate the flexible distribution of profits by making the determination of dividends the authority of the Board of Directors.

c. Number of directors

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

d. Requirements for a resolution to elect directors

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

e. Requirements for a special resolution in shareholders meeting

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

(2) Officers

(i) Executive list

Male: 11 Female: 1 (The ratio of female among the officers: 8%)

Title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Representative Director (Chairman and CEO)	Takao Nishijima	December 14, 1947	May 1999 General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd. Jun. 2000 Director and General Manager of the Sales Apr. 2003 Representative Director, Chairman and CEO Apr. 2012 Representative Director, Chairman and CEO Jun. 2019 Representative Director, Chairman and CEO (current position)	(Note 3)	10
Representative Director (Administration)	Seiji Tsuishu	April 8, 1961	Apr. 1985 Joined the Mitsubishi Bank, Ltd. (now MUFG Bank, Ltd.) Jun. 2014 Director and Managing Executive Officer of Mitsubishi UFJ NICOS Co., Ltd. Apr. 2020 Full-time Advisor and General Manager of the Administration Division of the Company May. 2020 Administration Manager Jun. 2020 Representative Director, Administration (current position)	(Note 3)	--
Director and Senior Advisor, President of TSUGAMI KOREA Co., Ltd.,	Byun Jae- Hyun	July 10, 1956	Oct. 1982 General Manager of the Import Business Division of Samsung C&T Corporation Jul. 2000 CEO of DI Corporation Jan. 2007 Vice President of Exicon Co., Ltd. Jan. 2010 President of TSUGAMI KOREA Co., Ltd. Apr. 2012 Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd. Jun. 2012 Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd. Jun. 2013 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd. Sep. 2014 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (current position)	(Note 3)	--
Director and Senior Advisor, President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.	Kameswaran Balasubramanian	March 28, 1960	1983 Master of Science (physics), Indian Institutes of Technology Delhi Founder and President of PROTECK MACHINERY LTD. (current position) Apr. 2013 Director of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. Apr. 2014 President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position) Jun. 2018 Director of the Company (current position)	(Note 3)	--

Title	Name	Date of birth	Career summary		Term of office	Number of shares held (thousand shares)
Director and Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION	Donglei TANG	November 27, 1962	Nov. 2005 Jun. 2010 Feb. 2017 Jun. 2018	Joined the Company Director, Managing Executive Officer in charge of China Operations of the Company Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION Director of Precision Tsugami (Hong Kong) Limited Executive director of Precision Tsugami (China) Corporation Limited (current position) Director of the Company (current position)	(Note 3)	--
Director	Ken Kubo	November 20, 1953	Apr. 1977 Nov. 2009 Apr. 2013 Jun. 2013 Jun. 2015 Apr. 2019 Jun. 2020	Joined the Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corporation) President and CEO of Promise Co. Ltd. (now SMBC Consumer Finance Co., Ltd.) Deputy President and Executive Officer of Sumitomo Mitsui Financial Group, Inc. Deputy President and Executive Officer of Representative Director of Mitsui Sumitomo Financial Group President and CEO of Sumitomo Mitsui Card Co., Ltd. Special Advisor of Sumitomo Mitsui Card Co., Ltd. (current position) Outside Director of the Company (current position)	(Note 3)	--
Director	Koichi Maruno	July 29, 1956	Apr. 1980 Mar. 2015 Oct. 2016 Oct. 2016 Apr. 2017 Jun. 2018 Jun. 2020	Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited) Outside auditor of SHIZUOKA GAS Co., Ltd. (current position) Senior Managing Executive Officer of Daiichi Life Holdings, Inc. Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited Representative Director, President of The Dai-ichi Life Research Institute INC (current position) Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company Outside Director of the Company (current position)	(Note 3)	--
Director (Members of the Audit and Supervisory Committee)	Kenji Yoneyama	March 7, 1965	Apr. 1988 Apr. 2015 Apr. 2016 Jun. 2017 Jun. 2018	Joined The Hokuetsu Bank, Ltd. Advisor of Accounting of the Company General Manager of Accounting Standing Statutory Auditor of the Company Director (who is a member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--

Title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Director (Members of the Audit and Supervisory Committee)	Yoshimi Takeuchi	August 21, 1948	Jan. 1978 Assistant Professor at Kyushu Institute of Technology Jan. 1988 Professor at the University of Electro-Communications Jun. 2002 Professor at the Graduate School of Engineering Science, Osaka University Sep. 2011 Professor at the College of Engineering, Chubu University Honorary Professor at Osaka University (current positions) Apr. 2017 Vice-President of Chubu University Apr. 2019 Advisor to the Chancellor and Professor at Chubu University Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)	Kenyu Adachi	July 27, 1952	Apr. 1977 Joined the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry (METI)) Jul. 2007 Director-General of Trade and Economic Cooperation Bureau, METI Jul. 2008 Director-General of Minister’s Secretariat, METI Jul. 2010 Director-General of Economic and Industrial Policy Bureau, METI Aug. 2011 Vice-Minister of Economy, Trade and Industry Jun. 2014 Outside Director of Asahi Kasei Corporation Outside Director of Toyo Engineering Corporation Jun. 2016 President of the Shoko Chukin Bank, Ltd. Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)	Kunio Shimada	August 16, 1959	Apr. 1986 Registered as an attorney in Tokyo Oct. 1991 Registered as an attorney in New York State Jul. 2010 Representative partner at Shimada Hamba & Osajima (current position) Jun. 2011 Outside Director of the Company Nov. 2013 Supervisory Officer of Hulic Reit, Inc. (current position) Jun. 2018 Outside Director (who is a Member of the Audit And Supervisory Committee) of the Company (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)	Michiyo Yamamiya	July 26, 1969	Apr. 1998 Registered as an attorney in Tokyo Sep. 2005 Registered as an attorney in New York State Jul. 2010 Joined Tanabe & Partners Jan. 2011 Partner at Tanabe & Partners (current position) Jun. 2020 Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	(Note 4)	--
Total					10

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

2. Directors who are members of the audit and supervisory committee Yoshimi Takeuchi, Kenyu Adachi, Kunio Shimada and Michiyo Yamamiya are outside directors.

3. One year from the closing of the annual shareholders meeting held on June 17, 2020

4. Two years from the closing of the annual shareholders meeting held on June 17, 2020

(ii) Outside officers

The Company has six outside directors.

Outside Director Ken Kubo was a director of Sumitomo Mitsui Financial Group until April 2015. Sumitomo Mitsui Banking Corporation, a company in the Sumitomo Mitsui Financial Group, is the main financial institution of the Company. Sumitomo Mitsui Banking Corporation has 1,516,000 shares in the Company.

Outside Director Koichi Maruno is Representative Director, President of The Dai-ichi Life Research Institute INC. The Company has trading relationships, including insurance contracts, with The Dai-ichi Life Insurance Company, Limited in the Dai-ichi Life Group. The amount of trading is within a normal range. The Company has 38,000 shares in Dai-ichi Life Holdings, Inc. The Dai-ichi Life Insurance Company, Limited has 2,103,000 shares in the Company.

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

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

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

Outside Director Michiyo Yamamiya is a partner at Tanabe & Partners. The Company and Ms. Yamamiya or Tanabe & Partners do not have any stake in each other or any trading relationships. She is registered as an independent officer with the Tokyo Stock Exchange.

The outside directors deliver expert and appropriate opinions and advice on the overall management of the Company based on their considerable business experience and extensive insight and perform the function of supervising the decision-making of the Board of Directors and the execution of the duties of directors.

The Company does not have any clearly defined standards or policies for the independence of outside directors. However, when appointing outside directors, the Company checks their backgrounds and its relationships with them to ensure that each can remain independent and that conflicts of interest that may affect general shareholders are unlikely to occur.

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

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

(3) Audits

(i) Audits by the audit and supervisory committee

The Company is a company with an audit and supervisory committee. In the fiscal year under review (from April 1, 2019 to March 31, 2020), four audit and supervisory committee members, including three independent outside directors, audited the execution of the duties of the directors based on the audit standards set by the audit and supervisory committee. According to the resolution passed at the 117th annual shareholders meeting held on June 17, 2020, the number of directors who are members of the audit and supervisory committee increased from four to five, including four independent outside directors, by increasing one outside director to strengthen the audit system.

In the fiscal year under review, the Company held five audit and supervisory committee meetings. A member was absent at one meeting. All members were present at the other meetings.

The audit and supervisory committee checks and examines the audit reports of the accounting auditor and the internal audit division about year-end audits of business reports and financial statements and proposals to the shareholders meeting, among other documents. In addition to regular audit and supervisory committee meetings, the audit and supervisory committee meets with accounting auditors regularly and exchanges opinions with them.

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

(ii) Internal audits

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

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

(iii) Accounting auditor

a. Name of accounting auditor

Ernst & Young ShinNihon LLC

b. Continuous audit period

Ten years

c. Certified public accountants who executed operations

Operating Partners Kazunari Tsukada, Eishi Daikoku

d. Composition of assistants of audit operations

10 certified public accountants and 27 other members

e. Policy and reason for appointment of accounting auditor

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

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

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

f. Evaluation of the accounting auditor by the audit and supervisory committee

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

(iv) Audit fees

a. Compensation for auditing certified public accountants

Classification	Previous fiscal year		Fiscal year under review	
	Compensation for audit certification work (million yen)	Compensation for non-audit work (million yen)	Compensation for audit certification work (million yen)	Compensation for non-audit work (million yen)
Submitting company	43	4	53	2
Consolidated subsidiaries	--	--	--	--
Total	43	4	53	2

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

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

Classification	Previous fiscal year		Fiscal year under review	
	Compensation for audit certification work (million yen)	Compensation for non-audit work (million yen)	Compensation for audit certification work (million yen)	Compensation for non-audit work (million yen)
Submitting company	--	3	--	3
Consolidated subsidiaries	39	3	44	--
Total	39	6	44	3

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

The content of the non-audit work in the consolidated subsidiaries is support for internal control, among other work.

c. Compensation for other significant audit certification work

Not applicable.

d. Policy for determining audit fees

Not applicable.

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

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

(4) Compensation for officers

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

The maximum amount of compensation for directors (excluding the directors who are an audit and supervisory committee member) is set by resolution of a shareholders meeting, and compensation for each director is decided based on resolution of a Board of Directors meeting, taking into consideration the importance of their role, the area of their responsibility and operations of their position. The date of resolution of the shareholders meeting above is June 20, 2018, and it has been resolved that the maximum amount of cash compensation is not more than ¥250 million per annum and that, in addition to the cash compensation, the maximum amount of compensation associated with share acquisition rights to be allocated as stock options for a stock-linked compensation plan is not more ¥80 million per annum (the number of directors in the Articles of Incorporation is not more than 10). The maximum amount of compensation for directors (excluding directors who are an audit and supervisory committee member) for the fiscal year under review was discussed and decided at the meeting of the Board of Directors held on June 19, 2019.

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

In addition, the maximum amount of compensation for the directors who are an audit and supervisory committee member is set by resolution of a shareholders meeting and decided through discussion among the audit and supervisory committee members, taking into consideration whether they are standing or not standing and how their audit operations are divided. The date of resolution of the shareholders meeting on this matter is June 20, 2018, and the maximum amount of cash compensation has been resolved to be not more than ¥80 million per annum (the number of directors who are an audit and supervisory committee member in the articles of incorporation is not more than five). The maximum amount of compensation for the directors who are an audit and supervisory committee member for the fiscal year under review was discussed and resolved at the audit and supervisory committee held on June 19, 2019.

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

Post	Total compensation (Million yen)	Breakdown of compensation (Million yen)				Number of officers
		Basic compensation	Stock option	Bonus	Compensation benefit	
Director (excluding members of the audit and supervisory committee and Outside Director)	174	123	50	--	--	6
Director (members of the audit and supervisory committee) (excluding Outside Director)	15	15	--	--	--	1
Outside officer	45	45	--	--	--	5

(Note) The above figures include one director who retired on June 19, 2019.

(5) Share holding

(i) Standards and concepts of categories of stocks held

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

(ii) Stocks held for purposes other than pure investment

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

The Company will invest in stocks if the Company has decided that doing so will strengthen trust with important business partners and contribute to the medium- to long-term growth and enhancement of corporate value for the Company. The Company will closely examine the economic rationality of holding the stocks, including the significance, benefits and risks of holding individual stocks, every year at the corporate management meeting, which consists of major executive officers, and will verify the rationality by consulting with the Board of Directors as needed. If the Company determines that the significance and rationality of holding stocks is lacking, it will sell shares of the stocks, considering market trends.

b. Number of stocks and balance sheet amount

	Number of stocks (stocks)	Balance sheet amount (million yen)
Non-listed stocks	4	0
Stocks other than non-listed stocks	13	5,892

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

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

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

	Number of stocks (stocks)	Total sales value pertaining to the decrease in the number of shares (million yen)
Non-listed stocks	1	0
Stocks other than non-listed stocks	--	--

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

Specific stocks held

Stock	At end of the fiscal year under review Number of shares Balance sheet amount (million yen)	At end of the previous fiscal year Number of shares Balance sheet amount (million yen)	Purpose of holding, quantitative effect of holding and reason for the increase in the number of shares (Note 2)	Whether the Company's stock is held or not
Tokyo Seimitsu Co., Ltd.	1,033,000 3,181	1,033,000 2,908	To maintain and strengthen the business relationship and facilitate business activities	Yes
FANUC CORPORATION	50,000 732	50,000 944	To maintain and strengthen the business relationship and facilitate business activities	Yes
YAMAZEN CORPORATION	500,000 450	500,000 583	To maintain and strengthen the business relationship and promote sales activities	Yes
DAIKIN INDUSTRIES, LTD	46,700 615	46,700 605	To maintain and strengthen the business relationship and facilitate business activities	Yes
YUASA TRADING CO., LTD.	100,000 285	100,000 312	To maintain and strengthen the business relationship and promote sales activities	Yes
THK CO., LTD.	59,000 130	59,000 161	To maintain and strengthen the business relationship and facilitate business activities	Yes
MinebeaMitsumi Inc.	100,000 161	100,000 166	To maintain and strengthen the business relationship and facilitate business activities	Yes
Daishi Hokuetsu Financial Group, Inc. (Note)1	51,455 121	51,019 159	To facilitate financing activities by acquiring shares in this financial institution Acquiring shares by cumulative stock investment	Yes
The Hachijuni Bank, Ltd.	196,000 76	196,000 89	To facilitate financing activities by acquiring shares in this financial institution	Yes
Mitsubishi UFJ Financial Group, Inc.	134,800 54	134,800 74	To facilitate financing activities by acquiring shares in this financial institution	Yes
Dai-ichi Life Holdings, Inc.	38,700 50	38,700 59	To maintain and strengthen the business relationship and facilitate business activities	Yes
Teikoku Tsushin Kogyo Co., Ltd.	16,000 18	16,000 19	To maintain and strengthen the business relationship and facilitate business activities	Yes
TOMITA CO., LTD.	12,662 13	11,819 11	To maintain and strengthen the business relationship and facilitate business activities Acquiring shares by cumulative stock investment	No

(Note) The quantitative effect of holding is not stated in consideration of the Company's relationships with the business partners. The rationality of holding is described in "a. Holding policy, the method of verifying the rationality of holding and the content of verification of appropriateness of holding individual stocks by the Board of Directors."

(iii) Stocks held for the purpose of pure investment

Not applicable.

Section 5. Financial Status

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

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

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

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

2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year under review (from April 1, 2019 to March 31, 2020) and the financial statements for The 117th fiscal year (from April 1, 2019 to March 31, 2020) were audited by Ernst & Young ShinNihon LLC.

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

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

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

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

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

(Million yen)

	Note	Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2020)
Assets			
Current assets			
Cash and cash equivalents	7	11,112	10,921
Trade and other receivables	8	17,150	12,258
Other financial assets	9	30	30
Inventories	10	22,462	18,343
Other current assets	11	1,737	1,397
Total current assets		52,493	42,952
Non-current assets			
Property, plant and equipment	12	8,871	9,648
Right-of-use assets	13	--	1,222
Intangible assets	19	557	1,289
Retirement benefit asset	9	104	82
Other financial assets	16	6,444	6,236
Deferred tax assets	11	233	209
Other non-current assets		988	218
Total non-current assets		17,199	18,908
Total assets		69,692	61,860

(Million yen)

	Note	Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2020)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	15	13,476	9,480
Borrowings	17	11,121	8,867
Other financial liabilities	17,18	6	175
Income taxes payable		477	310
Provisions	20	576	402
Contract liabilities	25	1,630	1,021
Other current liabilities	21,22	645	609
Total current liabilities		27,933	20,866
Non-current liabilities			
Other financial liabilities	17,18	15	140
Retirement benefit liability	19	914	915
Deferred tax liabilities	16	511	635
Other non-current liabilities	21,22	244	229
Total non-current liabilities		1,686	1,920
Total liabilities		29,620	22,787
Equity			
Share capital	23	12,345	12,345
Capital surplus	23	3,214	3,306
Treasury shares	23	-2,943	-2,994
Other components of equity	23	2,576	1,038
Retained earnings	23	18,052	18,784
Equity attributable to owners of the parent		33,244	32,480
Non-controlling interests	34	6,827	6,593
Total equity		40,072	39,073
Total liabilities and net equity		69,692	61,860

(ii) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Revenue	6,25	68,486	49,310
Cost of sales		-48,507	-36,354
Gross profit		19,978	12,956
Selling, general and administrative expenses	26	-9,803	-8,369
Other income	27	193	308
Other expenses	27	-154	-345
Operating profit		10,215	4,549
Finance income	28	340	310
Finance costs	28	-171	-601
Profit before tax		10,384	4,259
Income tax expense	16	-2,476	-1,511
Profit		7,907	2,747
Profit for the year attributable to:			
Owners of the parent		6,192	2,001
Non-controlling interests		1,714	745
Profit		7,907	2,747
Earnings per share			
Basic earnings per share (yen)	30	117.98	38.60
Diluted earnings per share (yen)	30	115.22	37.75

Consolidated Statements of Comprehensive Income

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Profit		7,907	2,747
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	29	-1,523	-170
Remeasurement of defined benefit pension plans	29	-43	-3
Total items that will not be reclassified to profit or loss		-1,567	-174
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	29	-458	-1,874
Total items that may be reclassified to profit or loss		-458	-1,874
Total other comprehensive income		-2,026	-2,049
Comprehensive income		5,881	697
Total comprehensive income for the year attributable to:			
Owners of parent		4,297	460
Non-controlling interests		1,583	236
Comprehensive income		5,881	697

(iii) Consolidated statement of changes in equity

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

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

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

	Note	Equity attributable to owners of the parent				
					Other components of equity	
		Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019		12,345	3,214	-2,943	-169	2,745
Profit						
Other comprehensive income					-1,366	-170
Total comprehensive income for the year		--	--	--	-1,366	-170
Purchase of treasury shares	23			-123		
Disposal of treasury shares	23		-34	72		
Dividends	24					
Changes in share-based payment transactions	32		129			
Transfer to retained earnings						-0
Equity transactions with non-controlling interests			-3		-0	
Share-based payment transactions		--	92	-51	-0	-0
Balance as of March 31, 2020		12,345	3,306	-2,994	-1,535	2,574

	Note	Equity attributable to owners of parent				Non-controlling interests	Total
		Other components of equity		Retained earnings	Total		
		Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2019		--	2,576	18,052	33,244	6,827	40,072
Profit				2,001	2,001	745	2,747
Other comprehensive income		-3	-1,540		-1,540	-508	-2,049
Total comprehensive income for the year		-3	-1,540	2,001	460	236	697
Purchase of treasury shares	23				-123		-123
Disposal of treasury shares	23			-21	16		16
Dividends	24			-1,244	-1,244	-463	-1,707
Changes in share-based payment transactions	32				129		129
Transfer to retained earnings		3	3	-3	--		--
Equity transactions with non-controlling interests			-0		-3	-7	-11
Share-based payment transactions		3	2	-1,269	-1,225	-471	-1,696
Balance as of March 31, 2020		--	1,038	18,784	32,480	6,593	39,073

(iv) Consolidated Statements of Cash Flows

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities			
Profit before tax		10,384	4,259
Depreciation and amortization		1,039	1,242
Impairment losses (reversal of impairment losses)		40	--
Finance income		-330	-310
Finance costs		68	81
Loss on retirement of fixed assets		42	5
Loss (gain) on sale of fixed assets		-2	-5
Loss from performance of defect liability, etc.	27	--	307
Decrease (increase) in inventories		-3,915	3,058
Decrease (increase) in trade and other receivables		-697	4,470
Increase (decrease) in trade and other payables		-1,568	-3,211
Increase (decrease) in contract liabilities		-562	-521
Increase or decrease in retirement benefit asset or liability		72	19
Increase (decrease) in provisions		193	-171
Other		-180	47
Subtotal		4,587	9,269
Interest and dividends received		330	291
Interest paid		-68	-81
Proceeds from subsidy income		66	166
Payments for performance of warranty against defects	27	--	-307
Income taxes paid		-3,271	-1,598
Income taxes refund		--	254
Net cash provided by (used in) operating activities		1,643	7,994
Cash flows from investing activities			
Payments into time deposits		-51	-50
Proceeds from withdrawal of time deposits		124	50
Purchase of property, plant and equipment		-1,405	-2,209
Proceeds from sale of property, plant and equipment		404	6
Payments for retirement of property, plant and equipment		-1	-0
Purchase of intangible assets		-414	-798
Purchase of right-of-use assets		--	-183
Purchase of investment securities		-2	-2
Proceeds from sale of investment securities		--	1
Purchase of long-term prepaid expenses		-253	--
Proceeds from subsidy income		214	--
Other		22	-60
Cash flows from investing activities		-1,362	-3,246

(Million yen)

	Note	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Cash flows from investing activities			
Net increase (decrease) in short-term borrowings	31	3,695	-2,254
Proceeds from sale of treasury shares		26	16
Purchase of treasury shares		-1,833	-123
Dividends paid	24	-951	-1,244
Dividends paid to non-controlling interests		-574	-463
Payments for acquisition of interests in subsidiaries from non-controlling interests		--	-11
Repayments of lease obligations	31	-7	-180
Net cash provided by (used in) financing activities		355	-4,261
Effect of exchange rate changes on cash and cash equivalents		9	-677
Net increase (decrease) in cash and cash equivalents		645	-190
Cash and cash equivalents at beginning of period		10,466	11,112
Cash and cash equivalents at end of period	7	11,112	10,921

Notes to Consolidated Financial Statements

1. Reporting entity

TSUGAMI CORPORATION is a stock company located in Japan. The addresses of its registered head office and major factories are disclosed on its website (http://www.tsugami.co.jp/). The Company's consolidated financial statements consist of the Company and its subsidiaries (hereinafter the "Group") with March 31, 2020 as the fiscal year end.

The business activity of the Group is the manufacture and sale of machine tools. Details of its businesses are stated in "Chapter 1. Corporate Information, Section 1. Overview of the Company's Situation, 3. Businesses."

2. Basis of preparation

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

The consolidated financial statements of the Group are prepared in compliance with IFRS pursuant to the provisions of Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976) because they have satisfied the requirements for a "specified company complying with designated international accounting standards" set forth in the Article 1-2 of the said regulation.

The consolidated financial statements are approved by Takao Nishijima, Representative Director, Chairman and CEO of the Company, on June 18, 2020.

(2) Basis of measurement

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

(3) Functional currency and the currency of denomination

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

(4) Changes in accounting policy

The Group adopted IFRS Leases (announced in January 2016) ("IFRS 16") in the fiscal year under review.

The Group applies IFRS 16 according to transitional measures and employs the method of recognizing the cumulative effect of the start of the application on the first day of the application.

In the shift to IFRS 16, the Company has selected the practical expedient in Paragraph C3 of IFRS 16 and determines whether a contract is or includes a lease agreement based on IAS 17 Leases and IFRIC 4: Determining Whether an Agreement Contains a Lease. The Group has opted not to recognize right-of-use assets and lease liabilities for short-term leases whose term is 12 months or less and leases of low-value assets.

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

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

Having adopted IFRS 16, the Company recognized ¥1,100 million for right-of-use assets and ¥256 million for lease liabilities (stated as the components of other financial liabilities) as of the day of the commencement of the application of IFRS 16, compared to the case using the accounting standards previously applied. Right-of-use assets include ¥20 million as the amount of transfer from property, plant and equipment in finance leases in IAS 17 and ¥823 million as the amount of transfer from the amount of advance payment of property rent (other non-current assets). Right-of-use assets stated in the consolidated statement of financial position for the fiscal year under review mainly comprise ¥904 million for land and ¥190 million for buildings and structures. As of the date of the application of IFRS 16, the lessee's incremental borrowing rate on a weighted average basis, which is applied to lease liabilities recognized in the consolidated statement of financial position, is 2.0%.

When adopting IFRS 16, the Group applied the following practical expedients to leases categorized as operating leases under IAS 17:

・Rely on the assessment of whether the application of IAS 37: Provisions, Contingent Liabilities and Contingent Assets to leases as an alternative to performing impairment reviews immediately before the start date of application is disadvantageous.

・Exclude initial direct costs from the measurement of right-of-use assets on the first day of application.

The following is the adjustment table of operating lease agreements disclosed by applying IAS 17 as of the end of the previous fiscal year and lease liabilities as of the first day of application recognized in the consolidated statement of financial position.

(Million yen)

	Amount
Operating lease agreements disclosed as of March 31, 2019	60
Finance lease obligations (as of March 31, 2019)	22
Rules for exemption of recognition (short-term leases and low-value asset leases)	-18
Revision of lease terms, etc.	214
Lease liabilities as of April 1, 2019	278

3. Significant accounting policies

(1) Basis of consolidation

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

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

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

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

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

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

(2) Business combinations

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

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

(3) Foreign currency translation

(i) Foreign currency transactions

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

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

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

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

(ii) Financial statements of foreign operations

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

(4) Financial instruments

(i) Financial assets

i. Initial recognition and measurement

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

The Group recognizes relevant financial instruments when it becomes a party to the contract of the financial assets.

Unless financial assets are classified into the category in which they are measured at fair value through profit or loss, the Group measures all financial assets at an amount that is obtained by adding transaction costs to the fair value.

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

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

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

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

ii. Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

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

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

iii. Derecognition of financial assets

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

iv. Impairment of financial assets

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

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

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

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

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

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

・an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,

・the time value of money, and

・reasonable and supportable information that is available without undue cost or effort on the reporting date regarding past events, current conditions and forecasts of future economic conditions.

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

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

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

(ii) Financial liabilities

i. Initial recognition and measurement

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

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

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

ii. Subsequent measurement

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

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

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

(b) Financial liabilities measured at amortized cost

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

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

iii. Derecognition of financial liabilities

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

(iii) Presentation of financial assets and financial liabilities

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

(iv) Derivatives and hedge accounting

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

(5) Cash and cash equivalents

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

(6) Inventories

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

(7) Property, plant and equipment

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

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

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

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

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

(8) Intangible assets

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

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

- Software 5 years

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

(9) Leases (lessee)

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

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

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

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

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

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

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

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

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

(10) Impairment of non-financial assets

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

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

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

(11) Employee benefits

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

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

The discount rate is determined based on the market yields of good-quality corporate bonds as of the closing date

corresponding to the discount period by setting the discount period based on the period until the expected payment date of benefits every fiscal year in the future.
Liabilities or assets of the defined benefit plans are determined by deducting the fair value of the plan assets from the present value of defined benefit obligations.
The amount of remeasurements of defined benefit plans is recognized collectively as other comprehensive income in the period when the remeasuments occurred and immediately transferred to retained earnings from other components of equity.
Past service cost is accounted for as profit or loss for the period when the cost was generated.
If the defined benefit plan is overfunded, the present value of available future economic benefits such as return from the plan or the reduction of contributions in the future is set to be an asset ceiling.
Expenses for defined contribution retirement plans are recognized as an expense at the time of contribution.

(12) Share-based payment

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

(13) Provisions

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

(14) Revenue

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

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

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

(15) Government grants

Government grants are recognized at fair value when the incidental conditions for delivering grants have been met and when reasonable assurance of receiving grants has been obtained.
If government grants are related to expense items, they are recognized systematically as revenue over the period when the related costs that are intended to be covered by the grants are recognized as an expense. Grants related to assets are recognized as deferred income and are recognized systematically as profit or loss over the estimated useful life of the related assets.

(16) Income taxes

Income tax expenses consist of current tax and deferred tax. These taxes are recognized as profit or loss unless they arise

from an item that is directly recognized in other comprehensive income or equity, or unless they arise from a business combination.
Current tax is measured in an amount in which a payment to or refund from tax authorities is expected. A tax rate and tax law used for determining the tax amount are those that have been established or substantively established by the closing date.
Deferred tax is recognized for temporary differences, which are differences between the carrying amount of an asset or a liability and its tax base on the closing date, unused tax losses and unused tax credits.
A deferred tax asset or a deferred tax liability is not posted for the following temporary differences.

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

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

(17) Earnings per share

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

(18) Segment information

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

(19) Treasury shares

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

4. Significant accounting estimates and decisions with estimates

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

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

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

・Matters concerning financial instruments (Note "33. Financial instruments")
・Valuation of inventories (Note "10. Inventories")
・Impairment of non-financial assets (Note "14. Impairment of non-financial assets")
・Lease term of right-of-use assets (Note "18. Leases")
・Recoverability of deferred tax assets (Note "16. Income taxes")
・Accounting and valuation of provisions (Note "20. Provisions")
・Measurement of defined benefit obligation (Note "19. Employee benefits")
・Fair value of stock options (Note "32. Share-based payment")

(Stance on the impact of COVID-19)

Due to the spread of COVID-19 worldwide, concern has mounted about a possible global slowdown. The disease is affecting a wide range of corporate business activities.

As far as the Group is concerned, the factories in China suspended operation temporarily due to the extension of the Chinese New Year holidays announced by the Chinese government. Now, they are operating as usual. The India factory was shut down due to a lockdown, but it has partially resumed operations. Considering the role that the India factory plays in the consolidated financial statements, the Company believes that the impact of the shutdown on the consolidated financial statements in the fiscal year under review and the next fiscal year will be minor and insignificant.

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

However, it is difficult to forecast the effects of COVID-19, and uncertainties may affect the accounting estimates made by the Company.

The information related to uncertainty about assumptions and estimates that is at risk of having a significant impact in the next consolidated fiscal year is as follows:

・Valuation of inventories (Note "10. Inventories")
・Impairment of non-financial assets (Note "14. Impairment of non-financial assets")
・Accounting and valuation of provisions (Note "20. Provisions")
・Measurement of defined benefit obligation (Note "19. Employee benefits")

5. New standards not yet applied

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

6. Segment information

(1) Summary of reportable segments

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

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

(2) Segment revenues and operating results

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

Inter-segment revenues are based on market prices.

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

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

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

2. The adjustment of ¥-135 million for segment profit is an adjustment of unrealized profit.

3. Adjustments for segment assets of ¥2,195 million include company assets of ¥8,570 million and the impact of consolidation adjustments between segments of ¥-6,375 million.

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

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

(Note) 1. Segment profit is calculated by deducting the cost of sales and selling, general and administrative expenses from revenue.
2. The adjustment of ¥269 million for segment profit is an adjustment of unrealized profit.
3. Adjustments for segment assets of ¥3,611 million include company assets of ¥9,331 million and the impact of consolidation adjustments between segments of ¥-5,720 million.

(3) Information about products and services

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

(4) Regional Information

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

Revenue from external customers

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Japan	13,662	9,792
China	34,629	23,005
Asia	10,434	9,084
America	4,016	4,607
Europe	5,744	2,821
Total	68,486	49,310

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

Non-current assets

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Japan	3,189	4,030
China	6,465	7,288
India	642	944
South Korea	114	110
Other	5	5
Total	10,416	12,379

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

(5) Information about major customers

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

7. Cash and cash equivalents

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

8. Trade and other receivables

The breakdown of trade and other receivables is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Financial assets measured at amortized cost		
Trade notes receivable	10,899	4,458
Accounts receivable	5,960	3,035
Accounts receivable – other	375	224
Other	--	31
Allowance for doubtful accounts	-85	-68
Financial assets measured at fair value through other comprehensive income		
Trade notes receivable	--	4,577
Total	17,150	12,258

9. Other non-current assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Financial assets measured at amortized cost		
Time deposits	30	30
Financial assets measured at fair value through other comprehensive income		
Stocks	6,129	5,920
Investments in capital, etc.	315	315
Total	6,474	6,266
Current assets	30	30
Non-current assets	6,444	6,236
Total	6,474	6,266

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

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

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

(Million yen)

Stocks	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Tokyo Seimitsu Co., Ltd.	2,908	3,181
FANUC CORPORATION	944	732
Other	2,591	2,322

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

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

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

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

(Million yen)

Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)		Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)	
Fair value	Cumulative gains or losses	Fair value	Cumulative gains or losses
--	--	0	0

When financial assets measured at fair value through other comprehensive income are derecognized, cumulative gains or losses that were recognized as other comprehensive income are transferred to retained earnings. Cumulative gains or losses (after tax) on other comprehensive income that were transferred to retained earnings were ¥0 million in the consolidated fiscal year under review.

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

(Million yen)

Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)		Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)	
Investments derecognized during the period	Investments held as of the closing date	Investments derecognized during the period	Investments held as of the closing date
--	216	1	195

10. Inventories

The breakdown of inventories is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Merchandise and finished goods	10,756	9,027
Work in process	5,583	3,820
Raw materials	6,123	5,495
Total	22,462	18,343

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

In addition, the amount of inventory write-down that was recognized as an expense is ¥508 million in the previous consolidated fiscal year and ¥644 million in the consolidated fiscal year under review. The amounts of reversal of inventory write-down are ¥454 million and ¥501 million, respectively. These amounts are based on the *araigae* method (reversal method) because it is difficult to determine the amount of individual reversal of inventory write-down.

11. Other assets

The breakdown of other assets is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Other current assets		
Prepaid expenses	149	157
Advance payments	123	204
Consumption taxes receivable	1,455	1,027
Other	8	8
Total	1,737	1,397
Other non-current assets		
Long-term prepaid expenses	851	30
Other	137	188
Total	988	218

12. Property, plant and equipment

(1) Table of increases/decreases

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

Acquisition cost

(Million yen)

	Buildings and Structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
April 1, 2018	9,321	8,102	1,129	470	416	19,440
Purchase	171	402	145	--	820	1,540
Sales or disposal	-864	-153	-61	-196	--	-1,275
Exchange differences on translation of foreign operations	-100	-134	-26	--	-87	-348
Other	1,029	-44	--	--	-1,122	-137
March 31, 2019	9,557	8,172	1,187	273	27	19,218
Adjustment due to application of IFRS 16	--	--	-37	--	--	-37
April 1, 2019	9,557	8,172	1,150	273	27	19,181
Purchase	114	221	103	5	1,920	2,364
Sales or disposal	-57	-8	-100	--	--	-165
Exchange differences on translation of foreign operations	-358	-408	-39	--	-57	-864
Other	--	-59	--	--	-34	-94
March 31, 2020	9,255	7,918	1,113	278	1,855	20,421

Accumulated depreciation and impairment loss

(Million yen)

	Buildings and Structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
April 1, 2018	-4,333	-5,065	-822	-61	--	-10,282
Depreciation	-342	-524	-120	--	--	-988
Impairment losses	--	--	-40	--	--	-40
Sales or disposal	614	120	60	29	--	824
Exchange differences on translation of foreign operations	29	68	22	--	--	121
Other	--	18	--	--	--	18
March 31, 2019	-4,032	-5,382	-900	-31	--	-10,347
Adjustment due to application of IFRS 16	--	--	17	--	--	17
April 1, 2019	-4,032	-5,382	-883	-31	--	-10,330
Depreciation	-353	-518	-104	--	--	-976
Impairment loss	--	--	--	--	--	--
Sales or disposal	53	7	99	--	--	160
Exchange differences on translation of foreign operations	100	225	26	--	--	353
Other	--	20	--	--	--	20
March 31, 2020	-4,231	-5,647	-862	-31	--	-10,772

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

Carrying amount

(Million yen)

	Buildings and Structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
April 1, 2018	4,987	3,037	307	409	416	9,158
March 31, 2019	5,524	2,790	286	241	27	8,871
March 31, 2020	5,023	2,271	251	246	1,855	9,648

(2) Leased assets

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

(Million yen)

	Tools, furniture and fixtures
April 1, 2018	9
March 31, 2019	20

13. Intangible assets

(1) Table of increases/decreases

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

Acquisition cost

(Million yen)

	Intangible assets			
	Software	Software in progress	Other	Total
April 1, 2018	156	--	9	166
Purchase	94	409	--	503
Sales or disposal	-5	--	-0	-6
Exchange differences on translation of foreign operations	-1	--	--	-1
March 31, 2019	243	409	8	661
Purchase	239	591	--	831
Sales or disposal	-15	--	--	-15
Exchange differences on translation of foreign operations	-6	--	--	-6
Other	1,001	-1,001	--	--
March 31, 2020	1,461	--	8	1,470

Accumulated amortization and impairment loss

(Million yen)

	Intangible assets			
	Software	Software in progress	Other	Total
April 1, 2018	-78	--	-0	-78
Amortization	-32	--	-0	-32
Sales or disposal	5	--	--	5
Exchange differences on translation of foreign operations	0	--	--	0
March 31, 2019	-104	--	-0	-104
Amortization	-94	--	-0	-94
Sales or disposal	15	--	--	15
Exchange differences on translation of foreign operations	2	--	--	2
March 31, 2020	-181	--	-0	-181

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

Carrying amount

(Million yen)

	Intangible assets			
	Software	Software in progress	Other	Total
April 1, 2018	78	--	9	88
March 31, 2019	138	409	8	557
March 31, 2020	1,280	--	8	1,289

Payments for research and development activities of the Group that were recognized as an expense during the previous consolidated fiscal year and the fiscal year under review are ¥2,701 million and ¥1,863 million, respectively, and they are included in “selling, general and administrative expenses” in the consolidated statement of income.

14. Impairment of non-financial assets

(1) Impairment losses

When determining impairment losses, they are grouped based on the minimum unit of asset groups that are identified as those that generate cash inflows that are largely independent.
Impairment losses are posted in “other expenses” in the consolidated statement of income.

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Property, plant and equipment		
Tools, furniture and fixtures	40	--
Total	40	--

In the previous consolidated fiscal year, the Group reduced the carrying amount of some paintings to their recoverable amount because they were no longer expected to be used for business. The recoverable amount is determined based on fair value.
The fair value hierarchy is Level 3. The fair value hierarchy is stated in Note “33. Financial instruments.”

15. Trade and other payables

The breakdown of trade and other payables is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Trade notes payable	7,158	4,410
Accounts payable	4,748	3,863
Accounts payable - other	714	635
Other	855	569
Total	13,476	9,480

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

16. Income tax expense

(1) Deferred tax assets and Deferred tax liabilities

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

	April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	Other	March 31, 2020
Deferred tax assets					
Inventories	201	-40	--	17	178
Allowance for doubtful accounts	23	-9	--	1	16
Accrued bonuses	78	-19	--	--	59
Income taxes payable	32	-20	--	--	11
Provisions	158	-45	--	-0	112
Retirement benefit liability	237	6	1	-0	244
Other	198	-43	--	-2	151
Total	930	-171	1	14	774
Deferred tax liabilities					
Financial assets	-1,099	--	38	--	-1,061
Other	-109	-33	--	3	-138
Total	-1,208	-33	38	3	-1,200

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Deferred tax assets	233	209
Deferred tax liabilities	-511	-635
Net amount	-278	-425

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Unused tax credits	47	340
Deductible temporary differences	1,247	1,307
Total	1,295	1,648

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
First year	--	--
Second year	--	53
Third year	47	286
Total	47	340

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

The sums of taxable temporary differences for investments in subsidiaries, etc. for which a deferred tax liability is not recognized in the previous consolidated fiscal year and the consolidated fiscal year under review are ¥7,206 million and ¥6,619 million, respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Current tax expense	2,492	1,306
Deferred tax expense	-15	205
Total	2,476	1,511

Current tax expense includes the amount of tax benefit arising from a previously unrecognized tax loss or temporary difference in a prior period. The amounts of decreases in current tax expense associated with this in the previous consolidated fiscal year and the consolidated fiscal year under review are ¥160 million and ¥29 million, respectively.

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

(%)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Statutory effective tax rate	30.5	30.5
Expenses that are not reduced for the calculation of taxable income	0.5	1.4
Experimentation and research expenses	-1.2	-0.2
Deemed foreign tax credits	-1.7	--
Withholding tax on dividends from overseas subsidiaries	2.7	3.6
Difference from tax rate applied to overseas subsidiaries	-6.6	-5.4
Effect of the evaluation of the recoverability of deferred tax assets	-0.3	4.5
Other	0.1	1.0
Actual average tax rate	23.8	35.5

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

17. Borrowings

Breakdown of financial liabilities

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)	Average interest rate (%)	Repayment term
Short-term borrowings	11,121	8,867	1.5	--
Short-term lease liabilities	6	175	--	--
Long-term lease liabilities	15	140	--	From 2021 to 2025
Total	11,143	9,183	--	--
Current liabilities	11,127	9,042	--	--
Non-current liabilities	15	140	--	--
Total	11,143	9,183	--	--

(Note) 1. The average interest rate is a weighted average interest rate on the end balance of borrowings.

2. "Borrowings" and "other financial liabilities" are classified into financial liabilities measured at amortized cost.

18. Leases

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

Information for the fiscal year ended March 31, 2019, comparative information, is based on IAS 17 Leases.

Previous consolidated fiscal year (As of March 31, 2019)

(1) Finance lease obligations

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)
Up to 1 year	6
More than 1 year, up to 5 years	15
More than 5 years	0
Total	22

(Note) The balance of total minimum lease payments is included in “other financial liabilities” in the consolidated statement of financial position.

(2) Operating leases

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)
Up to 1 year	53
More than 1 year, up to 5 years	6
Total	60

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)
Total minimum lease payments	314
Total	314

Consolidated fiscal year under review (As of March 31, 2020)

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

(Million yen)

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

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

(Million yen)

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

Right-of-use assets increased ¥402 million in the consolidated fiscal year under review.

Total cash outflows related to leases in the consolidated fiscal year under review were ¥418 million.

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

(Million yen)

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

19. Employee benefits accruals

The Company and some of its consolidated subsidiaries adopt funded and unfunded defined benefit plans and defined contribution plans to apply them to the retirement benefits of employees. The defined benefit plans of the Group are a plan proportional to final salary for Japanese employees, and they are required to make contributions to an independently managed fund. These pension plans are exposed to a general investment risk, an interest rate risk and an inflation risk, among others.

The funded defined benefit plans are managed by a pension fund that is legally separated from the Group. The board of directors of the pension fund and an organization entrusted with pension management are required by law to act by giving the highest priority to the benefits of the plan participants, and they assume the responsibility of managing the plan assets based on the predetermined policy.

(1) Defined benefit plans

(i) Reconciliation of defined benefit obligation and plan assets

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Present value of funded defined benefit obligation	1,516	1,501
Fair value of plan assets	-1,608	-1,579
Subtotal	-91	-77
Present value of unfunded defined benefit obligation	902	910
Net defined benefit liability and defined benefit asset	810	833
Amounts in the consolidated statement of financial position		
Retirement benefit liability	914	915
Retirement benefit asset	-104	-82
Net defined benefit liability and defined benefit asset posted in the consolidated statement of financial position	810	833

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

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Beginning balance of the present value of defined benefit obligation	2,313	2,419
Current service cost	142	153
Interest cost	10	8
Remeasurements		
Actuarial gain (loss) arising from changes in demographic assumptions	-26	--
Actuarial gain (loss) arising from changes in financial assumptions	139	-19
Actuarial gain (loss) arising from revisions to actual results	-3	18
Benefit payments	-156	-159
Exchange differences on translation of foreign operations	-1	-7
Ending balance of the present value of defined benefit obligation	2,419	2,412

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

(iii) Reconciliation of the fair value of plan assets

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Beginning balance of the fair value of plan assets	1,575	1,608
Interest income	7	6
Remeasurement		
Actuarial gain (loss)	47	-7
Employer contributions	65	84
Benefit payments	-86	-106
Exchange differences on translation of foreign operations	-1	-6
Ending balance of the fair value of plan assets	1,608	1,579

The Group plans to make contributions of ¥55 million in the next consolidated fiscal year (ending March 31, 2021).

(iv) Breakdown of plan assets by item

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Assets with a published price in an active market		
Stocks	376	54
Bonds	788	116
Assets without a published price in an active market		
General accounts of life insurance	318	300
Other	125	1,107
Total	1,608	1,579

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

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

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

(v) Major actuarial assumptions

Major assumptions used for the actuarial computation are as follows.

(%)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Discount rate	0.4	0.5

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

(vi) Sensitivity analysis

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

(%)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
If the discount rate rises 0.5%	-109	-106
If the discount rate falls 0.5%	118	115

(2) Defined contribution plans

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

(3) Employee benefit expenses

The sums of employee benefit expenses included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income for the previous consolidated fiscal year and the consolidated fiscal year under review are ¥7,882 million and ¥7,574 million, respectively.

20. Provisions

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

(Million yen)

	Provision for product	Other provisions	Total
April 1, 2019	576	--	576
Amount of increase during the period	388	13	402
Amount of decrease during the period (utilization)	--	--	--
Amount of decrease during the period (reversal)	-576	--	-576
March 31, 2020	388	13	402
Current liabilities	388	13	402

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

21. Other liabilities

The breakdown of other liabilities is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Other current liabilities		
Accrued bonuses	331	325
Accrued paid leave	172	204
Other	141	80
Total	645	609
Other non-current liabilities		
Long-term accounts payable - other	30	30
Deferred income	214	199
Total	244	229

22. Deferred income

The breakdown of deferred income is as follows.

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Current liabilities		
Those related to government grants	--	--
Total	--	--
Non-current liabilities		
Those related to government grants	214	199
Total	214	199

Deferred income related to government grants was received mainly to purchase property, plant and equipment.

There are no unfulfilled conditions or other contingencies incidental to government grants that were recognized as deferred income.

23. Equity and other equity items

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

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

(Thousand shares)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Number of shares authorized		
Common stock	320,000	320,000
Total number of shares issued		
Beginning balance	55,000	55,000
Changes during the period	--	--
Ending balance	55,000	55,000

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

(2) Treasury shares

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

	Number of shares (thousand shares)	Amount (Million yen)
April 1, 2018	1,918	1,814
Changes during the period	1,274	1,128
March 31, 2019	3,192	2,943
Changes during the period	99	51
March 31, 2020	3,291	2,994

(Note) 1. Changes in treasury shares in the previous consolidated fiscal year represent an increase of 1,968 thousand shares due to the purchase of treasury shares and a decrease of 693 thousand shares due to the exercise of stock options.

2. Changes in treasury shares in the consolidated fiscal year under review represent an increase of 177 thousand shares due to the purchase of treasury shares and a decrease of 78 thousand shares due to the exercise of stock options.

(3) Capital surplus

(i) Capital surplus

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

(ii) Other capital surplus

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

(iii) Share acquisition rights

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

(4) Other components of equity

(i) Exchange differences on translation of foreign operations

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

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

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

(iii) Remeasurements of defined benefit plans

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

(5) Retained earnings

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

24. Dividends

The amount of dividends paid is as follows.

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Resolution)	Type of shares	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 14, 2019	Common shares	621	12.00	March 31, 2019	May 28, 2019
Board of directors meeting held on November 12, 2019	Common shares	622	12.00	September 30, 2019	November 29, 2019

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Resolution)	Type of shares	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 27, 2020	Common shares	620	12.00	March 31, 2020	June 2, 2020

25. Revenue

(1) Disaggregation of revenue

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

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

(Note) Other includes parts and services, etc.

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

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

(Note) Other includes parts and services, etc.

(2) Information on the satisfaction of performance obligations

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

(3) Contract balances

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

	April 1, 2018	March 31, 2019
Receivables arising from contracts with customers	16,693	16,860
Contract liabilities	2,218	1,630

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

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

With respect to revenue recognized in the previous consolidated fiscal year and the consolidated fiscal year under review, the amounts included in the beginning balance of contract liabilities are ¥2,218 million and ¥1,630 million, respectively. Contract liabilities are mainly related to advance payments from customers.

(4) Transaction price allocated to the remaining performance obligations

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

26. Selling, general and administrative expenses

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Personnel expenses	3,366	3,334
Travel and transportation expenses	430	435
Research and development expenses	2,701	1,863
Depreciation, rent expenses	302	330
Insurance expenses	165	161
Taxes and dues	180	155
Transportation costs	588	374
Advertising and sales promotion expenses	293	275
Product warranty costs	610	295
Commission expenses	493	486
Other	669	656
Total	9,803	8,369

27. Other income and expenses

The breakdown of other income is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Gain on sale of fixed assets	5	5
Government grant income	66	166
Other	122	136
Total	193	308

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

The breakdown of other expenses is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Loss on retirement of fixed assets	42	5
Loss on sale of fixed assets	3	0
Impairment losses	40	--
Loss from performance of defect liability, etc.	--	307
Other	67	32
Total	154	345

28. Finance income and finance costs

The breakdown of financial income is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Interest income		
Financial assets measured at amortized cost	114	113
Dividend income		
Financial assets measured at fair value through other comprehensive income	216	196
Foreign exchange gain	10	--
Total	340	310

The breakdown of financial costs is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Interest expenses		
Financial liabilities measured at amortized cost	171	165
Foreign exchange loss	--	435
Total	171	601

29. Other comprehensive income

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Financial assets measured at fair value through other comprehensive income		
Amount generated during the period	-2,147	-208
Amount of tax effect	623	38
After tax effect	-1,523	-170
Remeasurements of defined benefit plans		
Amount generated during the period	-63	-5
Amount of tax effect	19	1
After tax effect	-43	-3
Foreign currency translation adjustments		
Amount generated during the period	-458	-1,874
Amount of tax effect	--	--
After tax effect	-458	-1,874
Total other comprehensive income	-2,026	-2,049

30. Per Share information

(1) Basis for calculation of basic earnings per share

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Profit attributable to owners of the parent (million yen)	6,192	2,001
Basis for calculation of basic earnings per share (million yen)	--	--
Profit used to calculate basic earnings per share (million yen)	6,192	2,001
Weighted average number of common shares (thousand shares)	52,490	51,860
Basic earnings per share (yen)	117.98	38.60

(2) Basis for calculation of diluted earnings per share

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Profit used to calculate basic earnings per share (million yen)	6,192	2,001
Adjustment on profit (million yen)	--	--
Profit used to calculate diluted earnings per share (million yen)	6,192	2,001
Weighted average number of common shares (thousand shares)	52,490	51,860
Increase in common shares		
Share acquisition rights (thousand shares)	1,255	1,159
Weighted average number of diluted common shares (thousand shares)	53,745	53,019
Diluted earnings per share (yen)	115.22	37.75

31. Cash flow information

(1) Changes in liabilities related to financing activities

Changes in liabilities related to financing activities are as follows.

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

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

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

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

32. Share-based payment

(1) Content of the share-based payment plan

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

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

	2007 Stock compensation-type stock options Plan A	2008 Stock compensation-type stock options Plan A
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 4 Statutory auditors 4	The Company's directors 7 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 101,000 shares	Common stock 100,000 shares
Grant date	July 9, 2007	July 7, 2008
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 10, 2007 to July 9, 2027	July 8, 2008 to July 7, 2028

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

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

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

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

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

	2014 11th general-type share acquisition rights
Company	The Company
Positions and numbers of officers to receive stock options	Employees of the Company 63
Number of stock options by share type (Note 1)	Common stock 200,000 shares
Grant date	July 7, 2014
Vesting conditions	Not applicable
Target period of service	July 7, 2014 to July 7, 2016
Exercise period	July 8, 2016 to June 30, 2019

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

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

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

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

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

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

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

2. In principle, share acquisition rights can be exercised only when either the status of a director (excluding a director who is an audit and supervisory committee member), a director who is an audit and supervisory committee member, an executive officer or an employee equivalent to this of the Company has been lost. In this case, however, the holders of share acquisition rights can exercise their share acquisition rights only during the period until the day on which seven business days have elapsed from the day following the day on which the status has been lost.

If the retirement date of the officer, etc. has occurred by June 30 in the year following the grant date, the holders of share acquisition rights will continue to hold the number of share acquisition rights that is obtained by dividing the number obtained by multiplying the number of allotted share acquisition rights by the number of months of service as an officer, etc. from the month that includes the day of allotment to the month that includes the retirement date of the officer, etc. by 12, and the remaining share acquisition rights of the number of allotted share acquisition rights will be unable to be exercised.

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

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

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)		Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning balance of unexercised stock options	1,603,000	1	1,097,000	1
Granted	151,000	1	146,000	1
Exercised	-648,800	1	-50,300	1
Expired	-8,200	1	-2,700	1
Ending balance of unexercised stock options	1,097,000	1	1,190,000	1
Ending balance of exercisable stock options	1,062,400	1	1,153,500	1

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥1,012 in the previous consolidated fiscal year and ¥896 in the consolidated fiscal year under review.

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

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

(ii) General share acquisition rights

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)		Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning balance of unexercised stock options	73,000	580	28,000	584
Granted	--	--	--	--
Exercised	-45,000	578	-28,000	584
Expired	--	--	--	--
Ending balance of unexercised stock options	28,000	584	--	--
Ending balance of exercisable stock options	28,000	584	--	--

(Note) 1. The average share price when stock options of the submitting company were exercised during the period is ¥1,039 in the previous consolidated fiscal year and ¥895 in the consolidated fiscal year under review.

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

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

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

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

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
	2018 Stock compensation-type stock options Plan A and Plan B	2019 Stock compensation-type stock options Plan A and Plan B
Weighted average fair value on the grant date (yen)	771	753
Share price on the grant date (yen)	936	942
Exercise price (yen)	1	1
Expected volatility (%) (Note)	46.690	46.351
Expected remaining life (years)	10	10
Expected dividend (yen)	18	21
Risk free rate (%)	0.025	-0.176

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

(4) Share-based payment expenses

The amount of share-based payment expenses included in “selling, general and administrative expenses” in the consolidated statement of income is ¥116 million in the previous consolidated fiscal year and ¥129 million in the consolidated fiscal year under review.

33. Financial instruments

(1) Capital management

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

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

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

(2) Management of financial risks

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

(3) Credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Million yen)

Trade receivables	Debtors who do not have any serious problems in their business conditions	Debtors who have serious problems in the repayment of debt	Debtors who are experiencing business failure	Total
Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	16,831	29	--	16,860
Figures at the end of the consolidated fiscal year under review (As of March 31, 2020)	12,058	13	--	12,071

(Million yen)

Receivables other than trade receivables	Credit risk has not increased significantly	Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	Total
Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	375	--	--	375
Figures at the end of the consolidated fiscal year under review (As of March 31, 2020)	224	--	--	224

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

(Million yen)

	Trade receivables	Receivables other than trade receivables			Total
		Credit risk has not increased significantly	Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Balance on April 1, 2018	70	0	--	--	71
Amount of increase during the period	84	0	--	--	85
Amount of decrease during the period (reversal)	70	0	--	--	71
Balance on March 31, 2019	84	0	--	--	85
Amount of increase during the period	68	0	--	--	68
Amount of decrease during the period (reversal)	84	0	--	--	85
Balance on March 31, 2020	68	0	--	--	68

(4) Liquidity risk management

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

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

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

Derivative financial liabilities are not applicable in the previous consolidated fiscal year (As of March 31, 2019) or in the consolidated fiscal year under review (As of March 31, 2020).

A breakdown of lease liabilities by due date is shown in Note 18. Leases.

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

(Million yen)

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

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

(Million yen)

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

(5) Currency risk management

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

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

Foreign exchange sensitivity analysis

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

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Profit before tax	-78	-36

(6) Interest rate risk management

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

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

Interest rate sensitivity analysis

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Profit before tax	-90	-99

(7) Market price volatility risk management

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

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Other comprehensive income (before tax effect)	-60	-58

(8) Hedging activities

Not applicable.

(9) Fair value of financial instruments

(i) Fair value hierarchy

For financial instruments measured at fair value, the amount of fair value measurement is classified into three levels from Level 1 through Level 3 according to the observability and significance of the inputs used for the measurement.

Transfers among Level 1, Level 2 and Level 3 of the fair value hierarchy are recognized on the date of the event or the change in circumstances that resulted in the transfer.

Level 1: Market prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value determined using observable prices other than those in Level 1, either directly or indirectly

Level 3: Fair value determined using an assessment technique that includes unobservable inputs

(ii) Financial instruments measured at fair value

The method of determining the fair value is as follows.

(Deposits)

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

(Trade receivables)

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

(Stocks, investments in capital, etc.)

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

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

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

(Million yen)

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

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

(Million yen)

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

Valuation process

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

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

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

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

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Beginning balance	312	348
Total gains and losses	36	-3
Other comprehensive income	36	-3
Sales	--	-1
Ending balance	348	343

(iii) Financial instruments measured at amortized cost

The method of determining the fair value of major financial instruments measured at amortized cost is as follows.

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

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

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

(Other financial assets)

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

(Borrowings)

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

(10) Transfer of financial assets

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

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

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Carrying amount of transferred assets	5,121	3,867
Carrying amount of related liabilities	5,121	3,867
(Breakdown) Purchase of export bills	3,250	3,446
Discounted bills, etc.	1,870	420

34. Significant subsidiaries

(1) Composition of the group

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

(2) Consolidated subsidiaries with significant non-controlling interests

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

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

(i) Percentage interest owned by non-controlling interests

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Percentage interest owned by non-controlling interests (%)	29.2	29.2

(ii) Condensed consolidated financial information

i) Condensed consolidated statement of financial position

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of March 31, 2020)
Current assets	25,986	21,705
Non-current assets	6,611	7,834
Current liabilities	8,998	6,723
Non-current liabilities	249	327
Equity	23,350	22,488
Accumulated amount of non-controlling interests	6,716	6,510

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

ii) Condensed Consolidated Statements of Income and Comprehensive Income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Revenue	47,153	30,319
Profit	6,080	2,430
Other comprehensive income	--	--
Comprehensive income	6,080	2,430
Profit allocated to non-controlling interests	1,710	766
Dividends paid to non-controlling interests	574	463

iii) Condensed Consolidated Statements of Cash Flows

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities	4,514	2,886
Cash flows from investing activities	-1,229	-4,156
Cash flows from financing activities	-1,986	-1,634
Net increase (decrease) in cash and cash equivalents	1,298	-2,904

35. Related party

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

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

(2) Compensation for major executives

(Million yen)

	Previous consolidated fiscal year (From April 1, 2018 to March 31, 2019)	Consolidated fiscal year under review (From April 1, 2019 to March 31, 2020)
Short-term compensation	144	142
Share-based payment	45	50
Total	189	192

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

36. Commitment

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

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2020)
Purchase of property, plant and equipment	29	763
Purchase of intangible assets	338	79
Total	368	842

37. Contingent liabilities

No corresponding item existed.

38. Subsequent events

No corresponding item existed.

(2) Other

Quarterly information for the fiscal year under review

(Accumulated total)	First quarter From April 1, 2019 to June 30, 2019	First half From April1, 2019 to September 30, 2019	First nine months From April1, 2019 to December 31, 2019	Full year under review From April 1, 2019 to March 31, 2020
Revenue (million yen)	14,810	27,396	39,218	49,310
Profit before tax (million yen)	1,952	2,692	3,758	4,259
Profit attributable to owners of parent (million yen)	1,073	1,295	1,770	2,001
Basic earnings per share (yen)	20.70	24.97	34.14	38.60

(Quarterly)	First quarter From April 1, 2019 to June 30, 2019	Second quarter From July 1, 2019 to September 30, 2019	Third quarter From October 1, 2019 to December 31, 2019	Fourth quarter From January 1, 2020 to March 31, 2020
Basic earnings per share (yen)	20.70	4.28	9.17	4.45

2. Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

(i) Non-consolidated balance sheets

(Million yen)

		Previous fiscal year (As of March 31, 2019)		Fiscal year under review (As of March 31, 2020)
Assets				
Current assets				
Cash and deposits		2,258		3,033
Trade notes receivable	Note 1	214	Note 1	441
Accounts receivable	Note 1	8,935	Note 1	3,970
Merchandise and finished goods		4,544		3,495
Work in process		2,207		1,241
Raw materials and supplies		1,679		1,926
Consumption taxes receivable		1,035		724
Other	Note 1	453	Note 1	444
Allowance for doubtful accounts		-83		-35
Total current assets		21,246		15,242
Non-current assets				
Property, plant and equipment				
Buildings		1,890		1,822
Structures		71		73
Machinery and equipment		264		242
Vehicles		6		5
Tools, furniture and fixtures		103		98
Land		241		246
Leased assets		20		28
Total property, plant and equipment		2,597		2,518
Intangible assets				
Software		92		1,233
Telephone subscription rights		7		7
Software in progress		409		--
Other		0		0
Total intangible assets		510		1,241
Investments and other assets				
Investment securities		6,097		5,893
Shares in affiliates		3,521		3,253
Investments in capital of subsidiaries and associates		849		849
Long-term loans receivable from affiliates		544		2,367
Prepaid pension cost		203		183
Other		217		205
Total investments and other assets		11,433		12,753
Total non-current assets		14,541		16,512
Total assets		35,787		31,755

(Million yen)

	Previous fiscal year (As of March 31, 2019)		Fiscal year under review (As of March 31, 2020)	
Liabilities				
Current liabilities				
Trade notes payable		5,010		3,341
Accounts payable	Note 1	1,805	Note 1	1,472
Short-term loans payable		6,000		5,000
Accounts payable - other	Note 1	372	Note 1	243
Accrued expenses payable	Note 1	251	Note 1	223
Income taxes payable		106		16
Provision for product warranties		342		264
Provision for bonuses		181		141
Other		245		166
Total current liabilities		14,314		10,868
Non-current liabilities				
Deferred tax liabilities		559		581
Provision for retirement benefits		807		832
Other		40		48
Total non-current liabilities		1,406		1,462
Total liabilities		15,721		12,330
Net assets				
Shareholders' equity				
Capital stock		12,345		12,345
Retained earnings				
Legal retained earnings		242		367
Other retained earnings				
Deferred retained earnings		7,325		6,682
Total retained earnings		7,568		7,050
Treasury shares		-2,943		-2,994
Total shareholders' equity		16,970		16,400
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		2,600		2,432
Total Valuation and translation adjustments		2,600		2,432
Share acquisition rights		495		591
Total net assets		20,066		19,424
Total liabilities and net assets		35,787		31,755

(ii) Non-consolidated statements of income

(Million yen)

	Previous fiscal year (from April 1, 2018 to March 31, 2019)		Fiscal year under review (from April 1, 2019 to March 31, 2020)	
Net sales	Note 1	38,557	Note 1	25,937
Cost of sales	Note 1	31,932	Note 1	21,282
Gross profit		6,625		4,654
Selling, general and administrative expenses	Note 1,2	4,716	Note 1,2	4,253
Operating income		1,908		401
Non-operating income				
Interest income		11		25
Dividend income		1,708		1,205
Insurance income		60		46
Provision of allowance for doubtful accounts		--		40
Other		63		51
Total non-operating income	Note 1	1,843	Note 1	1,368
Non-operating expenses				
Interest expenses		68		81
Foreign exchange losses		26		206
Sales discount		17		--
Loss on sales of notes payable		85		69
Other		61		44
Total non-operating expenses		259		402
Ordinary income		3,491		1,367
Extraordinary income				
Gain on sales of non-current assets		5		--
Gain on sales of investment securities		--		0
Total extraordinary income		5		0
Extraordinary losses				
Loss on retirement of non-current assets		3		4
Loss on sales of non-current assets		2		--
Impairment loss		40		--
Loss from performance of warranty against defects		--		307
Total extraordinary losses		47		311
Income before taxes and other adjustments		3,449		1,056
Corporate, inhabitant and enterprise taxes		352		168
Deferred taxes		-28		84
Total corporate and other taxes		324		252
Net income		3,125		803

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

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(Million yen)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		
		Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Deferred retained earnings	Total retained earnings
Balance at the beginning of current period	12,345	--	--	147	5,645	5,793
Change during the fiscal year						
Cash dividends paid				95	-1,046	-951
Net income					3,125	3,125
Purchase of treasury shares						--
Disposal of treasury shares					-399	-399
Changes in items other than shareholders' equity during the fiscal year (net)						--
Total change during the fiscal year	--	--	--	95	1,679	1,774
Balance at the end of current period	12,345	--	--	242	7,325	7,568

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	-1,814	16,323	4,149	4,149	656	21,129
Change during the fiscal year						
Cash dividends paid		-951				-951
Net income		3,125				3,125
Purchase of treasury shares	-1,831	-1,831				-1,831
Disposal of treasury shares	703	303				303
Changes in items other than shareholders' equity during the fiscal year (net)		--	-1,548	-1,548	-160	-1,709
Total change during the fiscal year	-1,128	646	-1,548	-1,548	-160	-1,062
Balance at the end of current period	-2,943	16,970	2,600	2,600	495	20,066

Consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

(Million yen)

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

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	-2,943	16,970	2,600	2,600	495	20,066
Cumulative effect of change in accounting policy		-55				-55
Beginning balance that reflects change in accounting policy	-2,943	16,914	2,600	2,600	495	20,010
Change during the fiscal year						
Cash dividends paid		-1,244				-1,244
Net income		803				803
Purchase of treasury shares	-123	-123				-123
Disposal of treasury shares	72	50				50
Changes in items other than shareholders' equity during the fiscal year (net)		--	-168	-168	95	-72
Total change during the fiscal year	-51	-513	-168	-168	95	-586
Balance at the end of current period	-2,994	16,400	2,432	2,432	591	19,424

Notes

(Significant accounting policies)

1. Valuation standards for securities
 (1) Stocks of subsidiaries and affiliates
 Cost accounting method using the moving average method
 (2) Other securities
 Securities with fair market value:
 Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)
 Securities without fair market value:
 Cost accounting method using the moving average method

2. Valuation standard and method for inventories
 Primarily cost accounting method using the moving average method (The values in the balance sheet were calculated using the book-value write-down method based on the decline of profitability.)

3. Depreciation method for Non-current assets
 (1) Property, plant and equipment (excluding leased assets)
 The straight-line method is mainly adopted.
 The significant service lives are summarized as follows:

Buildings:	15-38 years
Machinery and equipment:	9 years
Tools, furniture and fixtures:	5 years

 (2) Intangible assets (excluding leased assets)
 Intangible assets are amortized using the straight-line method.
 However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.
 (3) Leased assets
 Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.
 (4) Long-term prepaid expenses
 This is computed using the straight-line method.

4. Accounting standards for translating assets or liabilities in foreign currencies into yen
 Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the closing date.

5. Accounting standards for allowances
 (1) Allowance for doubtful accounts
 To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts.
 (2) Allowance for employees' bonuses
 To provide for the payment of employees' bonuses, the Company provides accrued bonuses for employees based on the projected amount for the fiscal year under review.
 (3) Allowance for retirement benefits
 To prepare for the payment of employee retirement benefits, the Company provides accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at end of the fiscal year under review.
 Any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (five years) of employees at the time of the accrual using the straight-line method.
 (4) Allowance for product warranties
 To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

6. Recognition of revenue and expenses
 In the sale of machine tools (automatic lathes, grinding machines, machining centers, rolling machines and specialized machines) and related parts, the time when the customer is deemed to have obtained control over a product, etc. in light of the terms of the contract is the time when the performance obligation of the contract has been satisfied, and revenue is recognized when the product, etc. has arrived at the customer, at the time of the acceptance inspection and based on trade conditions. For services related to machine tools, the time when the provision of services has been completed is the time when the performance obligation has been satisfied, and revenue is recognized at the time.
 The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) are applied from the

beginning of the fiscal year under review.

7. Other important matters for the preparation of financial statements

(1) Accounting policy for retirement benefits

Unrecognized actuarial gain or loss and unsettled difference at change of accounting principle in relation to retirement benefits are accounted for by a different method than the method used in the consolidated financial statements.

(2) Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax, and consumption tax and local consumption tax not subject to deduction are treated as expenses in the consolidated fiscal year under review.

(Change in accounting policy)

Application of accounting standard, etc. related to the recognition of revenue

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) can be applied from the beginning of the fiscal year that begins on or after April 1, 2018. The Company started to apply the Accounting Standard for Revenue Recognition and its implementation guidance at the beginning of the fiscal year under review and recognizes revenue at the amount expected to be received in exchange for the goods or service that the Company has promised at the time when the control of the goods or service is conveyed to the customer.

In the sale of certain goods from which the revenue was recognized as delivery was made, the time when the customer is deemed to have obtained control over a product, etc. in light of the terms of the contract is the time when the performance obligation of the contract has been satisfied, and revenue is recognized when the product, etc. has arrived at the customer, at the time of the acceptance inspection and based on trade conditions.

The Accounting Standard for Revenue Recognition and its implementation guidance are applied in accordance with the transitional procedure set force in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The new accounting policy is applied retroactively and the cumulative effect is reflected in retained earnings at the beginning of the fiscal year under review and the new accounting policy is applied from the balance at the beginning of the fiscal year under review.

Due to the application of the new accounting policy, net sales, cost of sales, operating profit, ordinary profit and profit before tax, and profit for the fiscal year under review increased ¥17 million, ¥43 million, ¥46 million, ¥55 million, and ¥38 million, respectively. Retained earnings at the beginning of the fiscal year under review fell ¥55 million.

The effect of the new accounting policy on earnings per share in the fiscal year under review is minor and insignificant.

(Additional information)

(Effect of COVID-19 on accounting estimates)

Due to the spread of COVID-19 worldwide, concern has mounted about a possible global slowdown. The disease is affecting a wide range of corporate business activities.

The Company strove to prevent COVID-19 infections, and its production activities have not been hampered seriously. It believes that the effect of COVID-19 on the Company’s financial statements for the fiscal year under review and the next fiscal year is minor and insignificant.

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

However, it is difficult to forecast the effects of COVID-19, and uncertainties may affect the accounting estimates made by the Company.

The information related to uncertainty about assumptions and estimates that is at risk of having a significant impact in the next consolidated fiscal year is as follows:

- Valuation of inventories
- Impairment of fixed assets
- Accounting and valuation of provisions
- Measurement of retirement benefits obligations

(Non-consolidated balance sheets)

*1. Notes relating to subsidiaries and affiliates

The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items.

(Million yen)

	Previous fiscal year (As of March 31, 2019)	Fiscal year under review (As of March 31, 2020)
Short-term monetary receivables	4,677	2,302
Short-term monetary payables	948	675

2. Amount of discount for bills receivable

(Million yen)

	Previous fiscal year (As of March 31, 2019)	Fiscal year under review (As of March 31, 2020)
Amount of discount for bills receivable	1,860	420
Amount of discount for export bills receivable	3,250	3,446

(Non-consolidated statements of income)

*1. Net sales, amount of purchases and other in relation to transactions with subsidiaries and affiliates

(Million yen)

	Previous fiscal year (from April 1, 2018 to March 31, 2019)	Fiscal year under review (from April 1, 2019 to March 31, 2020)
Net sales	10,767	6,188
Amount of purchases	14,267	7,467
Selling, general and administrative expenses	143	140
Amount of transactions other than business transactions	1,519	1,049

*2. Selling expenses accounted for approximately 28% of total expenses in the previous fiscal year and approximately 25% in the fiscal year under review. General and administrative expenses accounted for approximately 72% of total expenses in the previous fiscal year and approximately 75% in the fiscal year under review.

The major components of selling, general and administrative expenses and their amounts are as follows:

(Million yen)

	Previous fiscal year (from April 1, 2018 to March 31, 2019)	Fiscal year under review (from April 1, 2019 to March 31, 2020)
Salaries and allowances	837	803
Provision for bonuses	41	35
Retirement benefit expenses	18	22
Research and development expenses	1,482	1,422
Depreciation	6	4
Provision for product warranties	342	264

(Securities)

Shares in subsidiaries and shares in affiliates

Previous fiscal year (As of March 31, 2019)

(Million yen)

Classification	Balance sheet amount	Fair value	Difference
Shares in subsidiaries	3,389	34,780	31,390

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

Classification	Balance sheet amount
Shares in subsidiaries	132

Since these shares in subsidiaries do not have any market prices, and their fair values are very difficult to estimate, they are not included in above shares in subsidiaries of ¥3,389 million.

Fiscal year under review (As of March 31, 2020)

(Million yen)

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

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

Classification	Balance sheet amount
Shares in subsidiaries	132

Since these shares in subsidiaries do not have any market prices, and their fair values are very difficult to estimate, they are not included in above shares in subsidiaries of ¥3,121 million.

(Deferred Tax Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Million yen)

	Previous fiscal year (As of March 31, 2019)	Fiscal year under review (As of March 31, 2020)
Deferred tax assets		
Allowance for doubtful accounts	26	14
Provision for bonuses	55	42
Reserve for retirement benefits	183	197
Provision for product warranties	104	80
Loss on devaluation of investment securities	121	121
Loss on devaluation of stocks of subsidiaries and affiliates	7	7
Loss on devaluation of inventories	123	140
Impairment loss	40	40
Accrued enterprise taxes	28	10
Stock-based compensation expense	149	180
Non-qualified contribution in-kind	763	782
Foreign tax credit carried forward	47	340
Other	112	98
Deferred tax assets subtotal	1,764	2,057
Valuation reserve	-1,287	-1,639
Deferred tax assets total	477	417
Deferred tax liabilities		
Valuation difference on available-for-sale securities	-1,036	-998
Deferred tax liabilities total	-1,036	-998
Net deferred tax assets (liabilities)	-559	-581

2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

	Previous fiscal year (As of March 31, 2019)	Fiscal year under review (As of March 31, 2020)
Legally effective tax rate	30.5%	30.5%
(Adjustments)		
Residence tax on a per capita basis	0.4%	1.3%
Experiment and research expenses	-3.5%	-0.7%
Tax sparing	-5.1%	--
Items permanently excluded from nontaxable expenses, including entertainment costs	1.5%	5.7%
Items permanently excluded from gross revenue including Dividend income	-12.9%	-29.3%
Increase (decrease) in valuation reserve	-1.0%	18.2%
Other	-0.3%	-1.7%
Actual effective tax rate after applying tax effect accounting	9.4%	23.9%

(Business Combination)

Not applicable.

(Recognition of revenue)

In the sale of machine tools (automatic lathes, grinding machines, machining centers, rolling machines and specialized machines) and related parts, the time when the customer is deemed to have obtained control over a product, etc. in light of the terms of the contract is the time when the performance obligation of the contract has been satisfied, and revenue is recognized when the product, etc. has arrived at the customer, at the time of the acceptance inspection and based on trade conditions. For services related to machine tools, the time when the provision of services has been completed is the time when the performance obligation has been satisfied, and revenue is recognized at the time.

(Important post-balance sheet events)

Not applicable.

(iv) Supplementary schedule

Schedule of Property, plant and equipment and other assets

(Million yen)

	Assets at beginning of the fiscal year under review	Increase in the fiscal year under review	Decrease in the fiscal year under review	Depreciation or amortization in the fiscal year under review	Assets at end of the fiscal year under review	Accumulated depreciation or amortization at end of the fiscal year under review
Buildings	1,890	35	57	99	1,822	2,414
Structures	71	11	--	9	73	333
Machinery and equipment	264	27	--	49	242	2,393
Vehicles	6	0	--	1	5	26
Tools, furniture and fixtures	103	53	90	59	98	466
Land	241	5	--	--	246	--
Leased assets	20	17	15	7	28	10
Total Property, plant and equipment assets	2,597	151	162	227	2,518	5,646
Software	92	1,214	--	74	1,233	--
Telephone subscription rights	7	--	--	--	7	--
Software in progress	409	556	965	--	--	--
Other	0	--	--	0	0	--
Total Intangible assets	510	1,770	965	74	1,241	--

(Note) 1. The following is major items that were added in the fiscal year under review:

Buildings	Nagaoka factory	Air conditioning equipment	¥20 million
Structures	Nagaoka factory	Construction of parking facilities on the premises	¥11 million
Machinery and equipment	Nagaoka factory	Machine tool manufacturing equipment	¥27 million
Tools, furniture and fixtures	Nagaoka factory	Machine tool manufacturing tools	¥53 million
Software	Nagaoka factory	Mission-critical system	¥1,100 million

2. The following is major items that were reduced in the fiscal year under review:

Buildings	Nagaoka factory	Decrease from retirement	¥57 million
Tools, furniture and fixtures	Nagaoka factory	Decrease from retirement	¥90 million
Software in progress	Nagaoka factory	Decrease from transfer	¥965 million

Schedule of allowances

(Million yen)

Classification	Assets at beginning of the fiscal year under review	Increase in fiscal year under review	Decrease in fiscal year under review	Assets at end of fiscal year under review
Allowance for doubtful accounts	86	--	40	46
Provision for bonuses	181	141	181	141
Provision for product warranties	342	275	353	264

(2) Details of major items in assets and liabilities

Information is omitted as consolidated financial statements were prepared.

(3) Other

Not applicable.

Section 6. Outline of Stock-Related Administration of Submitting Company

Fiscal year	From April 1 to March 31
Annual shareholders meeting	In June
Record date	March 31
Record dates for dividends	September 30 March 31
Number of shares per unit	100 shares
Fractional share repurchase	
Handling place	(Special purpose account) Securities Transfer Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Administrator of shareholders' list	(Special purpose account) Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo
Contact place	---------------------------------------
Repurchase fee	Amount specified separately that is equivalent to brokerage commissions for stock trading
Publication of announcements	Notices will be posted in electric format. However, notices will be published in the *Kanpou* (Government Newsletter) when it is impossible to make electric notification for unavoidable reasons.
Benefits to shareholders	None

(Note) Under the Articles of Incorporation, holders of shares less than one unit do not have any rights other than the rights stipulated in each item of Paragraph 2 of Article 189 of the Companies Act, the right to demand specified in Article 166, Paragraph 1 of the Companies Act, and the right to receive allotments of shares for subscription and invitation to subscription in accordance with the number of shares owned by each shareholder.

Section 7. Reference Information on Submitting Company

1. Information on the parent company of the submitting company

The Company does not have any parent company stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

The Company has submitted the following documents from the beginning of the fiscal year under review to the date of submission of the annual securities report:

(1) Annual securities report, and its attached documents and confirmation documents
The 116th fiscal year (from April 1, 2018 to March 31, 2019) Submitted to the director general of the Kanto Finance Bureau on June 25, 2019

(2) Internal control report and its attached documents
Submitted to the director general of the Kanto Finance Bureau on June 25, 2019

(3) Quarterly reports and confirmation documents
1st quarter of the 117th fiscal year (from April 1, 2019 to June 30, 2019) Submitted to the director general of the Kanto Finance Bureau on August 9, 2019
2nd quarter of the 117th fiscal year (from July 1, 2019 to September 30, 2019) Submitted to the director general of the Kanto Finance Bureau on November 13, 2019
3rd quarter of the 117th fiscal year (from October 1, 2019 to December 31, 2019) Submitted to the director general of the Kanto Finance Bureau on February 13, 2020

(4) Extraordinary report
Submitted to the director general of the Kanto Finance Bureau on June 25, 2019
An extraordinary report under Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc. (Results of exercise of voting rights at the annual shareholders meeting)

(5) Report on state of purchase of Treasury shares
Reporting period (from June 1, 2019 to June 30, 2019) Submitted to Director General of Kanto Finance Bureau on July 12, 2019
Reporting period (from July 1, 2019 to July 31, 2019) Submitted to Director General of Kanto Finance Bureau on August 14, 2019
Reporting period (from August 1, 2019 to August 31, 2019) Submitted to Director General of Kanto Finance Bureau on September 12, 2019
Reporting period (from September 1, 2019 to September 30, 2019) Submitted to Director General of Kanto Finance Bureau on October 11, 2019
Reporting period (from October 1, 2019 to October 31, 2019) Submitted to Director General of Kanto Finance Bureau on November 14, 2019
Reporting period (from November 1, 2019 to November 30, 2019) Submitted to Director General of Kanto Finance Bureau on December 12, 2019
Reporting period (from December 1, 2019 to December 31, 2019) Submitted to Director General of Kanto Finance Bureau on January 14, 2020
Reporting period (from January 1, 2020 to January 31, 2020) Submitted to Director General of Kanto Finance Bureau on February 13, 2020
Reporting period (from February 1, 2020 to February 29, 2020) Submitted to Director General of Kanto Finance Bureau on March 13, 2020
Reporting period (from March 1, 2020 to March 31, 2020) Submitted to Director General of Kanto Finance Bureau on April 14, 2020
Reporting period (from April 1, 2020 to April 30, 2020) Submitted to Director General of Kanto Finance Bureau on May 13, 2020
Reporting period (from May 1, 2020 to May 31, 2020) Submitted to Director General of Kanto Finance Bureau on June 12, 2020

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

Not applicable.

Audit Report and Internal Control Audit Report of Independent Auditor

June 18, 2020

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC
Niigata office

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

Designated and engagement partner with limited liability
Certified public accountant Eishi Daikoku

(Financial statements audit)

Auditor's opinion

We have audited the consolidated financial statements—balance sheets, statements of income, statements of changes in net assets, statements of cash flows, important matters that become basis of presenting consolidated financial statements, other notes and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2019 to March 31, 2020, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsugami Corporation and subsidiaries as of March 31, 2020 and the consolidated results of their operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) specified in Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

Grounds for the auditor's opinion

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

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

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

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

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

Responsibility of the auditor in the audit of consolidated financial statements

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

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

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

The auditor reports to the audit and supervisory committee the scope and timing of the planned audit, important findings, including significant deficiencies in internal control, identified in the audit, and other matters related to the requirements in the accounting standards.
The auditor reports to the audit and supervisory committee its compliance with the code of professional ethics related to independence in Japan, matters reasonably considered to affect the auditor's independence, and if the auditor uses any safeguards to remove or reduce impediments, those safeguards.

Internal Control Audit
Auditor's opinion
We have audited the internal control report of Tsugami Corporation as of March 31, 2020 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.
In our opinion, the internal control report in which Tsugami Corporation states that the internal control over financial reporting as of March 31, 2020 is valid presents fairly, in all material respects, the Company's evaluation of its internal control over financial reporting, in conformity with standards for assessment concerning internal control over financial reporting generally accepted in Japan.

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

Responsibility of management and the audit and supervisory committee for the internal control report
Management is responsible for developing and operating internal control over financial reporting and preparing and appropriately presenting an internal control report in accordance with assessing standards generally accepted in Japan concerning internal control over financial reporting.

The responsibility of the audit and supervisory committee is monitoring and examining the development and operation of internal control over financial reporting.
The internal control over financial reporting might be unable to prevent or detect misstatements in financial reporting completely.

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

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

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

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

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

Interest
The Company and its consolidated subsidiaries and the auditing corporation or the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of consolidated financial statements.

Independent Auditor's Report

June 18, 2020

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC
Niigata office

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

Designated and engagement partner with limited liability
Certified public accountant Eishi Daikoku

Auditor's opinion

We have audited the financial statements—balance sheets, statements of income, statements of changes in net assets, significant accounting policies, other notes and supplementary schedules—of Tsugami Corporation for the 117th fiscal year from April 1, 2019 to March 31, 2020, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tsugami Corporation as of March 31, 2020, and the results of their operations for the year then ended, in conformity with accounting principles generally accepted in Japan.

Grounds for the auditor's opinion

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

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

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

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

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

Responsibility of the auditor in the audit of financial statements

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

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

・The auditor identifies and assesses the risk of material misstatement due to wrongdoing or errors and designs and performs an audit procedure that can deal with the risk of material misstatement. The auditor chooses and applies an audit procedure at its own discretion. The auditor obtains sufficient and appropriate audit evidence that becomes the basis for its opinion.

・The purpose of the audit of financial statements is not expressing its opinion about the effectiveness of internal control. In risk assessment, however, the auditor examines internal control related to auditing to design an appropriate audit procedure suitable for the situation.

・The auditor assesses the adequacy of the accounting policy adopted by management and the application of the policy, and the reasonableness of accounting estimates made by management and the adequacy of related notes.

・The auditor decides whether it is appropriate for management to prepare financial statements based on the going concern assumption and whether any material uncertainty is recognized, based on the audit evidence obtained, about any events or circumstances that would raise material doubts about the going concern assumption. If any material uncertainty is recognized about the going concern assumption, the auditor is required to call attention to the notes to the financial statements in the audit report. If the notes to the financial statements about material uncertainty are inadequate, the auditor is required to express a qualified opinion. The auditor’s conclusion is based on the audit evidence that is obtained by the date of the audit report. The audited company may not be able to survive as an ongoing concern depending on future events and circumstances.

・The auditor assesses whether the presentation of the financial statements and the notes comply with accounting principles generally accepted in Japan. The auditor also assesses the presentation, structure and content of the financial statements including the related notes and whether the financial statements adequately present the underlying transactions and accounting events.

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

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

Interest

The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of financial statements.