

April 10, 2019

Consolidated Financial Results for Fiscal 2018

[Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
Listing: **First Section, Tokyo Stock Exchange**
Stock code number: **3593**
Phone: **+81-3-6229-1300**
URL: **http://www.hogy.co.jp**
Representative: **Jun-ichi Hoki, President and CEO**
Contact: **Susumu Ohashi, Director, Administration Div.**
Annual Meeting of Shareholders: **June 21, 2019**
Date of issue of Financial Report: **June 21, 2019**
Preparation of supplementary materials for financial results: **Yes**
Information meeting for financial results to be held: **Yes**
Start of cash dividend payments: **May 31, 2019**

1. Financial results for fiscal 2018 (April 1, 2018–March 31, 2019)

(1) Results of operations

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|-------------|-----------|-------------------------------|------------------|------------|-----------------|------------|---|------------|
| | (Yen) | (% change from previous year) | (Yen) | (% change) | (Yen) | (% change) | (Yen) | (% change) |
| Fiscal 2018 | ¥36,658 | -0.7% | ¥4,382 | -16.9% | ¥4,503 | -16.3% | ¥6,043 | +14.8% |
| Fiscal 2017 | 36,918 | +0.2% | 5,273 | -29.2% | 5,380 | -27.3% | 5,262 | -9.1% |

Note: Comprehensive income

Fiscal 2018: ¥4,196 million (down 33.3%)

Fiscal 2017: ¥6,287 million (up 42.7%)

| | Profit per share | Profit per share (fully diluted) | ROE | Ordinary income/ Total assets | Operating income/ Net sales |
|-------------|------------------|----------------------------------|------|-------------------------------|-----------------------------|
| | (Yen) | (Yen) | (%) | (%) | (%) |
| Fiscal 2018 | ¥198.31 | — | 6.5% | 4.3% | 12.0% |
| Fiscal 2017 | 168.04 | — | 5.7% | 5.1% | 14.3% |

Reference: Gain/loss on investments based on equity method

Fiscal 2018: ¥—million

Fiscal 2017: ¥—million

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Profit per share” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2017).

(2) Financial position (year-end)

(Millions of yen, except per share data, rounded down)

| | Total assets | Net assets | Equity ratio | Net assets per share (Yen) |
|-------------|--------------|------------|--------------|----------------------------|
| Fiscal 2018 | ¥103,327 | ¥91,404 | 88.5% | ¥3,027.43 |
| Fiscal 2017 | 106,153 | 94,063 | 88.6% | 3,002.44 |

Reference: Equity capital at year-end

Fiscal 2018: ¥91,397 million

Fiscal 2017: ¥94,057 million

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Net assets per share” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2017).

(3) Cash flows

(Millions of yen, rounded down)

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of year |
|-------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| Fiscal 2018 | ¥ 7,446 | ¥ 1,627 | ¥-6,958 | ¥22,903 |
| Fiscal 2017 | 8,367 | -1,807 | -1,945 | 20,840 |

2. Cash dividends

| (Date of record) | Cash dividends per share (Yen) | | | | | Total dividends paid (full year) (Millions of yen) | Payout ratio (consolidated) | Dividends paid/ Net assets (consolidated) (%) |
|--------------------|--------------------------------|-------------|-------------|----------|-----------|--|-----------------------------|---|
| | 1st quarter | 2nd quarter | 3rd quarter | Year-end | Full year | | | |
| Fiscal 2017 | ¥31.00 | ¥31.00 | ¥31.00 | ¥31.00 | ¥124.00 | ¥1,950 | 36.9% | 2.1% |
| Fiscal 2018 | 16.00 | 16.00 | 16.00 | 16.00 | 64.00 | 1,949 | 32.3% | 2.1% |
| Fiscal 2019 (est.) | 16.50 | 16.50 | 16.50 | 16.50 | 66.00 | | 37.5% | |

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures for cash dividends in fiscal 2017 are calculated based on the number of shares before the stock split.

3. Forecast for fiscal 2019 (April 1, 2019–March 31, 2020)

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Profit per share |
|------------------|-----------|----------|------------------|----------|-----------------|----------|---|----------|------------------|
| | Amount | % change | Amount | % change | Amount | % change | Amount | % change | Amount |
| First 2 quarters | ¥18,700 | +2.5% | ¥2,480 | +1.6% | ¥2,570 | +3.6% | ¥3,180 | -29.9% | ¥105.33 |
| Full year | 37,920 | +3.4% | 5,240 | +19.6% | 5,680 | +26.1% | 5,310 | -12.1% | 175.89 |

4. Notes

- (1) Important changes in scope of consolidation during period (changes to specified subsidiaries accompanying changes in scope of consolidation): No
- (2) Changes in accounting policies; changes in accounting estimates; restatements
- (1) Changes in accounting policies due to amendment of accounting standards: No
- (2) Other changes in accounting policies: No
- (3) Changes in accounting estimates: No
- (4) Restatements: No
- (3) Shares outstanding (common stock) at year-end
1. Number of shares outstanding (including treasury stock)
- Fiscal 2018: 32,682,310
- Fiscal 2017: 32,682,310
2. Number of treasury shares outstanding
- Fiscal 2018: 2,492,372
- Fiscal 2017: 1,355,398
3. Average number of shares over period
- Fiscal 2018: 30,472,084
- Fiscal 2017: 31,314,063

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Shares outstanding (common stock) at fiscal year-end” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2017).

(Reference) Summary of Non-Consolidated Financial Results

1. Financial results for fiscal 2018 (April 1, 2018–March 31, 2019)

(1) Results of operations

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|-------------|-----------|------------|------------------|------------|-----------------|------------|---|------------|
| | | (% change) | | (% change) | | (% change) | | (% change) |
| Fiscal 2018 | ¥36,298 | -0.8% | ¥3,443 | -20.6% | ¥3,688 | -20.1% | ¥5,472 | +15.6% |
| Fiscal 2017 | 36,585 | +0.1% | 4,338 | -32.7% | 4,618 | -31.4% | 4,736 | -12.6% |

| | Profit per share (Yen) | Profit per share (fully diluted) (Yen) |
|-------------|------------------------|--|
| Fiscal 2018 | ¥179.60 | — |
| Fiscal 2017 | 151.24 | — |

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Profit per share” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2017).

(2) Financial position

| | (Millions of yen, except per share data, rounded down) | | | |
|-------------|--|------------|----------------------------|----------------------------|
| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share (Yen) |
| Fiscal 2018 | ¥ 97,843 | ¥84,522 | 86.4% | ¥2,799.69 |
| Fiscal 2017 | 100,901 | 87,721 | 86.9% | 2,800.19 |

Reference: Equity capital at year-end

Fiscal 2018: ¥84,522 million

Fiscal 2017: ¥87,721 million

Note: On April 1, 2018, the Company conducted a 2-for-1 split of common stock. Accordingly, figures under “Net assets per share” are calculated on the assumption that the stock split occurred at the beginning of the previous fiscal year (fiscal 2017).

2. Forecast for fiscal 2019 (April 1, 2019–March 31, 2020)

| | (Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change) | | | | | | | | | |
|------------------|---|-------|------------------|--------|-----------------|--------|---|--------|------------------|--|
| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Profit per share | |
| First 2 quarters | ¥18,520 | +2.5% | ¥2,320 | +16.4% | ¥2,380 | +19.3% | ¥3,040 | –27.0% | ¥100.70 | |
| Full year | 37,440 | +3.1% | 4,850 | +40.8% | 5,380 | +45.8% | 5,120 | –6.4% | 169.59 | |

*** This financial report is not subject to audits by certified public accountants or auditing companies.**

***Appropriate use of business forecasts; other special items**

Performance forecasts and other forward-looking statements contained in this report are based on information currently available and on certain assumptions deemed rational at the time of this report’s release. Accordingly, the Company cannot make promises to achieve such forecasts. Due to various circumstances, however, actual results may differ significantly from such statements. For cautionary notes on assumptions underlying the Company’s forecasts and the usage of such forecasts, please refer “(1) Performance” on page 6.

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1. Performance and Financial Position

(1) Performance

In the fiscal year under review, the Japanese economy showed a moderate recovery tone as employment conditions and worker incomes continued to improve. However, the future outlook remained unclear in the wake of increasing uncertainties stemming from trade frictions, economic slowdown overseas, and other factors.

In the healthcare sector, against a background of continuously increasing medical costs, major reforms of the healthcare system are under way, and medical institutions continue to face harsh business conditions that threaten their survival. Under these difficult and changing circumstances, the medical equipment industry needs to provide products and services tailored to the market environment.

In response, the Hogy Medical Group expanded sales of Operamaster as part of its growth strategy for surgical kit products. We also advanced sales activities with a focus on offering Premium Kits as a solution for our customers' workstyle reform initiatives.

With respect to Operamaster, during the period we signed new contracts with 11 medical institutions, mainly DPC-assessed hospitals (those recognized under Japan's diagnosis procedure combination, or DPC, system). Due to lack of consensus and other factors, we reassessed contracts with medical institutions not yet on board, resulting in 19 cancellations. There were 274 Operamaster contracts in force at fiscal year-end.

As for surgical kit products, we expanded sales of Premium Kits, a focus of our marketing efforts. Due to lack of sales to new customers and competition with other companies, however, overall sales growth for surgical kit products slowed. Meanwhile, sales of other products declined as market conditions remained difficult. Accordingly, total Hogy Medical Group revenue declined year on year.

As a result, consolidated net sales for the year amounted to ¥36,658 million, down 0.7% from the previous year. Sales of surgical kits rose 1.6%, to ¥21,829 million. Within this amount, Operamaster-related sales climbed 5.4%, to ¥14,784 million.

The cost of sales ratio improved year on year thanks to the smooth operation of our new surgical kit plant and a decrease in depreciation expenses. Selling, general, and administrative (SG&A) expenses increased due to higher prototype costs necessary for sales promotion, as well as higher employee remuneration and trial research expenses related to remanufactured single-use devices (R-SUDs), a new business we are currently developing.

Consequently, operating income declined 16.9%, to ¥4,382 million, and ordinary income fell 16.3%, to ¥4,503 million. Profit attributable to owners of parent increased 14.8%, to ¥6,043 million, reflecting the partial sale of shares, which generated extraordinary income of ¥3,998 million.

(Outlook)

The Hogy Medical Group will contribute to the improvement of hospital operations by offering solutions for medical personnel in terms of workstyle reforms, enhanced safety and quality of medical care, and more efficient logistics.

We will also make best use of our sales resources, a key Group strength, to systematically propose solutions, centered on Premium Kits, aimed at addressing workstyle reforms and other issues faced by our customers.

In addition, we will improve the quality and speed of sales activities. We will also emphasize the uniqueness of our strategies and deliver value to our customers that only the Hogy Medical Group can create, while stepping up cost reduction and other efforts to improve operating efficiency.

In our overseas business, we will continue improving productivity and promoting in-house production at P.T. Hogy Indonesia, a key manufacturing subsidiary. We will also further increase sales at P.T. Hogy Medical Sales Indonesia, a sub-subsidiary. In addition, Hogy Medical Asia Pacific Pte. Ltd., established in Singapore in the year under review, will begin sales activities targeting major hospitals in Southeast Asia.

In new areas, we will work to swiftly commercialize our R-SUD business. Our medium-term strategy is to step up proposals to help enhance the efficiency of hospital operations. This reflects our SCM concept of delivering all of the materials necessary for surgical procedures, including R-SUDs, on a just-in-time basis.

Our consolidated forecasts for the fiscal year to March 2020 are shown below.

(Consolidated performance forecasts)

| | | |
|---|-----------------|--------------|
| Net sales | ¥37,920 million | (up 3.4%) |
| Operating income | ¥ 5,240 million | (up 19.6%) |
| Ordinary income | ¥ 5,680 million | (up 26.1%) |
| Profit attributable to owners of parent | ¥ 5,310 million | (down 12.1%) |

(2) Financial Position

1) Assets, Liabilities, and Net Assets

At March 31, 2019, total assets amounted to ¥103,327 million, down ¥2,826 million from a year earlier. For the year, current assets increased ¥1,658 million, to ¥44,108 million. Factors included a ¥2,062 million rise in cash and bank deposits and a ¥112 million decrease in notes and accounts receivable.

Among fixed assets, tangibles decreased ¥1,946 million, to ¥45,944 million, mainly reflecting a ¥370 million decrease in buildings and structures stemming from depreciation and a ¥1,925 million decrease in machinery and equipment stemming from depreciation. Intangibles edged down ¥364 million, to ¥2,600 million.

Investments and other assets declined ¥2,173 million, to ¥10,673 million, due mainly to a ¥2,272 million decrease in investment securities stemming from the partial sale of equity holdings. As a result, total fixed assets stood at ¥59,218 million.

At fiscal year-end, total liabilities amounted to ¥11,922 million, down ¥167 million from a year earlier. Current liabilities rose ¥790 million, to ¥9,187 million, mainly reflecting a ¥424 million decrease in notes and accounts payable, a ¥906 million increase in equipment-related payables, and a ¥761 million increase in accrued payables. Long-term liabilities were down ¥958 million, to ¥2,734 million, due mainly to an ¥826 million decrease in deferred tax liabilities associated with the market valuation of equity holdings.

Net assets at fiscal year-end totaled ¥91,404 million, down ¥2,658 million. Main factors were a ¥4,903 million increase in treasury stock stemming from a share buyback per resolution of the Board of Directors on April 11, 2018, as well as ¥6,043 million in profit attributable to owners of parent, ¥1,952 million in distributions from retained earnings, and a ¥1,881 million decrease in net unrealized gain or loss on securities stemming from the partial sale and market valuation of equity holdings. As a result, the equity ratio edged down from 88.6% to 88.5%.

2) Cash Flows

Cash and cash equivalents at the end of the fiscal year stood at ¥22,903 million, up ¥2,063 million from a year earlier.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥7,446 million, down ¥920 million from the previous year. Factors included ¥8,499 million in income before income taxes and ¥5,631 million in depreciation, as well as a ¥3,998 million gain on sales of investment securities, a ¥930 million decrease in accrued consumption tax, a ¥411 million decrease in notes and accounts payable, and ¥2,075 million in income taxes paid.

(Cash Flows from Investing Activities)

Net cash provided by investing activities totaled ¥1,627 million, compared with net cash used in investing activities of ¥1,807 million in the previous year. Factors included ¥4,073 million in proceeds from the partial sale of investment securities, ¥1,552 million in purchase of tangible fixed assets, and ¥538 million in purchase of investment securities.

(Cash Flows from Financing Activities)

Net cash used financing activities was ¥6,958 million, up ¥5,013 million from the previous year. Main factors included ¥5,001 million in purchase of treasury stock (based on resolution of the Board of Directors on April 11, 2018), ¥1,952 million in cash dividends paid, and ¥108 million in proceeds from disposal of treasury stock associated with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®).

For the next fiscal year, we forecast net cash provided by operating activities to be around ¥8,000 million; net cash provided by investing activities of around ¥600 million; and net cash used in financing activities of around ¥2,000 million, mainly influenced by payment of cash dividends.

(Cash Flow Indicators)

| | Fiscal 2015 | Fiscal 2016 | Fiscal 2017 | Fiscal 2018 |
|--|-------------|-------------|-------------|-------------|
| Equity ratio (%) | 87.6 | 86.8 | 88.6 | 88.5 |
| Equity ratio based on market price (%) | 98.7 | 111.0 | 131.9 | 123.5 |
| Debt coverage (years) | — | — | — | — |
| Interest coverage ratio (times) | — | — | — | — |

Notes:

Equity ratio: Equity capital/Total assets

Equity ratio based on market price: Total stock value based on market price/Total assets

Debt coverage: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest paid

1. Each index is calculated based on consolidated financial figures.
2. Market value of total stock is calculated by multiplying the stock price (closing price at the end of the year) by the number of shares outstanding at the end of the year.
3. Operating cash flow is calculated using net cash provided by operating activities (listed in the Consolidated Statements of Cash Flows).
4. Interest-bearing debt refers to all debt that incurs interest (listed in the Consolidated Balance Sheets). However, it does not include long-term debt stated under guidance of “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015). For interest paid, the amount shown in the Consolidated Statements of Cash Flows is used.

2. Basic Approach to Selection of Accounting Standards

To allow reliable year-on-year and company-to-company comparisons, the Hogy Medical Group’s policy for the time being is to prepare its consolidated financial statements according to Japanese accounting standards.

With respect to application of IFRS, our policy is to respond appropriately based on consideration of various domestic and overseas circumstances.

3. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2017 (At March 31, 2018) | Fiscal 2018 (At March 31, 2019) |
|---|------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and bank deposits | ¥ 21,274 | ¥23,336 |
| Notes and accounts receivable | 12,116 | 12,004 |
| Goods and merchandise | 4,317 | 3,890 |
| Products in progress | 489 | 495 |
| Materials and supplies | 3,897 | 3,904 |
| Other | 354 | 476 |
| Allowance for doubtful accounts | -0 | — |
| Total current assets | 42,450 | 44,108 |
| Fixed assets | | |
| Tangibles | | |
| Buildings and structures | 43,820 | 44,668 |
| Accumulated depreciation | -20,546 | -21,765 |
| Buildings and structures (net) | 23,273 | 22,902 |
| Machinery and vehicles | 41,867 | 42,977 |
| Accumulated depreciation | -28,774 | -31,810 |
| Machinery and vehicles (net) | 13,092 | 11,167 |
| Land | 9,618 | 9,609 |
| Construction in progress | 897 | 922 |
| Other | 4,716 | 5,340 |
| Accumulated depreciation | -3,707 | -3,998 |
| Other (net) | 1,008 | 1,341 |
| Total tangibles | 47,891 | 45,944 |
| Intangibles | | |
| Software | 1,756 | 1,503 |
| Software in progress | 1,077 | 967 |
| Telephone subscription rights | 13 | 13 |
| Other | 117 | 116 |
| Total intangibles | 2,965 | 2,600 |
| Investments and other assets | | |
| Investment securities | 11,547 | 9,275 |
| Guaranty deposit | 352 | 350 |
| Deferred income taxes | 139 | 138 |
| Other | 857 | 916 |
| Allowance for doubtful accounts | -49 | -7 |
| Total investments and other assets | 12,847 | 10,673 |
| Total fixed assets | 63,703 | 59,218 |
| Total assets | 106,153 | 103,327 |

(Millions of yen, rounded down)

| | Fiscal 2017 (At March 31, 2018) | Fiscal 2018 (At March 31, 2019) |
|---|------------------------------------|------------------------------------|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable | ¥ 5,009 | ¥ 4,584 |
| Accrued income tax | 934 | 1,394 |
| Reserve for employees' bonuses | 373 | 386 |
| Reserve for directors' bonuses | 100 | 100 |
| Equipment-related notes payable | 446 | 1,352 |
| Payables | 189 | 951 |
| Other current liabilities | 1,344 | 417 |
| Total current liabilities | 8,397 | 9,187 |
| Long-term liabilities | | |
| Long-term borrowings | 399 | 285 |
| Deferred income taxes | 2,430 | 1,603 |
| Liability related to employees' retirement benefits | 358 | 349 |
| Long-term payables | 36 | 36 |
| Other long-term liabilities | 468 | 459 |
| Total long-term liabilities | 3,692 | 2,734 |
| Total liabilities | 12,089 | 11,922 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | 7,123 | 7,123 |
| Capital surplus | 8,336 | 8,336 |
| Retained earnings | 75,680 | 79,770 |
| Treasury stock | -3,759 | -8,663 |
| Total shareholders' equity | 87,379 | 86,566 |
| Valuation/translation gains or losses | | |
| Net unrealized gain or loss on securities | 6,575 | 4,693 |
| Deferred hedging gain or loss | 62 | 127 |
| Translation adjustment | 154 | 110 |
| Cumulative adjustment related to employees' retirement benefits | -114 | -101 |
| Total valuation/translation gains or losses | 6,677 | 4,830 |
| Non-controlling interests | 6 | 7 |
| Total net assets | 94,063 | 91,404 |
| Total liabilities and net assets | ¥106,153 | ¥103,327 |

(2) Statements of Income and Statements of Comprehensive Income
(Statements of Income)

(Millions of yen, rounded down)

| | Fiscal 2017 (April 1, 2017– March 31, 2018) | Fiscal 2018 (April 1, 2018– March 31, 2019) |
|---|---|---|
| Net sales | ¥36,918 | ¥36,658 |
| Cost of sales | 22,450 | 21,831 |
| Gross profit | 14,467 | 14,827 |
| Selling, general, and administrative expenses | 9,194 | 10,444 |
| Operating income | 5,273 | 4,382 |
| Other income | | |
| Interest income | 30 | 45 |
| Dividend income | 71 | 85 |
| Foreign exchange gain | 4 | 25 |
| Other | 55 | 55 |
| Total other income | 161 | 212 |
| Other expenses | | |
| Loss on investment partnership | 10 | 26 |
| Provision of allowance for doubtful accounts | 42 | — |
| Treasury stock acquisition cost | — | 58 |
| Other | 2 | 7 |
| Total other expenses | 54 | 91 |
| Ordinary income | 5,380 | 4,503 |
| Extraordinary income | | |
| Gain on sales of fixed assets | 2 | — |
| Gain on sales of investment securities | 2,222 | 3,998 |
| Total extraordinary income | 2,224 | 3,998 |
| Extraordinary expenses | | |
| Loss on disposal of fixed assets | 1 | 2 |
| Loss on valuation of investment securities | 20 | — |
| Total extraordinary expenses | 21 | 2 |
| Income before income taxes | 7,583 | 8,499 |
| Income taxes | 2,239 | 2,512 |
| Income tax adjustment | 82 | –56 |
| Total income taxes | 2,321 | 2,456 |
| Profit | 5,262 | 6,043 |
| Profit attributable to non-controlling interests | 0 | 0 |
| Profit attributable to owners of parent | 5,262 | 6,043 |

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

| | Fiscal 2017 (April 1, 2017– March 31, 2018) | Fiscal 2018 (April 1, 2018– March 31, 2019) |
|--|---|---|
| Profit | ¥5,262 | ¥6,043 |
| Other comprehensive income | | |
| Net unrealized gain or loss on securities | 1,477 | –1,881 |
| Deferred hedging gain or loss | –178 | 65 |
| Translation adjustment | –264 | –43 |
| Adjustment related to employees’ retirement benefits | –8 | 13 |
| Total other comprehensive income | 1,025 | –1,846 |
| Comprehensive income | 6,287 | 4,196 |
| (Breakdown) | | |
| Comprehensive income attributable owners of parent | 6,287 | 4,196 |
| Comprehensive income attributable to non-controlling interests | 0 | 0 |

(3) Statements of Changes in Shareholders' Equity

Fiscal 2017 (April 1, 2017–March 31, 2018)

(Millions of yen, rounded down)

| | Shareholders' equity | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | |
| Balance at beginning of the term | ¥7,123 | ¥8,336 | ¥72,352 | ¥-3,841 | ¥83,970 |
| Changes during term in review | | | | | |
| Distribution of retained earnings | | | -1,934 | | -1,934 |
| Profit attributable to owners of parent | | | 5,262 | | 5,262 |
| Purchase of treasury stock | | | | -3 | -3 |
| Disposal of treasury stock | | | | 84 | 84 |
| Changes during term not related to shareholders' equity (net) | | | | | |
| Total changes during term | — | — | 3,327 | 81 | 3,408 |
| Balance at end of term | ¥7,123 | ¥8,336 | ¥75,680 | ¥-3,759 | ¥87,379 |

| | Valuation and translation adjustments | | | | | | |
|---|---|-------------------------------|------------------------|---|---|---------------------------|------------------|
| | Net unrealized gain or loss on securities | Deferred hedging gain or loss | Translation adjustment | Cumulative adjustment related to employees' retirement benefits | Total valuation and translation adjustments | Non-controlling interests | Total net assets |
| Balance at beginning of the term | ¥5,098 | ¥240 | ¥419 | ¥-106 | ¥5,652 | ¥6 | ¥89,629 |
| Changes during term in review | | | | | | | |
| Distribution of retained earnings | | | | | | | -1,934 |
| Profit attributable to owners of parent | | | | | | | 5,262 |
| Purchase of treasury stock | | | | | | | -3 |
| Disposal of treasury stock | | | | | | | 84 |
| Changes during term not related to shareholders' equity (net) | | | | | | | |
| Total changes during term | 1,477 | -178 | -264 | -8 | 1,025 | 0 | 1,025 |
| Balance at end of term | ¥6,575 | ¥ 62 | ¥154 | ¥-114 | ¥6,677 | ¥6 | ¥94,063 |

Fiscal 2018 (April 1, 2018–March 31, 2019)

(Millions of yen, rounded down)

| | Shareholders' equity | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | |
| Balance at beginning of the term | ¥7,123 | ¥8,336 | ¥75,680 | ¥-3,759 | ¥87,379 |
| Changes during term in review | | | | | |
| Distribution of retained earnings | | | -1,952 | | -1,952 |
| Profit attributable to owners of parent | | | 6,043 | | 6,043 |
| Purchase of treasury stock | | | | -5,001 | -5,001 |
| Disposal of treasury stock | | | | 97 | 97 |
| Changes during term not related to shareholders' equity (net) | | | | | |
| Total changes during term | — | — | 4,090 | -4,903 | -812 |
| Balance at end of term | ¥7,123 | ¥8,336 | ¥79,770 | ¥-8,663 | ¥86,566 |

| | Valuation and translation adjustments | | | | | | |
|---|---|-------------------------------|------------------------|---|---|---------------------------|------------------|
| | Net unrealized gain or loss on securities | Deferred hedging gain or loss | Translation adjustment | Cumulative adjustment related to employees' retirement benefits | Total valuation and translation adjustments | Non-controlling interests | Total net assets |
| Balance at beginning of the term | ¥6,575 | ¥ 62 | ¥154 | ¥-114 | ¥6,677 | ¥6 | ¥94,063 |
| Changes during term in review | | | | | | | |
| Distribution of retained earnings | | | | | | | -1,952 |
| Profit attributable to owners of parent | | | | | | | 6,043 |
| Purchase of treasury stock | | | | | | | -5,001 |
| Disposal of treasury stock | | | | | | | 97 |
| Changes during term not related to shareholders' equity (net) | -1,881 | 65 | -43 | 13 | -1,846 | 0 | -1,846 |
| Total changes during term | -1,881 | 65 | -43 | 13 | -1,846 | 0 | -2,658 |
| Balance at end of term | ¥4,693 | ¥127 | ¥110 | ¥-101 | ¥4,830 | ¥7 | ¥91,404 |

(4) Statements of Cash Flows

(Millions of yen, rounded down)

| | Fiscal 2017 (April 1, 2017– March 31, 2018) | Fiscal 2018 (April 1, 2018– March 31, 2019) |
|--|---|---|
| Operating activities | | |
| Income before income taxes | ¥7,583 | ¥8,499 |
| Depreciation | 6,235 | 5,631 |
| Increase (decrease) in liability related to employees' retirement benefits | 47 | 12 |
| Increase (decrease) in allowance for doubtful accounts | 41 | –42 |
| Interest and dividend income | –101 | –131 |
| Loss (gain) on investment partnership | 10 | 26 |
| Foreign exchange gain | –29 | –6 |
| Loss on sales of tangible fixed assets | –2 | — |
| Loss on disposal of tangible fixed assets | 1 | 2 |
| Loss (gain) on sales of investment securities | –2,222 | –3,998 |
| Loss (gain) on valuation of investment securities | 20 | — |
| Changes in assets and liabilities: | | |
| Notes and accounts receivable | –850 | 95 |
| Inventories | –383 | 370 |
| Notes and accounts payable | –61 | –411 |
| Accrued consumption tax payables and other | 745 | –930 |
| Accrued consumption tax receivables and other | — | –21 |
| Other current assets | 34 | –81 |
| Other current liabilities | –216 | 165 |
| Other investments and others | –114 | 114 |
| Other long-term liabilities | –13 | –8 |
| Other | 0 | 104 |
| Subtotal | 10,725 | 9,390 |
| Interest and dividends received | 101 | 131 |
| Incomes taxes paid | –2,459 | –2,075 |
| Net cash provided by operating activities | 8,367 | 7,446 |

(Millions of yen, rounded down)

| | Fiscal 2017 (April 1, 2017– March 31, 2018) | Fiscal 2018 (April 1, 2018– March 31, 2019) |
|--|---|---|
| Investing activities | | |
| Increase in time deposits | ¥ -24 | ¥ -6 |
| Proceeds from withdrawals from time deposits | 3 | 7 |
| Purchase of investment securities | -69 | -538 |
| Proceeds from sales of investment securities | 2,298 | 4,073 |
| Purchase of tangible fixed assets | -3,675 | -1,552 |
| Proceeds from sales of tangible fixed assets | 2 | — |
| Purchase of intangible fixed assets | -402 | -360 |
| Proceeds from distribution from investment partnership | 27 | 23 |
| Expenditures by loans receivable | -0 | -0 |
| Collection of loans receivable | 3 | 0 |
| Increase (decrease) in other investments | 29 | -20 |
| Net cash used in investing activities | -1,807 | 1,627 |
| Financing activities | | |
| Repayment of long-term borrowings | -109 | -113 |
| Proceeds from sale of treasury stock | 103 | 108 |
| Purchase of treasury stock | -3 | -5,001 |
| Cash dividends paid | -1,935 | -1,952 |
| Net cash used in financing activities | -1,945 | -6,958 |
| Effect of exchange rate changes on cash and cash equivalents | -18 | -51 |
| Net change in cash and cash equivalents | 4,595 | 2,063 |
| Cash and cash equivalents at beginning of year | 16,244 | 20,840 |
| Cash and cash equivalents at end of year | 20,840 | 22,903 |

4. Non-Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2017 (At March 31, 2018) | Fiscal 2018 (At March 31, 2019) |
|---|------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and bank deposits | ¥19,789 | ¥21,240 |
| Notes receivable | 7,006 | 6,884 |
| Accounts receivable | 4,862 | 4,875 |
| Goods and merchandise | 4,013 | 3,654 |
| Products in progress | 194 | 220 |
| Materials and supplies | 2,483 | 2,559 |
| Advances paid | 7 | 97 |
| Prepaid expenses | 198 | 177 |
| Accrued consumption tax receivables and other | — | 21 |
| Exchange contracts | 67 | 88 |
| Other | 16 | 17 |
| Allowance for doubtful accounts | — | — |
| Total current assets | 38,638 | 39,838 |
| Fixed assets | | |
| Tangibles | | |
| Buildings | 39,399 | 40,298 |
| Accumulated depreciation | —17,107 | —18,258 |
| Buildings (net) | 22,292 | 22,040 |
| Structures | 1,535 | 1,535 |
| Accumulated depreciation | —1,112 | —1,160 |
| Structures (net) | 422 | 374 |
| Machinery and equipment | 38,822 | 39,950 |
| Accumulated depreciation | —26,562 | —29,495 |
| Machinery and equipment (net) | 12,259 | 10,454 |
| Vehicles and transport equipment | 63 | 63 |
| Accumulated depreciation | —61 | —62 |
| Vehicles and transport equipment (net) | 2 | 1 |
| Tools, instruments, and fixtures | 4,413 | 5,034 |
| Accumulated depreciation | —3,449 | —3,737 |
| Tools, instruments, and fixtures (net) | 963 | 1,297 |
| Land | 9,172 | 9,172 |
| Construction in progress | 895 | 919 |
| Total tangibles | 46,007 | 44,260 |
| Intangibles | | |
| Software | 1,756 | 1,503 |
| Software in progress | 1,077 | 967 |
| Telephone subscription rights | 13 | 13 |
| Other | 117 | 116 |
| Total intangibles | 2,965 | 2,600 |

(Millions of yen, rounded down)

| | Fiscal 2017 (At March 31, 2018) | Fiscal 2018 (At March 31, 2019) |
|------------------------------------|------------------------------------|------------------------------------|
| Investments and other assets | | |
| Investment securities | ¥ 11,547 | ¥ 8,782 |
| Shares of affiliated companies | 749 | 1,242 |
| Long-term loans | 1 | 1 |
| Long-term loans to employees | 0 | — |
| Bankruptcy rehabilitation claims | 42 | 0 |
| Long-term prepaid expenses | 112 | 70 |
| Guaranty deposit | 352 | 350 |
| Insurance reserve fund | 412 | 413 |
| Golf club memberships | 99 | 99 |
| Currency swaps | — | 95 |
| Exchange contracts | 21 | 94 |
| Allowance for doubtful accounts | -49 | -7 |
| Total investments and other assets | 13,290 | 11,143 |
| Total fixed assets | 62,262 | 58,004 |
| Total assets | 100,901 | 97,843 |

LIABILITIES

Current liabilities

| | | |
|--|---------|---------|
| Notes payable | ¥ 2,530 | ¥ 2,373 |
| Accounts payable | 2,424 | 2,366 |
| Long-term debt of affiliates due within one year | — | 1,665 |
| Accrued payables | 189 | 951 |
| Accrued expenses | 204 | 202 |
| Accrued income tax | 913 | 1,374 |
| Accrued consumption tax | 930 | — |
| Advances received | 0 | 0 |
| Deposits received | 30 | 32 |
| Reserve for employees' bonuses | 373 | 386 |
| Reserve for directors' bonuses | 100 | 100 |
| Equipment-related notes payable | 446 | 1,352 |
| Other current liabilities | 41 | 63 |
| Total current liabilities | 8,184 | 10,869 |
| Long-term liabilities | | |
| Long-term borrowings | 399 | 285 |
| Long-term borrowings of affiliates | 1,594 | — |
| Deferred income taxes | 2,497 | 1,669 |
| Long-term payables | 36 | 36 |
| Currency swaps | 0 | — |
| Other long-term liabilities | 468 | 459 |
| Total long-term liabilities | 4,995 | 2,450 |
| Total liabilities | 13,180 | 13,320 |

(Millions of yen, rounded down)

| | Fiscal 2017 (At March 31, 2018) | Fiscal 2018 (At March 31, 2019) |
|---|------------------------------------|------------------------------------|
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | ¥ 7,123 | ¥ 7,123 |
| Capital surplus | | |
| Capital reserve | 8,336 | 8,336 |
| Total capital reserve | 8,336 | 8,336 |
| Retained earnings | | |
| Retained earnings | 564 | 564 |
| Other retained earnings | | |
| Other general reserve | 19,300 | 19,300 |
| Retained earnings carried forward | 49,519 | 53,039 |
| Total retained earnings | 69,384 | 72,904 |
| Treasury stock | -3,759 | -8,663 |
| Total shareholders' equity | 81,083 | 79,700 |
| Valuation/translation gains or losses | | |
| Net unrealized gain or loss on securities | 6,575 | 4,693 |
| Deferred hedging gain or loss | 62 | 127 |
| Total valuation/translation gains or losses | 6,637 | 4,821 |
| Total net assets | 87,721 | 84,522 |
| Total liabilities and net assets | 100,901 | 97,843 |

(2) Statements of Income

(Millions of yen, rounded down)

| | Fiscal 2017 (April 1, 2017– March 31, 2018) | Fiscal 2018 (April 1, 2018– March 31, 2019) |
|--|---|---|
| Net sales | | |
| Product sales | ¥34,393 | ¥34,327 |
| Commodity sales | 2,191 | 1,970 |
| Total net sales | 36,585 | 36,298 |
| Cost of sales | | |
| Product inventory at beginning of term | 2,401 | 2,354 |
| Commodity inventory at beginning of term | 861 | 1,039 |
| Manufacturing costs during term | 22,326 | 21,925 |
| Commodity purchases during term | 1,690 | 1,242 |
| Total | 27,280 | 26,561 |
| Transfer to other accounts | 750 | 1,020 |
| Product inventory at end of term | 2,354 | 2,271 |
| Commodity inventory at end of term | 1,039 | 772 |
| Total cost of sales | 23,136 | 22,497 |
| Gross profit | 13,449 | 13,800 |
| Selling, general, and administrative expenses | 9,110 | 10,357 |
| Operating income | 4,338 | 3,443 |
| Other income | | |
| Interest income | 20 | 20 |
| Dividend income | 269 | 272 |
| Foreign exchange gain | 13 | 9 |
| Other | 53 | 51 |
| Total other income | 356 | 354 |
| Other expenses | | |
| Interest expense | 24 | 25 |
| Loss on investment partnership | 10 | 26 |
| Provision of allowance for doubtful accounts | 42 | — |
| Treasury stock acquisition cost | — | 58 |
| Other | 0 | — |
| Total other expenses | 77 | 109 |
| Ordinary income | 4,618 | 3,688 |
| Extraordinary income | | |
| Gain on sales of investment securities | 2,222 | 3,998 |
| Total extraordinary income | 2,222 | 3,998 |
| Extraordinary expenses | | |
| Loss on disposal of fixed assets | 1 | 2 |
| Loss on valuation of investment securities | 20 | — |
| Total extraordinary expenses | 21 | 2 |
| Income before income taxes | 6,818 | 7,684 |
| Income taxes | 1,984 | 2,264 |
| Income tax adjustment | 98 | –53 |
| Total income taxes | 2,082 | 2,211 |
| Net income | 4,736 | 5,472 |

(3) Statements of Changes in Shareholders' Equity

Fiscal 2017 (April 1, 2017–March 31, 2018)

(Millions of yen, rounded down)

| | Shareholders' equity | | | | | | | | | | |
|---|----------------------|-----------------|-----------------------|-------------------|-----------------------|-----------------------------------|---------|-------------------------|---------|----------------|----------------------------|
| | Capital surplus | | | Retained earnings | | | | | | Treasury stock | Total shareholders' equity |
| | Common stock | Capital reserve | Total capital surplus | Earned reserve | Other earned surplus | | | Total retained earnings | | | |
| | | | | | Other general reserve | Retained earnings carried forward | | | | | |
| Balance at beginning of the term | ¥7,123 | ¥8,336 | ¥8,336 | ¥564 | ¥19,300 | ¥46,718 | ¥66,582 | ¥-3,841 | ¥78,200 | | |
| Changes during term in review | | | | | | | | | | | |
| Distribution of retained earnings | | | | | | | -1,934 | -1,934 | | -1,934 | |
| Net income | | | | | | | 4,736 | 4,736 | | 4,736 | |
| Purchase of treasury stock | | | | | | | | | -3 | -3 | |
| Disposal of treasury stock | | | | | | | | | 84 | 84 | |
| Changes during term not related to shareholders' equity (net) | | | | | | | | | | | |
| Total changes during term | — | — | — | — | — | — | 2,801 | 2,801 | 81 | 2,882 | |
| Balance at end of term | ¥7,123 | ¥8,336 | ¥8,336 | ¥564 | ¥19,300 | ¥49,519 | ¥69,384 | ¥-3,759 | ¥81,083 | | |

| | Valuation/translation gains or losses | | | | Total net assets |
|---|---|-------------------------------|---|--|------------------|
| | Net unrealized gain or loss on securities | Deferred hedging gain or loss | Total valuation/translation gains or losses | | |
| Balance at beginning of the term | ¥5,098 | ¥240 | ¥5,338 | | ¥83,539 |
| Changes during term in review | | | | | |
| Distribution of retained earnings | | | | | -1,934 |
| Net income | | | | | 4,736 |
| Purchase of treasury stock | | | | | -3 |
| Disposal of treasury stock | | | | | 84 |
| Changes during term not related to shareholders' equity (net) | | | | | |
| | 1,477 | -178 | 1,298 | | 1,298 |
| Total changes during term | 1,477 | -178 | 1,298 | | 4,181 |
| Balance at end of term | ¥6,575 | ¥ 62 | ¥6,637 | | ¥87,721 |

Fiscal 2018 (April 1, 2018–March 31, 2019)

(Millions of yen, rounded down)

| | Shareholders' equity | | | | | | | | | |
|---|----------------------|-----------------|-----------------------|-------------------|-----------------------|-----------------------------------|---------|-------------------------|----------------|----------------------------|
| | Capital surplus | | | Retained earnings | | | | | | |
| | Common stock | Capital reserve | Total capital surplus | Earned reserve | Other earned surplus | | | Total retained earnings | Treasury stock | Total shareholders' equity |
| | | | | | Other general reserve | Retained earnings carried forward | | | | |
| Balance at beginning of the term | ¥7,123 | ¥8,336 | ¥8,336 | ¥564 | ¥19,300 | ¥49,519 | ¥69,384 | ¥-3,759 | ¥81,083 | |
| Changes during term in review | | | | | | | | | | |
| Distribution of retained earnings | | | | | | -1,952 | -1,952 | | -1,952 | |
| Net income | | | | | | 5,472 | 5,472 | | 5,472 | |
| Purchase of treasury stock | | | | | | | | -5,001 | -5,001 | |
| Disposal of treasury stock | | | | | | | | 97 | 97 | |
| Changes during term not related to shareholders' equity (net) | | | | | | | | | | |
| Total changes during term | — | — | — | — | — | 3,520 | 3,520 | -4,903 | -1,382 | |
| Balance at end of term | ¥7,123 | ¥8,336 | ¥8,336 | ¥564 | ¥19,300 | ¥53,039 | ¥72,904 | ¥-8,663 | ¥79,700 | |

| | Valuation/translation gains or losses | | | |
|---|---|-------------------------------|---|------------------|
| | Net unrealized gain or loss on securities | Deferred hedging gain or loss | Total valuation/translation gains or losses | Total net assets |
| Balance at beginning of the term | ¥6,575 | ¥ 62 | ¥6,637 | ¥87,721 |
| Changes during term in review | | | | |
| Distribution of retained earnings | | | | -1,952 |
| Net income | | | | 5,472 |
| Purchase of treasury stock | | | | -5,001 |
| Disposal of treasury stock | | | | 97 |
| Changes during term not related to shareholders' equity (net) | | | | |
| | -1,881 | 65 | -1,815 | -1,815 |
| Total changes during term | -1,881 | 65 | -1,815 | -3,198 |
| Balance at end of term | ¥4,693 | ¥127 | ¥4,821 | ¥84,522 |