



# 2020 Annual Report

(Year ended March 31, 2020)



# Sumitomo's Business Philosophy

Sumitomo's Business Philosophy grew out of the guiding principles set down by the founding father of the Sumitomo family, Masatomo Sumitomo(1585-1652), in Monjuin Shiigaki (the Aphorisms of Monjuin, which describes how a merchant should conduct his business). Sumitomo's Business Philosophy has been passed down and elaborated through the long history of Sumitomo. The essence of the Philosophy was distilled in the "Business Principles" established in 1891, from which the 1928 Sumitomo "Business Rules" took over the two articles below.

## Sumitomo's Business Philosophy

### Business Principles

- 1 Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.
- 2 Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

Note: Further details of Sumitomo's history and Sumitomo's Business Philosophy are available at the website of the Sumitomo Group Public Affairs Committee.

# Corporate Principles of the Sumitomo Precision Products Group

Following the Sumitomo's Business Philosophy of "placing prime importance on integrity and sound management," the Sumitomo Precision Products group conducts business on the following corporate principles. In so doing, we fulfill our responsibilities for diversified stakeholders in ensuring sustained business development and an increase in corporate value.

## "Toward a Promising Future" Our Corporate Principles

Sumitomo Precision Products will continue to increase its global presence with innovative technology, and will pave its way toward a prosperous tomorrow.

### ① COMPLIANCE

Complying with laws and regulations, we will conduct all business activities based on the highest ethical standards.

### ② CUSTOMER SATISFACTION

Focusing intensely on market demands and clients' needs, we will continue to offer quality products and services to achieve the highest customer satisfaction possible.

### ③ CHANGE & CHALLENGE

Responding sensitively to global trends, we will boldly try to fully meet these changes and keep our eyes open to new opportunities that accompany this changing atmosphere.

### ④ HUMAN RESOURCES

Respecting our human resources, we will provide a supportive environment that encourages each individual's fulfillment and harmony among all employees.

### ⑤ COEXISTENCE WITH SOCIETY

By playing an active role in society, we will promote good citizenship with our community and harmony with the surrounding environment.

# CSR Activities of the SPP Group

Based on the business slogan "Innovating the world's highest quality, manufacturing and technologies of "precision" that supports a sustainable society ahead of all others," as stated in the Medium-term Management Plan for Fiscal 2020 to 2022, we will endeavor to become a company that sustainably grows and prospers by utilizing the technologies accumulated and partnerships with our customers while discovering new needs that emerge as society changes. Under this slogan, we will work on strategic CSR (Corporate Social Responsibility).

The Group's CSR activities can be categorized into three areas: (1) compliance with corporate ethics; (2) solution of social challenges through business activities; and (3) activities contributing to local communities and society. Going forward, we will work on each area in a well-balanced manner. Furthermore, while strengthening the "solution of social challenges through business activities," we have organized our corporate and business activities and related SDGs items as follows, in order to clarify the targets.

|                   |                               | Examples of activities   | Relevant SDGs items |
|-------------------|-------------------------------|--|---------------------|
| Company-wide      |                               | <ul style="list-style-type: none"> <li>◆ Environment                             <ul style="list-style-type: none"> <li>Environmental Policy and Environmental Management (Environmental Preservation)</li> <li>Initiatives for reducing environmental impact (Saving energy and resources)</li> </ul> </li> <li>◆ Diversity commitment                             <ul style="list-style-type: none"> <li>Recruitment plans</li> <li>Diversity education and Female empowerment</li> </ul> </li> <li>◆ Measures against natural disasters and other emergencies (We are formulating a Business Continuity Plan that gives top priority to ensuring human life safety.)</li> <li>◆ Safety, health, and fire prevention</li> <li>◆ Health management</li> <li>◆ Relations with Society and Local Communities                             <ul style="list-style-type: none"> <li>Blood donation events</li> <li>Cooperation with the All Japan Student Indoor Flying Robot Contest (Contributing to developing Japan's aerospace technology and related human resources)</li> <li>Interaction with the communities, Cleanup of walks and ditches around the SPP Main Plant</li> <li>Taking part in Hyogo Prefecture's "Hyogo Adopt--Lighting Maintenance Partners" project (Helping maintain road lighting installed along a prefectural route)</li> </ul> </li> </ul> |                     |
| Business activity | Aerospace Business            | <ul style="list-style-type: none"> <li>Landing Gear Systems                             <ul style="list-style-type: none"> <li>Aircraft noise reduction research</li> <li>Development of electric landing gear extension and retraction systems (Improving fuel efficiency)</li> </ul> </li> <li>Heat Management Systems                             <ul style="list-style-type: none"> <li>R&amp;D of heat management system for next-generation engines</li> </ul> </li> </ul>   |                     |
|                   | Industrial Equipment Business | <ul style="list-style-type: none"> <li>Heat Exchangers                             <ul style="list-style-type: none"> <li>Development of heat exchangers for cooling hydrogen gas</li> <li>Development of heat exchangers for data center application and renewable energy sources</li> <li>Heat exchangers for plants contribute to energy saving by improving heat efficiency of the entire plant in a broad range of industrial applications across the world.</li> </ul> </li> <li>Hydraulic Control Products                             <ul style="list-style-type: none"> <li>Injection molding equipment that uses hydraulic equipment manufactures all kinds of daily products, including medical goods, helping to improve healthcare services and achieve healthy living.</li> </ul> </li> </ul>  |                     |
|                   | ICT Business                  | <ul style="list-style-type: none"> <li>MEMS/Semiconductor Manufacturing Equipment                             <ul style="list-style-type: none"> <li>MEMS and semiconductor manufacturing equipment are used in everyday electronic devices such as automotive sensors for air-bags, nozzle heads of inkjet printers, and high-frequency devices and camera modules of smartphones and other mobile devices. They support the safety and improve the convenience of daily life.</li> </ul> </li> <li>MEMS Devices                             <ul style="list-style-type: none"> <li>Development of high-precision MEMS gyroscope</li> </ul> </li> <li>Ozone generators                             <ul style="list-style-type: none"> <li>High-density clean ozone contributes to cutting-edge semiconductor manufacturing processes, which are becoming smaller and lower in consumption.</li> </ul> </li> </ul>   |                     |

# Message from the President

On January 24, 2020, we received an investigation report from the Special Investigation Committee regarding our inadequate conduct related to defense equipment. Taking the results of this investigation seriously, we will steadily implement measures to prevent recurrence, and make every effort to rebuild the trust of our business partners, shareholders and other stakeholders.

On the other hand, at the end of December 2019, we detected certain deviations in the manufacturing and inspection processes of plate-fin heat exchangers, which should comply with the High Pressure Gas Safety Act. In addition, as announced on May 12, 2020, an error was found in the estimate of retirement benefit obligations for previous fiscal years. We corrected our past securities reports for this error.

The announcement of financial results was delayed due to the corrections as well as the impact of the spread of COVID-19. We sincerely apologize to our shareholders, customers and many others for a great deal of inconvenience and concern.



Representative Director,  
President

*H. Takahashi*

## Overview of Business Performance in Fiscal 2019

The Group's financial results for fiscal 2019 were as follows: sales of defense equipment increased in the aerospace and related products field, and sales of MEMS/semiconductor manufacturing equipment in the ICT-related field were robust. As a result, consolidated net sales were 51.01 billion yen, an increase of 4.1% year on year.

In terms of profit and loss, consolidated operating income soared 40.3% year on year to 3.35 billion yen, and consolidated ordinary income increased 19.6% year on year to 2.98 billion yen.

In the consolidated fiscal year under review, extraordinary income of 2.48 billion yen was recorded as a reversal of provision for compensation-related loss on defense equipment business. Meanwhile, relating to non-conformity issues in the manufacture of plate-fin heat exchangers, 1 billion yen was reserved for compensation to customers that is expected to be incurred in the future, and an extraordinary loss of 268 million yen was recorded as a loss on devaluation of inventories that need to be remanufactured. In addition, an impairment losses of assets of 930 million yen due to a decline in the profitability of fixed assets held by the Group was recorded as an extraordinary loss.

As a result, net income attributable to owners of the parent was 1 billion yen after deducting income taxes.

In addition, free cash flow in fiscal 2019 came to a deficit of 300 million yen

due to the payment of approximately 2.5 billion yen for overcharged defense equipment. The balance of interest-bearing debt, which had been 25.7 billion yen as of March 31, 2019, was 24.3 billion yen as of March 31, 2020 due to the progress of scheduled payment.

Regarding the year-end dividend for the current fiscal year, we consider that it is best to secure liquidity on hand at this point of time in the face of extremely uncertain future conditions such as the stagnant global economic activity due to the spread of COVID-19. We regret to inform you that we will not be paying the year-end dividend this time. We deeply apologize to our shareholders and will endeavor to resume dividend payment as soon as possible.

## Outlook for Fiscal 2020

In fiscal 2020, we anticipate a significant decrease in net sales to 41.5 billion yen, reflecting a decrease in demand for equipment for commercial aircraft due to the spread of COVID-19 and a temporary decrease in customer investment in MEMS/semiconductor manufacturing equipment in the off-peak season. Therefore, we expect operating loss and ordinary loss of 1 billion yen and 950 million yen, respectively, resulting in net loss attributable to owners of the parent of 1.3 billion yen. We expect an increase in the balance of interest-bearing debt to 28.5 billion yen at the end of fiscal 2020, for we need to secure stable funds to prepare for uncertain future.

## Mid-term Management Plan

The Group has formulated a Medium-term Management Plan for Fiscal 2020 to 2022.

Under the slogan of "Innovating the world's highest quality, manufacturing and technologies of "precision" that supports a sustainable society ahead of all others," we will promote the restructuring of our business portfolio and

invest management resources that are well-balanced in the four business fields of our future profit base. At the same time, we will also work to create new growth businesses. Furthermore, we will continue to strengthen governance, internal control and compliance to solve social challenges through our business.

Since the medium- to long-term impact of COVID-19 cannot be foreseen, we have decided to set numerical targets after assessing the future situation.

## Innovating the World's Highest Quality, Manufacturing and Technologies of "Precision" that Supports a Sustainable Society Ahead of All Others

- We give top priority to compliance and practice highly transparent management.
- Identify the changes of the times and constantly develop cutting-edge precision technology and precision manufacturing to contribute to society.
- We sincerely tackle customer requirements and propose our "precision" that meets customer needs.

Innovation of new growth businesses based on the four business fields of our profit base

Restructuring our business portfolio and investing well-balanced management resources in the four business fields of our future profit base

- ① **Aerospace business** ..... Precision processing and manufacturing technology that supports a safe and secure society
- ② **Thermal management business** ..... Precision thermal design and analysis technique to support global environment-friendly energy saving
- ③ **Precision hydraulic equipment business** ..... Precision hydraulic technology to support manufacturing businesses around the world
- ④ **Semiconductor manufacturing equipment/MEMS/sensor business** ..... MEMS manufacturing process and design and manufacturing technology devices and high-precision sensors to support 5G, artificial intelligence, big data and high-performance terminals in smart society

Continued strengthening of management foundation

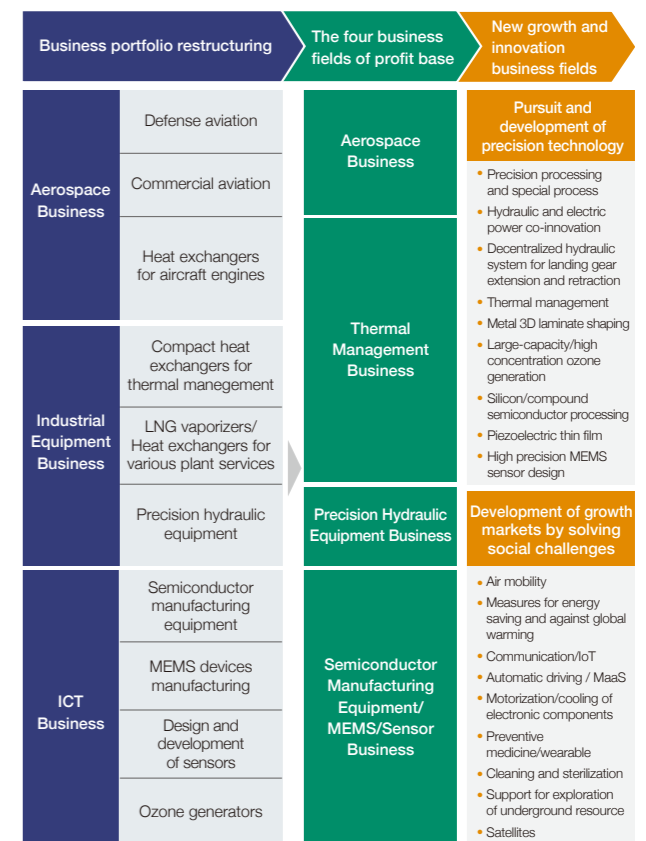
- Organizational culture/awareness reform
- Strengthening governance, internal control and compliance
- Rebuild company enterprise systems

## From business portfolio restructuring to the four business fields of our profit base and new growth and innovation business fields

In a rapidly changing and fiercely competitive environment, we will reallocate resources in a well-balanced manner according to each business policy rather than focusing on all existing businesses. To that end, we will invest resources in i) a business that is expected to grow with enhanced competitiveness in an expanding market; ii) a business with a strong cost-effective business structure for which we can realize high profitability by optimizing its operations; and iii) a business whose resources should be shifted to focus areas through business contraction or withdrawal.

Regarding the restructuring of the business portfolio, the current Medium-term Management Plan sets the Group's profit base in the following four areas: (1) Aerospace business (precision processing and manufacturing technology that supports a safe and secure society); (2) Thermal management business (precision thermal design and analysis technique to support global environment-friendly energy saving); (3) Precision hydraulic equipment business (precision hydraulic technology to support manufacturing businesses around the world); and (4) Semiconductor manufacturing equipment / MEMS/sensor business (MEMS manufacturing process and design and manufacturing technology devices and high-precision sensors to support 5G, artificial intelligence, big data and high-performance terminals in smart society). We will invest management resources in these four business fields to strengthen them.

In recent years, changes in society have become increasingly intense and various social challenges have become visible. The Group will endeavor to create new growth businesses and innovation by recognizing the changes



# Message from the President

of the times, consistently developing our precision technology, and developing new growth markets through solutions of social challenges.

The keys to the four business fields of profit base and new growth and innovation business fields are "precision" technology and "precision" manufacturing, which are the original pillars of the Company and the source of our strength. We will develop growth markets by pursuing and developing these growth areas while solving various social challenges.

## Continued strengthening of management foundation

As an organizational culture/awareness reform, we will return to our own starting point of Sumitomo's Business Philosophy, our corporate principles and code of conduct. Furthermore, we will also continue to strengthen governance, internal control and compliance, as a matter of course. In addition, we will work to rebuild company enterprise systems, which will be

### Organizational culture/awareness reform

#### Returning to our starting point

- Sumitomo's Business Philosophy
- SPP group's corporate principles and code of conduct

### Continuing to strengthen governance, internal control and compliance

- Promoting various measures to strengthen governance
- Establishing the Three Lines of Defense
- Compliance, quality and safety as our top priority

### Rebuild company enterprise systems

- Construction of a next-generation IT system platform that supports management and business

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the next-generation IT system platform that supports management and business.

We will endeavor to become a company that sustainably grows and prospers by utilizing the technologies accumulated and partnerships with our customers while discovering new needs that emerge as society changes.

## Addressing compliance issues

In response to inadequate conduct associated with defense equipment, we have set up a special investigation committee consisting of outside experts to clarify the facts, and investigate the cause and other similar cases. In January 2020, we received and disclosed the investigation report.

As measures to prevent recurrence, including the proposals of the special investigation committee, we appointed an executive officer in charge of compliance, and are promoting various reforms by strengthening governance, enhancing internal control, ensuring employee compliance awareness, and strengthening cooperation between departments. As part of strengthening of governance, the Management Council, which was an advisory body to the President, has been positioned as a decision-making body, and is exerting efforts to enhance the decision-making process, in which the important matters must be decided in a collegial system. We are also working on improving the organization and system to enhance the monitoring function, reviewing the internal rules for compliance, and renewing the whistleblowing system in order to enhance internal control and raise employee awareness of compliance. Other than the abovementioned initiatives, we have started systematic personnel rotation for managers with the aim of enhancing organizational strength, including collaboration between departments.

We conducted a comprehensive inspection of compliance as part of these initiatives and detected non-conformity issues in the manufacture of plate-fin heat exchangers. Related to this issue, we received an administrative penalty from the Ministry of Economy, Trade and Industry in March 2020, and our certification of conformity with the European Pressure Equipment Directive was withdrawn in July 2020.

As a result of the investigation, it was confirmed that the inadequacy was attributable to a lack of compliance awareness, incorrect quality awareness, a lack of knowledge of laws and regulations, and insufficient checking system at the work site. Correction of the manufacturing process has already been completed and as preventive measures against recurrence we are working on reforming the organizational culture to prioritize compliance, quality and safety, while enhancing education on compliance, quality, laws and regulations, etc. Our efforts are also focused on more detailed and simplified work procedure manuals for work sites and visualization of the work site, so that the workers themselves and third parties can easily check the conformity of work.

As to our inadequacy which came to light repeatedly, we take it very seriously. We are sincerely determined to rebuild trust by exerting our efforts toward reforms and improvements as a company-wide problem.

Furthermore, with respect to an error in the estimate of retirement benefit obligations for the previous fiscal years, we will strengthen internal control over the reporting process to ensure reliability.

Going forward, the continued support of our shareholders is highly appreciated.

# Financial Highlights

For the year ended March 31, 2020

## Results for Fiscal 2019



\* Net income attributable to owners of the parent

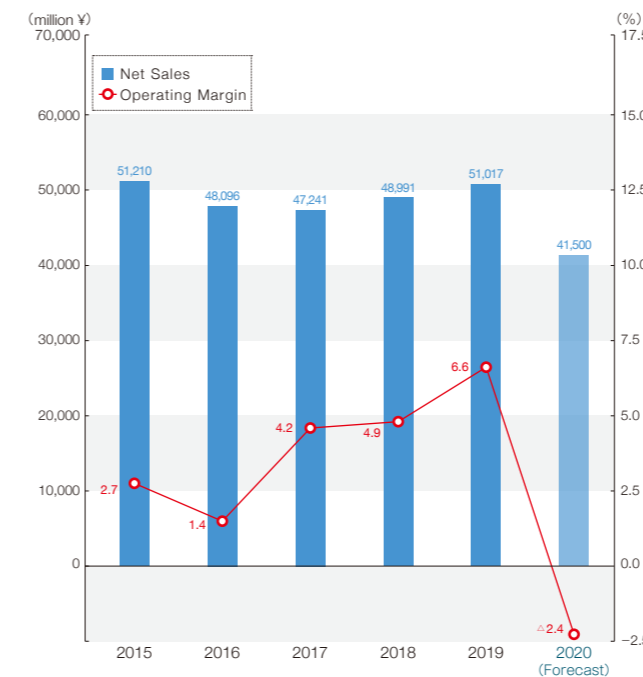
|   | 2015     | 2016     | 2017   | 2018     | 2019   | 2020 (Forecast) |
|---|----------|----------|--------|----------|--------|-----------------|
| Net sales (million ¥)                                       | 51,210   | 48,096   | 47,241 | 48,991   | 51,017 | 41,500          |
| Operating income (million ¥)                                | 1,381    | 679      | 1,969  | 2,390    | 3,354  | △ 1,000         |
| Operating margin (%)  | 2.7      | 1.4      | 4.2    | 4.9      | 6.6    | △ 2.4           |
| Net income attributable to owners of the parent (million ¥) | △ 585    | △ 1,552  | 508    | △ 2,361  | 1,002  | △ 1,300         |
| Total assets (million ¥)                                    | 84,115   | 79,584   | 82,405 | 83,678   | 77,485 | 80,000          |
| Equity ratio (%)  | 37.5     | 37.6     | 37.6   | 32.8     | 35.4   | 32.7            |
| Per share   |          |          |        |          |        |                 |
| Net income (¥)  | △ 110.68 | △ 293.23 | 96.03  | △ 446.00 | 189.36 | △ 245.66        |
| Cash dividends (¥)  | 70       | 50       | 50     | 25       | 0      | (TBD)           |

\*1 Since it was uncovered that there was an error in the accounting treatment in the previous fiscal years, we made corrections on September 4, 2020. The figures from fiscal 2015 to fiscal 2018 reflect the corrections.

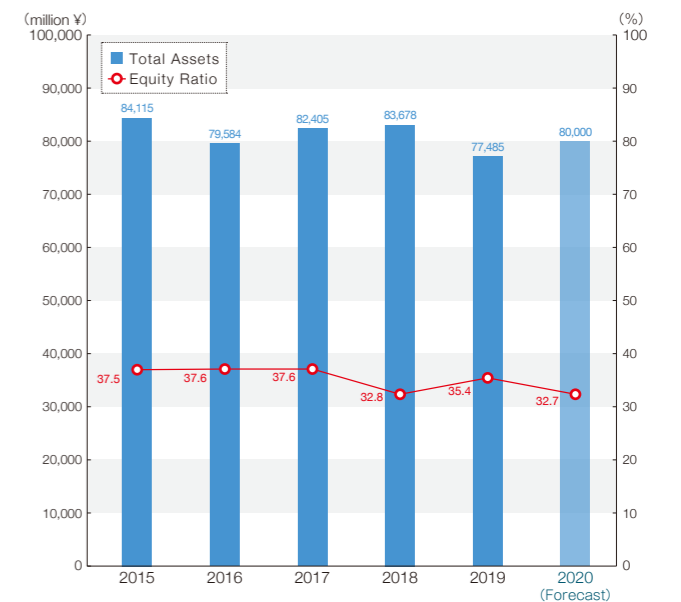
\*2 Effective October 1, 2018, we conducted a reverse stock split at a ratio of 1 share for every 10 shares of common stock.

\*Net income per share and \*Cash dividends per share are calculated on the assumption that the reverse stock split was carried out at the beginning of fiscal 2015.

### Net Sales / Operating Margin



### Total Assets / Equity Ratio



## Business Profile

SPP's Aerospace Business develops and manufactures products that directly affect aircraft flight safety, such as landing gear systems and heat management systems.

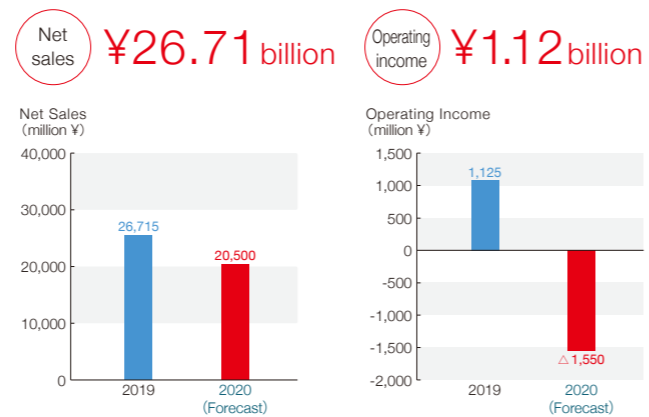
Aircraft for the Japanese Ministry of Defense have almost exclusively been equipped with landing gear systems manufactured by SPP. SPP has also entered into the regional jet market and has been successful in the area of commercial aircraft. In 1997, the company worked with U.S.-based Menasco to win a landing gear system project for the CRJ700 from Bombardier in Canada. Subsequently, the company has also been participating in the development of landing gear systems for HondaJet and Mitsubishi SpaceJet.

SPP also supplies heat management systems for aircraft engines and air conditioning equipment. In recent years, it has developed heat management systems for Rolls-Royce engines, which are installed on Boeing 787 Dreamliners and Airbus A350s, as well as oil coolers for the auxiliary power units (APUs) installed on Boeing 787 Dreamliners.

## Overview of Business Performance in Fiscal 2019

In fiscal 2019, the Aerospace Business achieved net sales of ¥26.71 billion, primarily by an increase of instruments for defense equipment. Operating income rose to ¥1.12 billion by sales increases and streamlining.

For fiscal 2020, net sales will likely drop to ¥20.5 billion reflecting a sharp fall in demand for equipment for commercial aircraft due to the spread of COVID-19. Operating income is expected to decline substantially from fiscal 2019, posting a loss of ¥1.55 billion.



## Major product lines and SPP's Strengths

### Landing Gear Systems



Many years of experiences in the design, development, and production technology for landing gear, with a focus on the outstanding precision machining of high-strength metal materials

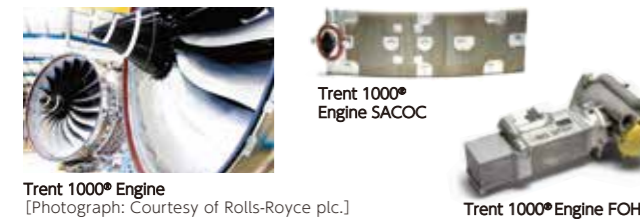
Today, SPP products account for some 80% of the landing gear systems installed on the Defense Ministry's air fleet.

Approximately 15% share of the regional jet market

Involvement in the development projects on the Mitsubishi SpaceJet and HondaJet provides opportunities to make technical achievements as a landing gear system integrator.

In Japan, SPP took over ANA MRO operations and founded a subsidiary in Nagasaki. SPP also works with Lufthansa to strengthen overseas MRO.

### Heat Management Systems



Thermal management and the joining of metal materials are SPP's specialties here.

High efficiency, compact size, and low weight as well as shapes that help reduce air drag contribute to reducing the fuel consumption and noise of aircraft engines.

Since the 1980 s, SPP has supplied heat exchangers for almost all engine series of Rolls-Royce, one of the big three manufacturers of aircraft engines.

## Social value of major products

The segment's products, including landing gear systems and heat management systems, contribute to aircraft flight safety. SPP contributes to the safe, secure and comfortable air travel of passengers through its products for commercial aircraft and the safe flight of aircraft in rescue and support activities through its products for the Ministry of Defense, respectively.



## Initiatives toward a sustainable society

### Aircraft noise reduction research

Since engine noise, which had long been considered a major problem in aircraft noise, has been reduced significantly in recent years, one of the most important mission today is to reduce "aircraft noise," which is wind noise generated from the body, wing, and landing gear. SPP participates in the FQUROH (Flight Demonstration of Quiet Technology to Reduce Noise from High-lift Configurations) with JAXA, Kawasaki Heavy Industries and Mitsubishi Aircraft Corporation, and it is responsible for the design and manufacture of noise reduction devices attached to the main landing gear. In first phase of the project, flight demonstration using "Hisho," JAXA's research aircraft has been conducted, the project team succeeded in demonstrating a noise reduction effect that significantly exceeded the noise reduction effects achieved in U.S. and European flight demonstrations. Through further flight demonstrations, SPP will aim to apply the results to the development of actual products in the future.



Noise reduction device for Hisho's main landing gear

### Development of electric landing gear extension and retraction systems

This is based on results obtained from a project commissioned by the New Energy and Industrial Technology Development Organization (NEDO).

In recent years, reducing aircraft's CO<sub>2</sub> emission has become a key environmental issue across the world, drawing attention to the reduction of the burden on the environment through the use of electric components. Against this backdrop, SPP has been engaged in joint R&D with Airbus in the Electro-Hydrostatic Actuation (EHA) system for landing gear extension and retraction. While conventional aircraft use engine-driven hydraulic pumps, we will seek to improve fuel efficiency by switching to a system driven by an electric motors. In addition, we will aim to reduce mass and improve maintainability by replacing the hydraulic piping that is extended throughout the airframe with motor-driven pumps installed in the landing gear extension and retraction system. The EHA system for landing gear extension and retraction developed by SPP was successful in a system performance validation test using Airbus's landing gear extension and retraction test equipment for the A320. The demonstration, which was the world's first demonstration of an electric landing gear extension and retraction system in medium- and large-sized aircraft, was highly evaluated by Airbus. We will continue our joint R&D with Airbus toward commercialization of the system.



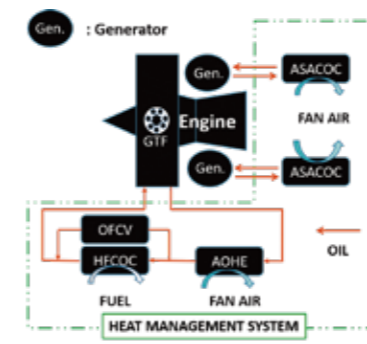
EHA for main landing gear extension and retraction system

### R&D of heat management system for next-generation engines

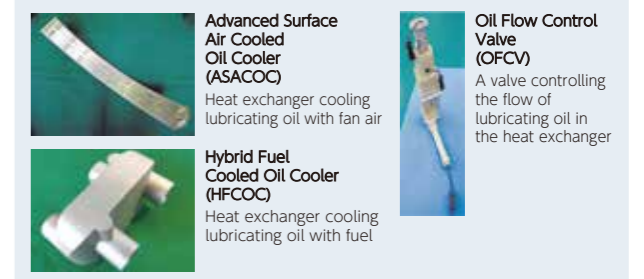
This is based on results obtained from a project commissioned by the New Energy and Industrial Technology Development Organization (NEDO).

In a heat management system for aircraft engines, the heat generated in engine bearings and gears are cooled with lubricating oil, which is in turn cooled with air in a heat exchanger. In addition, lubricating oil in other systems is heat exchanged to warm the fuel, improving overall energy efficiency.

Improving the cooling performance of heat management systems has become a major technological issue since a substantially larger amount of heat is generated from various equipment within the engines due to the electrification of aircraft equipment and the flow of fuel used as the refrigerant of the exhausted heat is declining due to improved fuel efficiency. Against this background, SPP has been engaged in R&D of a high-efficiency, lightweight and compact heat management system for next-generation engines with Rolls-Royce.



### Prototype of heat management system for next-generation engines





## Business Profile

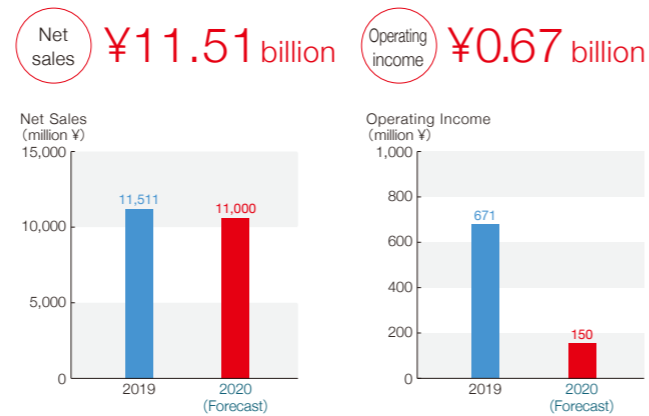
The origin of SPP's heat exchangers is an aluminum heat exchanger for aircraft that was developed using our own technology. Today, we provide high performance heat exchangers of various sizes to a wide range of industries as well as exporting to countries around the world. In addition, we have the world's largest delivery record in LNG (liquid natural gas) vaporizer market. Our precise technology is highly regarded and licensed to an overseas manufacturer. Going forward, we will strive to meet your demands toward the establishment of an efficient energy system by developing and introducing heat exchangers made of not only aluminum but also stainless steel and titanium.

Furthermore, SPP has cultivated the fields of injection molding equipment, general industrial equipment and transport equipment, leveraging its technologies developed for aircraft hydraulic equipment, as well as the high pressure coolant pump field, leveraging its hydraulic pump technology. While expanding usage as indicated above, the company develops and manufactures low consumption hydraulic and coolant pumps in consideration of environmental issues.

## Overview of Business Performance in Fiscal 2019

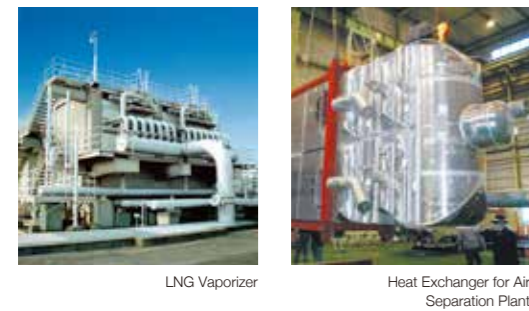
Net sales of the Industrial Equipment Business for fiscal 2019 remained at ¥11.51 billion due to the suspension of shipment caused by the revelation of non-conformity issues in the manufacture of heat exchangers. Operating income was ¥0.67 billion.

For fiscal 2020, net sales will likely drop to ¥11.0 billion, down ¥0.5 billion year on year, as the impact of the non-conformity issues concerning heat exchangers lingers despite robust sales of hydraulic control equipment in the Chinese market. Operating income is expected to be ¥0.15 billion due to the decline in net sales and a temporary increase in costs to address the non-conformity issues.



## Major product lines and SPP's Strengths

### Heat Exchangers



Technology developed for heat exchangers for aircraft is expanded to the ones for energy applications and industrial equipment

Since the first unit delivered in Japan, SPP's Open Rack LNG Vaporizer (ORV) has been making contribution to develop the global energy value chain by its advanced technology.

SPP plate-fin heat exchangers have made the SPP name the best brand in applications such as air separation and petrochemical plants.

Japanese rolling stock equipment manufacturers highly value SPP as their main supplier especially for power device coolers for high-speed trains. SPP's coolers are the most utilized for Japanese bullet train "Shinkansen".

### Hydraulic Control Products



To supply precision hydraulic pumps featuring low consumption, low pulsation, and low noise for various applications such as transport equipment and general industrial equipment with advantage of technologies developed for aircraft hydraulic equipment.

Ningbo SPP Hydraulics Co., Ltd. was established in China as a joint venture with the Haitian Group which is the largest manufacturer of injection molding equipment in the world. Hydraulic pumps manufactured by Ningbo SPP Hydraulics are almost exclusively supplied for the molding equipment of the Haitian Group.

## Social value of major products

Our durable compact heat exchangers contribute to reducing the burden on the environment through high-efficiency cooling of electronic equipment in the Shinkansen (including the cutting edge N700S series) and other rolling stock as well as various industrial machines. In addition, LNG vaporizers contribute to the reduction of CO<sub>2</sub> emissions, while heat exchangers for plants contribute to energy saving by improving heat efficiency of the entire plant in a broad range of industrial applications across the world, such as petrochemical and industrial gas production.

Injection molding equipment that uses hydraulic equipment manufactures all kinds of daily products, including medical goods, helping to improve healthcare services and achieve healthy living. Furthermore, hydraulic pumps, including QT pumps, and coolant pumps boast high energy-saving performance, which contributes to the reduction of energy consumption at production sites. About 60% of the materials used in SPP's pumps are made from recycled materials.



## Initiatives toward a sustainable society

### Development of heat exchangers for cooling hydrogen gas

Hydrogen is anticipated to become a key energy source in resource-poor Japan in the future due to its ability to be produced through various methods from a wide variety of resources, such as natural gas and coal as well as water, which is inexhaustible, and to its high energy efficiency without emitting CO<sub>2</sub> when being used.

SPP develops and has begun supplying stainless steel heat exchangers for hydrogen stations toward the realization of a hydrogen society. This stainless steel heat exchanger adopts a diffusion bonding technology that is different from conventional brazing, enabling it to save space as a compact heat exchanger that cools ultrahigh-pressure hydrogen.



©Iwatani Corporation



A diffusion-bonding-type micro channel heat exchanger that is used at hydrogen stations and can adapt to a high-pressure environment

### Development of heat exchangers for data center applications and renewable energy sources

Modern society requires high-performance servers that can process vast volumes of data in order to support people's lives and the evolution of businesses. While numerous data centers are built around the world to install servers, the amount of electricity at data centers is increasing each year, giving rise to energy-saving needs. The amount of heat generated from hard discs and CPUs has also been doubling. Therefore, how to control and cool this heat efficiently has become the greatest issue among data center operators and server manufacturers.

SPP developed a two-phased circulation-type cooler (Siphorex), which leverages the phase change (boiling and condensing) of coolants, for cooling power devices for high-speed trains and industrial machines. The product has been supplied in large numbers. The company improved the product and incorporated new developments into it and created a small, lightweight Siphorex that supports high-load, high heating density CPUs. The company is currently promoting the sale of the product as a next-generation strategic product for application in power conditioners of solar power, wind power and other renewable energy power generation, in addition to application at data centers.



A small, high-performance two-phase cooler (Siphorex), developed for cooling CPUs of servers at data centers



Siphorex for power conditioners

## Business Profile

The ICT Business develops and manufactures MEMS and semiconductor manufacturing equipment. SPP is a leading company in silicon etching equipment, which is indispensable for MEMS production. In 1995, SPP became the first provider in the world of silicon etching equipment. By applying plasma technology, the company develops and sells a wide variety of characteristic equipment. Recently, it has contributed to the manufacture of gallium nitride high-speed ICs and filters for mobile devices in anticipation of IoT and big data utilization in the 5G era and onward.

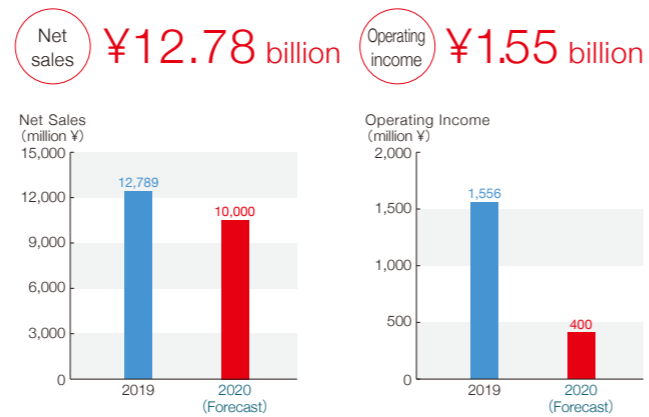
Furthermore, it leverages the MEMS manufacturing equipment to develop high-precision sensors and other MEMS devices.

SPP also provides ozone generators that are used in the water treatment and semiconductor manufacturing fields. The company has been expanding the range of application of ozone generators to water/drainage treatment processes such as decoloration, deodorization and decomposing persistent organic substances, manufacturing processes of chemicals, semiconductors and FPDs, and bleaching processes for pulp and fiber. It will continue to engage in product development with an eye toward advancing into promising areas that can benefit from the potential of ozone, such as healthcare.

## Overview of Business Performance in Fiscal 2019

In fiscal 2019, net sales of the ICT Business ended at ¥12.78 billion due to an increase in orders for plasma equipment for manufacturing 5G devices. Due to an increase in development costs, operating income resulted in ¥1.55 billion while sales increased.

For fiscal 2020, the ICT Business expects to post net sales of ¥10.0 billion and achieve an operating income of ¥0.4 billion despite an inevitable drop in revenues as the year coincides with an in-between period in clients' investments.



## Major product lines and SPP's Strengths

### MEMS/Semiconductor Manufacturing Equipment



Satisfactory product line-up of MEMS and semiconductor manufacturing equipment enabling users to conduct a wide range of processes from development and trial production to commercial production

As for precise silicon etching equipment used for three-dimensional forming of electronic devices such as MEMS, our main products, we supply 90% of products demanded globally using our original technologies, together with SPTS Technologies, our partner company (SPP conducts this business mainly in the Japanese market).

Technologies developed for MEMS are leveraged to provide high-grade CVD (chemical vapor disposition) equipment and plasma etching equipment for manufacturing LED and compound semiconductor devices.

Acquired a US-based Thermal Products business for semiconductor industry in June 2015. In addition to conventional semiconductor and power device applications, SPP is developing and globally rolling out new processes for MEMS in cooperation with the U.S. team.

## MEMS Devices

### MEMS Gyro & Systems



High Precision Gyro

Joint venture company, Silicon Sensing Systems, started mass-producing MEMS gyros in 1999 and has celebrated the 20th anniversary this year.

After success in automotive stabilization controller, Silicon Sensing Systems has become a highly respected supplier of the world's highest precision gyros to a worldwide market.

MEMS gyro and systems from SPP finds extensive use in a broad range of applications such as the attitude control in various mobile equipment including down-hole mining, autonomous helicopters, GPS antennas, and satellites as well as safety systems in automobiles and trains.

The foundry business carries out contract manufacturing and development of client's advanced MEMS devices, leveraging its track record in MEMS gyro production.

### Attitude measurement equipment



Attitude measurement device "DMU30-AAU"

Develops and manufactures high-precision gyro sensors for aerospace use at Silicon Sensing Systems, leveraging MEMS technology which SPP has developed since the 1990s ahead of global competitors.

In order to meet clients' demands, MEMS & Sensor Systems Department develops sensor application products that incorporate Silicon Sensing Systems' gyro sensor and SPP's system. This has addressed the market's needs, such as reducing size, cost and power consumption, which contributed to market expansion and greater convenience for users.

Attitude measurement unit DMU30-AAU has been adopted in the trajectory status monitoring system of the N700S series Shinkansen, contributing to timely maintenance work and the maintenance/improvement of ride comfort.

## Ozone generators



General-purpose Ozone generator



AOP (Advanced Oxidation Process)

Provides a sophisticated water treatment system that can decompose toxic, persistent substances that may cause cancer.

High-density clean ozone contributes to cutting-edge semiconductor manufacturing processes, which are becoming smaller and lower in consumption.

## Social value of major products

MEMS and semiconductor manufacturing equipment are used in everyday electronic devices such as automotive sensors for air-bags, nozzle heads of inkjet printers, and high-frequency devices and camera modules of smartphones and other mobile devices. SPP's high-precision MEMS devices find extensive use in a broad range of applications, such as down-hole mining, safety systems in trains, GPS antennas, and attitude control of satellites. They support the safety and improve the convenience of daily life.

Ozone is an environmentally friendly oxidizing substance since it eventually decomposes into oxygen. Its oxidizing capability is used in a wide range of applications, including purification of tap water/sewage, swimming pool water, aquarium water, and commercial water/drainage treatment. It ensures safe and comfortable lives of people and animals by reducing the burden on and/or restoring the environment.



## Initiatives toward a sustainable society

### Development of high-precision MEMS gyroscope

SPP participates in JAXA's Open Laboratory, a collaborative system through the invitation of public participation that promotes the diversion of civilian technologies to rocket components, and has been engaged in high-precision MEMS gyroscopes (equipment that detects the angular velocity of gyration) since 2012.

The high-precision product has already been installed as a guidance and control sensor that controls the attitude and navigates the course of space rockets. The MEMS gyroscope developed by SPP is anticipated to be adopted in small civilian rockets, which are expected to increase in the future, due to its smaller size and lower power consumption compared to the ring laser type, which had previously been used as the gyroscope for rockets, as well as its significantly lower manufacturing costs.

Going forward, we believe our products can be used in attitude control applications for resource exploration equipment in environments where location information of GPS cannot be used, such as underground places and seabeds where durability is crucial for utilization, as in space.

SPP will continue to support various types of infrastructure to contribute to the achievement of comfortable and convenient living.



The MEMS gyroscope consists of two units as one set, each checking the other for abnormalities to prevent any radiation incidents in space.





# Corporate Governance

Since 2019, we have discovered multiple cases such as overcharging for defense equipment, inadequate conduct in the manufacturing and inspection process of heat exchangers, and incorrect accounting estimates of retirement benefit obligations for the previous fiscal years. In response to these incidents, the Company recognizes that the

enhancement of internal control, strengthening of governance, thorough awareness of compliance including quality, and strengthening of cooperation between departments are the most urgent issues. Considering those issues as company-wide problems, we will work sincerely on reform and improvement to restore trust.

## Basic Principles of Corporate Governance

We believe that "Sumitomo's Business Philosophy" and "Corporate Principle" are the backbone of corporate ethics and the unalterable truth. Based on the recognition that corporate governance is a system for the company to make transparent, fair, prompt and decisive decisions while taking into account the positions of all stakeholders, we established our corporate governance

principles in fiscal 2019. We believe that appropriate practice of this principle will lead to sustainable growth and the improvement of corporate value over the medium to long term, and will benefit all stakeholders including customers, business partners, employees, local communities and shareholders. Thus, we will continue to make constant efforts to further improve governance.

## Corporate Governance System

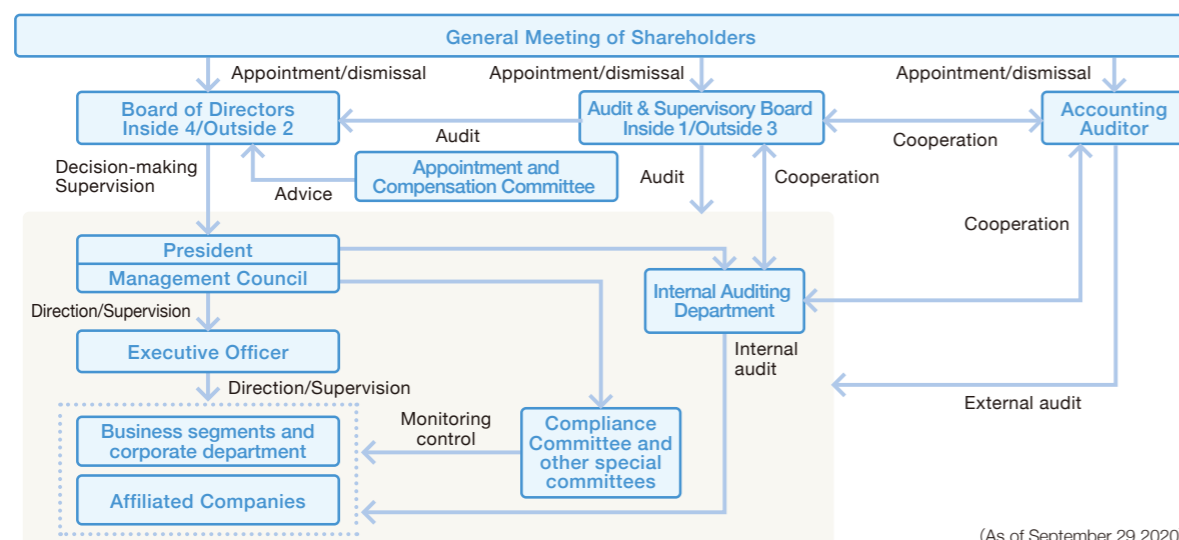
SPP has a corporate governance system that consists of the Board of Directors including independent outside directors and the Audit & Supervisory Board.

Regarding managerial decision-making, execution and supervision, the Board of Directors decides important matters at its meeting held at least once a month and supervises the execution status of specific businesses. Furthermore, the Company operates a system for appropriate and swift practice of business by holding meetings of the Management Council by executives and business meetings in each department, as appropriate, to thoroughly discuss the matter, and receive advice from the law firm whenever necessary. SPP introduced an executive officer system. By separating the business decision-making and supervising from the implementation of business operations, the system is designed to enable the Board of Directors to supervise more successfully, while strengthening SPP's implementing business operations. Furthermore, SPP operates a non-statutory Appointment and Compensation Committee as an advisory body for the Board of Directors. This committee, with outside directors consisting of half of the committee,

serves to secure greater transparency and fairness in considering the appointment of and compensation for directors.

Audit and Supervisory Board members attend meetings of the Board of Directors and other significant meetings to correctly understand and supervise the way the company is actually managed. They also utilize the Audit and Supervisory Board Members' Office to help audit the internal control system and the risk management structure. Under an agreement with an accounting auditor, the company conducts regular audits and, as the need arises, receives professional advice.

In fiscal 2019, in order to strengthen the governance, the chairperson of the Appointment and Compensation Committee was changed from the President to an outside director. Furthermore, in order to further sophisticate, and improve efficiency in decision-making process and enhance transparency in management, the Company has decided to convert the Management Council, which had been an advisory body to the President, into a decision-making body to which a conference system is applied.



(As of September 29, 2020)

## Internal Control System

The Company resolved at its Board of Directors' meeting and operates the system (internal control system) specified in Article 362 paragraph 4 (vi) of the Companies Act. We will maintain and improve the internal control system by reviewing it continuously.

### (1) Compliance

In fiscal 2019, as a measure to prevent recurrence of the non-compliance incident of overcharging expenses to the Ministry of Defense, we implemented initiatives to reform the corporate culture by disseminating the President's message, holding the President's small meetings, and conducting trainings concerning Sumitomo's Business Philosophy and Corporate Principle of the Company. Furthermore, in order to enhance the compliance system, we appointed an officer in charge of compliance, established the Legal Compliance Department, and strengthened the system of the Compliance Committee. The general managers of each organization were appointed as compliance leaders so that their responsibilities relating to compliance were clarified. Under such a system, we have improved awareness of legal compliance among directors and employees by conducting education for officers and employees of both the Company and affiliated companies based on the action plan established by the Compliance Committee. Concurrently, we have improved and maintained our compliance system by conducting company-wide inspections concerning compliance on a voluntary basis.

Furthermore, in order to detect and prevent violations of laws and regulations at an early stage, we included in the Compliance Regulations a requirement to "Report immediately" to a supervisor, an officer in charge of compliance and the General Manager of the Legal Compliance Department, if a compliance violation is identified. Regarding the whistleblower hotlines, while they had been established internally by the General Manager of the Audit & Supervisory Board Members' Office which was independent of the execution of business, and externally by a specialized contractor, we reviewed the Whistleblowing Regulations in which we clarified that the person responsible for the operation of the hotlines is the relevant officer in charge of compliance. At the same time, in order to promote the use, the General Manager of the Legal Compliance Department was added to the internal contact point, and the external contact point was changed from a specialist to an attorney, making the system easier for a whistleblower to use and more appropriate for investigation and treatment when reported. We also provide information on the "Report immediately" requirement and the whistleblowing hotlines by distributing compliance cards, etc.

### (2) Risk management

In fiscal 2019, the Company confirmed that it would implement risk management based on the concept of the so-called Three Lines of Defense consisting of risk management by each business division, the establishment of a company-wide risk management framework and support for each relevant business division by corporate division, and audit by the Internal Auditing Department of the risk management status of each business division and corporate division. Based on this concept, the internal rules were checked and reviewed by each relevant division as appropriate. For specific issues and risks such as compliance, information security, environmental management,

quality, health and safety, human rights and diversity, we appointed officers in charge to clarify their responsibilities. We also modified the positioning of each relevant special committee to an advisory body for the officers in charge. Furthermore, we have changed the system under which each special committee determines its action plan at the beginning of the term, receives approval for its activity policy from the Management Council, and then acts based on the action plan to study and reduce risks through continuous company-wide activities. In addition, risk identification and evaluation by each business division is organized as a list of department risks.

### (3) Business execution

SPP determines important management matters by holding Board of Directors meetings where executive directors regularly report their job execution statuses. The Company clarifies the authority and responsibilities based on the Agenda Standards for the Board of Directors, the division of duties of Directors, and the Administrative Rules to improve efficiency in the business execution. We also analyze and evaluate the effectiveness of the Board of Directors, and review the operation of the Board of Directors as appropriate based on the results thereof. In addition, we hold Management Council and business review meetings of each department on a regular basis to thoroughly discuss important issues. Thus, we have established an appropriate and prompt business promotion system.

### (4) Group management

We provide education to employees of subsidiaries, etc. to disseminate the Group's Corporate Principle and code of conduct to the subsidiaries, etc. We are also expanding our compliance efforts ("Report immediately," dissemination of the whistleblowing system, etc.) and risk management initiative to our subsidiaries, etc. to identify and mitigate risks.

We also require subsidiaries, etc. to consult with, and report to, the Company important matters in accordance with the Regulations Concerning the Management of Affiliated Companies, etc. Thus, the Company ensures thorough dissemination of the Company's management policy through deliberations of annual plans at the Management Council and information exchange meetings with the president of each subsidiary. Directors and Audit & Supervisory Board Members are dispatched to subsidiaries as appropriate to execute business and supervise business performance, and the Internal Auditing Department also conducts audits periodically.

### (5) Audit and Supervisory Board members

Audit & Supervisory Board Members make efforts to collect information for effective audits by attending important meetings such as the Board of Directors' meetings, inspecting important documents, and regularly exchanging opinions with the President, the accounting auditor and outside directors. In addition, the Audit & Supervisory Board members maintain close cooperation with the Internal Auditing Department by holding monthly information liaison meetings with the Internal Auditing Department, and the Audit & Supervisory Board receives quarterly reports of audit results from the Internal Auditing Department.

# Corporate Governance

## Directors, Audit & Supervisory Board Members, and Executive Officers As of November 1, 2020

### Directors



**Hideaki TAKAHASHI**  
Representative Director  
President



**Masatoshi DEGUCHI**  
Representative Director  
Senior Managing Executive Officer  
General Manager,  
Corporate Management Division



**Kenro ITAKURA**  
Director  
Senior Managing Executive Officer  
General Manager,  
Aerospace Division,  
Industrial Equipment Division



**Toshihiro HAYAMI**  
Director  
Senior Managing Executive Officer  
General Manager,  
Corporate Technology Division,  
ICT Division



**Guntaro KAWAMURA**  
Outside Director  
Outside Director,  
ICHINEN HOLDINGS CO., LTD.



**Shigeo MISAKA**  
Outside Director

### Audit & Supervisory Board Members



**Ayumu TAKAHASHI**  
Senior Audit &  
Supervisory Board Member



**Eiichi MORI**  
Outside Audit &  
Supervisory Board Member  
Attorney at Law  
Outside Director  
(Audit & Supervisory Committee  
member), NIPPON PILLAR  
PACKING CO., Ltd.



**Yukinobu YOKOO**  
Outside Audit &  
Supervisory Board Member  
Assistant to General Manager,  
Planning & Coordination  
Dept., Transportation &  
Construction Systems,  
SUMITOMO CORPORATION



**Hideaki MIHARA**  
Outside Audit &  
Supervisory Board Member  
Certified Public Accountant  
Outside Auditor,  
AS ONE CORPORATION

### Executive Officers

**Masato AYANI**  
Managing Executive Officer

General Manager,  
Corporate Compliance Division  
Internal Auditing

**Shogo ISHIMARU**  
Managing Executive Officer

Corporate Planning,  
Enterprise Systems Project,  
Controlling & Treasury,  
Information Systems

**Hiroaki MINAMI**  
Executive Officer

Sales & Marketing  
- Aerospace,  
Thermal Control Systems  
- Aerospace

**Takeshi YADA**  
Executive Officer

Heat Exchangers

**Masakazu YAGI**  
Executive Officer

Corporate Environmental  
Control & Facilities  
Engineering, Research,  
Industrial Hydraulic

**Masahiko TANAKA**  
Executive Officer

ICT Administration,  
MEMS/Semiconductor  
Manufacturing Equipment

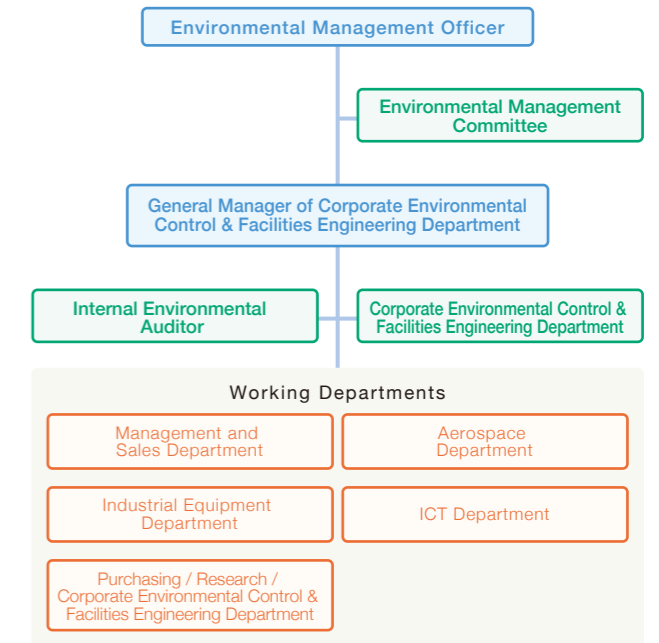
# Environment

## Environmental Policy and Environmental Management

All organizations of SPP commit themselves to environmental preservation in accordance with the Environmental Policy:

As a responsible member of society, we recognize the significant need to preserve the local and global environment and meet the challenge of "harmony with the surrounding environment" stated in the company principle as one of the top priorities in management, through the following actions:

1. Set environmental targets, aim to achieve these targets through environmental preservation work involving all employees, and continually improve the environmental management system to achieve higher environmental performance.
2. Reduce the environmental impact of individual phases of business operations, such as by preventing burden on and polluting the environment, to contribute to its preservation.
3. Carefully meet relevant legal requirements and other obligations.
4. Improve the environmental awareness of employees and facilitate their environmental preservation activities.
5. Promote activities for resource and energy saving and 3R's (reduce, reuse, and recycle).
6. Take advantage of basic technologies that have long been developed in individual fields including Aerospace, Hydraulic Control, Heat Control, and Industrial Products, and Environmental Systems to promote the development of environmental preservation technologies and products as a means of social contribution.



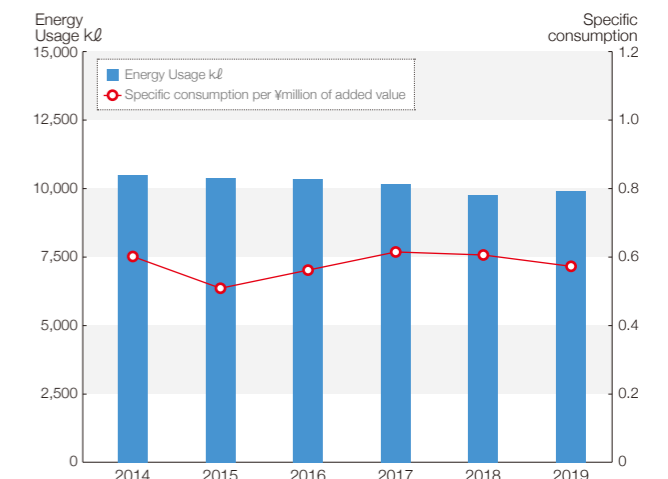
## Initiatives for reducing environmental impact

To reduce the environmental impact of its operations, SPP strongly commits itself toward company-wide activities for saving energy and resources.

The resources-saving initiative focuses on recycling activities, including not only the reuse of metallic waste generated from the production process, but also the reuse of logistics and packaging materials and the recycling of paper by meticulous separation.

The energy-saving work is spearheaded by the Energy-Saving Committee. Individual workplaces are expected to reduce energy use through stringent control. In addition, they try to make a difference through small efforts, such as switching to energy-saving equipment, removal of some lights, and turning off the power to unused equipment. These activities do not immediately result in a substantial reduction in company-wide energy usage because, at SPP, energy usage during manufacturing differs depending on the product. But they do help us in our efforts to maintain it at certain levels and even reduce it.

### Energy usage



## IR activities and disclosure

With the aim of helping shareholders and investors deepen their understanding of the Company, including its management policies and stance, we proactively conduct IR activity such as the issuance of annual reports and business reports for shareholders, and provide information

through our website.

We will remain committed to upgrading our information disclosure and ensuring the timeliness and usefulness of IR information.

## Employee Relations

### Diversity commitment

#### ● Recruitment plans

Considering a balanced workforce age mix, SPP continues recruiting to secure all important talent. The company has the basic policy of hiring 10 to 20 university and college graduates and 20 to 30 graduates from professional schools and high schools on a periodical basis. SPP also responds flexibly to the needs to expand operations by recruiting mid-career employees.

The SPP also faces up to the challenge of ensuring workforce diversity. Measures include the positive recruitment of the challenged (the current employment of 30 persons surpasses the legally required number of 29),

employing more women, and recruiting international employees and interns.



#### University/College Graduates Employed via Regular Recruiting

| Fiscal 2018-2020          | Male  | Female | Total |
|---------------------------|-------|--------|-------|
| Employees                 | 18    | 13     | 31    |
| Share                     | 58.1% | 41.9%  | 100%  |
| (International employees) | (2)   | (3)    | (5)   |

#### ● Human rights, diversity education and female empowerment

The Company engages in enlightenment to eliminate discrimination and promotes diversity with the aim of raising human rights awareness and promoting diversity under the slogans of "Do away with all forms of discrimination" and "Eliminate all forms of discrimination." To that end, the Company holds annual lecture meetings on human rights and diversity, distributes educational materials during Human Rights Week, and educates new graduates and mid-career employees. SPP properly addresses harassment. In addition to providing separate contacts with male and female counselors, SPP makes a further contact available outside the company.

To accelerate female empowerment, while the company has been recruiting an increasing number of women, the company actively commits itself to rulemaking and awareness-raising. The Health and Labor Ministry (MHLM) has certified SPP as an Eruboshi business under the Act on Promotion of Women's Participation and Advancement in the Workplace. The company is also highly regarded for its positive support for employees bringing up their children and has been named a Kurumin-mark holder by the Hyogo Labor Bureau on behalf of MHLW.



Kurumin-mark certification under the Act on Measures to Support the Development of the Next Generation

### Measures against natural disasters and other emergencies

The "Regulations on Measures against Natural Disasters" provide for emergencies caused by natural disasters such as earthquakes and typhoons. Following procedures stated in these regulations, every July the company registers equipment likely to cause a hazard during natural disasters, designates evacuation routes and spaces, and maintains an emergency contact network. In addition, we have introduced a safety confirmation service to allow us to confirm the safety of employees in the event of an emergency such as a natural disaster.

In this year of 2020, amid the spread of COVID-19, we have given top

priority to preventing the spread of the infection to employees, and from the viewpoint of preventing the spread of infection in the form of clusters in the workplace, we have implemented measures of working from home and staggered working hours. At the same time, we have thoroughly ensured infection prevention measures (wearing a mask, washing hands and measuring body temperature) for employees.

In order to respond to natural disasters such as earthquakes and floods, we are formulating a Business Continuity Plan that gives top priority to ensuring human life safety.

### Safety, health, and fire prevention

In addition to committing itself to safety education, SPP holds meetings of the Safety and Health Committee and monthly ceremonies to pray for safety at an in-house shrine to improve the safety awareness of all employees.

In this year of 2020, we are working diligently focusing on implementing four priority items: "Continuous implementation of measures to improve safety awareness," "Continuous operation of the occupational safety and health management system (S-OSHMS)," "Continuous strengthening of the workplace safety and health management system and environmental improvement," and "Enhancement of health management activities."

In particular, since many industrial accidents have occurred, we are working on various measures for each employee to further raise safety awareness by "observing what he/she has decided or what has been decided."



A drill of carrying an injured person using a stretcher



Firefighting training by water discharge

| Year                          | Accidents resulting in leave | Accidents not resulting in leave |
|-------------------------------|------------------------------|----------------------------------|
| 2018                          | 1                            | 5                                |
| 2019                          | 1                            | 4                                |
| 2020 (As of end of September) | 2                            | 10                               |

### Health management

SPP strives to maintain and improve the health of our employees through multiple initiatives, such as for encouraging more employees to have their health checkups, conducted in collaboration with the SK Health Insurance Union, of which the company is a member. In addition to holding an annual health seminar as an initiative unique to the Company, we have

established a counseling room for problems (mental and physical health, interpersonal relationships, family problems, etc.) which opens twice a month with an outside counselor. We also continue to prevent mental health problems by holding a stress check once a year.

## Relations with Society and Local Communities

### Social contributions

SPP's biannual blood donation events attracted a total of 284 contributors in fiscal 2019. In fiscal 2019, SPP cooperated with the All Japan Student Indoor Flying Robot Contest sponsored by the Japan Society for Aeronautical and Space Sciences. The contest supports education for students in design, production and manufacturing through

competitions of flying robots designed by students under the given mission assuming the transportation of emergency supplies to disaster areas, thus contributing greatly to the development of Japan's aerospace technology and human resource cultivation.

### Local contributions

SPP cares about the communities it operates in. We interact with local residents by donating to local events and inviting them to our summer festival. In fiscal 2019, SPP helped organize Eco Kids Messe 2019, an experience for children held in the company's hometown of Amagasaki, by providing a Segway two-wheeled self-balancing personal transporter, which integrates products from one of our affiliates. Many visitors enjoyed the rare opportunity to test-ride the unique electric vehicle.

Seihokai, the group of SPP's front-line supervisors, spearheads the

cleanup of walks and ditches around the SPP Main Plant. We also take part in Hyogo Prefecture's "Hyogo Adopt--Lighting Maintenance Partners" project, helping maintain road lighting installed along a prefectural route.



Test-riding the Segway at the kids' event

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Balance Sheet March 31, 2020

| ASSETS  | Millions of Yen |                             | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------------------|------------------------------------|
|   | 2020            | 2019 as Restated (Note 1.b) | 2020                               |
| <b>CURRENT ASSETS:</b>  |                 |                             |                                    |
| Cash and cash equivalents (Note 16)                                       | ¥8,139          | ¥10,092                     | \$74,800                           |
| Notes and accounts receivable (Note 16):                                  |                 |                             |                                    |
| Trade   | 17,703          | 19,350                      | 162,696                            |
| Unconsolidated subsidiaries and associated companies                      | 445             | 681                         | 4,090                              |
| Allowance for doubtful accounts   | (29)            | (12)                        | (267)                              |
| Inventories (Notes 4 and 7)   | 26,555          | 25,664                      | 244,049                            |
| Other current assets  | 1,673           | 1,334                       | 15,376                             |
| Total current assets  | 54,486          | 57,109                      | 500,744                            |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                                     |                 |                             |                                    |
| Land (Note 5)   | 4,299           | 4,658                       | 39,509                             |
| Buildings and structures (Note 5)   | 20,746          | 20,246                      | 190,663                            |
| Machinery and equipment   | 36,696          | 36,663                      | 337,249                            |
| Lease assets (Note 14)  | 656             | 527                         | 6,029                              |
| Construction in progress  | 169             | 11                          | 1,553                              |
| Total   | 62,566          | 62,105                      | 575,003                            |
| Accumulated depreciation  | (47,526)        | (46,520)                    | (436,780)                          |
| Net property, plant and equipment   | 15,040          | 15,585                      | 138,223                            |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                                      |                 |                             |                                    |
| Investment securities (Notes 3 and 16)                                    | 813             | 2,025                       | 7,472                              |
| Investments in and advances to unconsolidated subsidiaries and associates | 1,645           | 1,746                       | 15,118                             |
| Intangible assets:  |                 |                             |                                    |
| Goodwill  | 438             | 532                         | 4,025                              |
| Other intangible assets   | 930             | 945                         | 8,548                              |
| Deferred tax assets (Notes 2.t and 13)                                    | 2,361           | 3,717                       | 21,699                             |
| Other assets  | 210             | 262                         | 1,929                              |
| Retirement benefit asset (Note 6)   | 1,584           | 1,779                       | 14,557                             |
| Allowance for doubtful accounts   | (22)            | (22)                        | (202)                              |
| Total investments and other assets  | 7,959           | 10,984                      | 73,146                             |
| <b>TOTAL</b>  | <b>¥77,485</b>  | <b>¥83,678</b>              | <b>\$712,113</b>                   |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY  | Millions of Yen |                             | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------------------|------------------------------------|
|   | 2020            | 2019 as Restated (Note 1.b) | 2020                               |
| <b>CURRENT LIABILITIES:</b>   |                 |                             |                                    |
| Short-term bank loans (Notes 5 and 16)  | ¥15,765         | ¥15,247                     | \$144,886                          |
| Current portion of long-term debt (Notes 5 and 16)  | 2,554           | 4,170                       | 23,472                             |
| Notes and accounts payable(Notes 16):   |                 |                             |                                    |
| Trade notes   | 2,330           | 3,367                       | 21,413                             |
| Trade accounts  | 3,732           | 6,304                       | 34,298                             |
| Unconsolidated subsidiaries and associated companies  |                 | 9                           |                                    |
| Construction  | 107             | 85                          | 983                                |
| Other   | 3,055           | 3,594                       | 28,077                             |
| Income taxes payable  | 372             | 232                         | 3,419                              |
| Accrued expenses  | 1,392           | 1,392                       | 12,793                             |
| Provision for loss on construction contracts (Note 7)                                       | 15              | 84                          | 138                                |
| Provision for product warranties (Note 2.m)   | 405             |                             | 3,722                              |
| Provision for customer compensation expenses (Note 2.n)                                     | 1,002           |                             | 9,209                              |
| Provision for compensation-related loss on the defense equipment business (Note 2.z(a))     |                 | 5,061                       |                                    |
| Asset retirement obligations  | 117             |                             | 1,075                              |
| Other current liabilities   | 5,158           | 3,659                       | 47,404                             |
| Total current liabilities   | 36,004          | 43,204                      | 330,889                            |
| <b>LONG-TERM LIABILITIES:</b>   |                 |                             |                                    |
| Long-term debt (Notes 5 and 16)   | 6,023           | 6,247                       | 55,353                             |
| Provision for product warranties(Note 2.m)  | 997             |                             | 9,163                              |
| Retirement benefit liabilities (Note 6)   | 5,325           | 5,031                       | 48,939                             |
| Asset retirement obligations  | 224             | 137                         | 2,058                              |
| Deferred tax liabilities (Notes 2.t and 13)   | 3               | 97                          | 28                                 |
| Other long-term liabilities   | 274             | 338                         | 2,518                              |
| Total long-term liabilities   | 12,846          | 11,850                      | 118,059                            |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 18)</b>                                     |                 |                             |                                    |
| <b>EQUITY (Note 8):</b>   |                 |                             |                                    |
| Common stock, authorized, 20,000,000 shares; issued, 5,316,779 shares in 2020 and 2019 *(1) | 10,312          | 10,312                      | 94,771                             |
| Capital surplus   | 11,351          | 11,332                      | 104,319                            |
| Retained earnings   | 6,821           | 5,984                       | 62,687                             |
| Treasury stock - at cost 25,110 shares in 2020 and 24,920 shares in 2019 *(1)               | (104)           | (102)                       | (955)                              |
| Accumulated other comprehensive income:   |                 |                             |                                    |
| Unrealized gain on available-for-sale securities  | 149             | 763                         | 1,369                              |
| Foreign currency translation adjustments  | (454)           | (460)                       | (4,172)                            |
| Defined retirement benefit plans  | (608)           | (373)                       | (5,588)                            |
| Total   | 27,467          | 27,456                      | 252,431                            |
| Noncontrolling interests  | 1,168           | 1,168                       | 10,734                             |
| Total equity  | 28,635          | 28,624                      | 263,165                            |
| <b>TOTAL</b>  | <b>¥ 77,485</b> | <b>¥83,678</b>              | <b>\$712,113</b>                   |

\*(1) Share figures have been restated, as appropriate, to reflect a ten-for-one reverse stock split effected October 1, 2018.

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Operations Year Ended March 31, 2020

|   | Millions of Yen |                                | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|--------------------------------|--|
|   | 2020            | 2019<br>as Restated (Note 1.b) | 2020                                     |
| <b>NET SALES</b>  | ¥51,017         | ¥ 48,991                       | \$468,863                                |
| <b>COST OF SALES (Notes 7 and 14)</b>   | 38,060          | 36,412                         | 349,784                                  |
| Gross profit  | 12,957          | 12,579                         | 119,079                                  |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 14)</b>                            | 9,603           | 10,189                         | 88,255                                   |
| Operating income  | 3,354           | 2,390                          | 30,824                                   |
| <b>OTHER INCOME (EXPENSES):</b>   |                 |                                |  |
| Interest and dividend income  | 51              | 36                             | 469                                      |
| Interest expense  | (211)           | (218)                          | (1,939)                                  |
| Foreign currency exchange gain (loss)   | (330)           | 46                             | (3,033)                                  |
| Equity in earnings of associated companies  | 391             | 375                            | 3,593                                    |
| Gain on sales of investment securities  | 232             | 25                             | 2,132                                    |
| Loss on devaluation of investment securities (Note 3)   | (329)           | (4)                            | (3,024)                                  |
| Loss on devaluation of inventories  | (268)           |                                | (2,463)                                  |
| Impairment Losses of Assets (Note 10)   | (930)           | (315)                          | (8,547)                                  |
| Customer compensation expenses  | (1,002)         |                                | (9,209)                                  |
| Compensation-related loss on the defense equipment business (Note 2.z(a))                       |                 | (5,061)                        |  |
| Reversal of provision for compensation-related loss on defense equipment business (Note 2.z(a)) | 2,484           |                                | 22,829                                   |
| Business transformation expenses (Note 11)  |                 | (181)                          |  |
| Insurance income (Note 12)  |                 | 121                            |  |
| Loss on disaster (Note 12)  |                 | (131)                          |  |
| Other – net   | (151)           | (157)                          | (1,387)                                  |
| Other expenses – net  | (63)            | (5,464)                        | (579)                                    |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  | 3,291           | (3,074)                        | 30,245                                   |
| <b>INCOME TAXES (Note 13):</b>  |                 |                                |  |
| Current   | 560             | 606                            | 5,146                                    |
| Deferred  | 1,660           | (1,498)                        | 15,256                                   |
| Total income taxes  | 2,220           | (892)                          | 20,402                                   |
| <b>NET INCOME (LOSS)</b>  | 1,071           | (2,182)                        | 9,843                                    |
| <b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>                                      | 69              | 179                            | 634                                      |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT</b>                                   | ¥1,002          | ¥(2,361)                       | \$9,209                                  |
|   |                 | Yen                            | U.S. Dollars                             |
| <b>PER SHARE OF COMMON STOCK (Note 2.w):</b>  |                 |                                |  |
| Basic net income (loss)   | ¥189.36         | ¥(446.00)                      | \$1.74                                   |
| Cash dividends applicable to the year   |                 | 25.00                          |  |

Diluted net income per share is not disclosed because there were no potentially dilutive securities outstanding and the Group was in a net loss position for the years ended March 31, 2019. Per share figures have been restated, as appropriate, to reflect a ten-for-one reverse stock split effected October 1, 2018. See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income Year Ended March 31, 2020

|   | Millions of Yen |                                | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|--------------------------------|--|
|   | 2020            | 2019<br>as Restated (Note 1.b) | 2020                                     |
| <b>NET INCOME (LOSS)</b>                                  | ¥ 1,071         | ¥(2,182)                       | \$9,843                                  |
| <b>OTHER COMPREHENSIVE INCOME (Note 18):</b>              |                 |                                |  |
| Unrealized loss on available-for-sale securities          | (630)           | (1,045)                        | (5,790)                                  |
| Foreign currency translation adjustments                  | (22)            | (121)                          | (202)                                    |
| Defined retirement benefit plans                          | (235)           | 109                            | (2,160)                                  |
| Share of other comprehensive income in associates         | (3)             | 50                             | (27)                                     |
| Total other comprehensive loss                            | (890)           | (1,007)                        | (8,179)                                  |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                        | ¥181            | ¥(3,189)                       | \$1,664                                  |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b> |                 |                                |  |
| Owners of the parent                                      | ¥159            | ¥(3,254)                       | \$1,462                                  |
| Noncontrolling interests                                  | 22              | 65                             | 202                                      |

See notes to consolidated financial statements.

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Changes in Equity Year Ended March 31, 2020

|   | Thousands of Shares/Millions of Yen |         |                 |                   |                |        |  |  |                                  |         |                          |              |
|---|-------------------------------------|---------|-----------------|-------------------|----------------|--------|--|--|----------------------------------|---------|--------------------------|--------------|
|   | Common Stock                        |         | Capital Surplus | Retained Earnings | Treasury Stock |        | Accumulated Other Comprehensive Income           |  |                                  | Total   | Noncontrolling Interests | Total Equity |
|   | Shares *(1)                         | Amount  |                 |                   | Shares *(1)    | Amount | Unrealized Gain on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans |         |                          |              |
| <b>BALANCE, APRIL 1, 2018(as Restated (Note1.b))</b>            | 5,317                               | ¥10,312 | ¥11,332         | ¥8,610            | (24)           | ¥(101) | ¥1,758   | ¥(452)                                   | ¥(482)                           | ¥30,977 | ¥1,103                   | ¥32,080      |
| Net loss attributable to owners of the parent                   |                                     |         |                 | (2,361)           |                |        |  |  |                                  | (2,361) |                          | (2,361)      |
| Cash dividends, ¥25.00 per share                                |                                     |         |                 | (265)             |                |        |  |  |                                  | (265)   |                          | (265)        |
| Purchase of treasury stock                                      |                                     |         |                 |                   | (1)            | (1)    |  |  |                                  | (1)     |                          | (1)          |
| Net change in the year  |                                     |         |                 |                   |                |        | (995)  | (8)                                      | 109                              | (894)   | 65                       | (829)        |
| <b>BALANCE, MARCH 31, 2019</b>                                  | 5,317                               | 10,312  | 11,332          | 5,984             | (25)           | (102)  | 763  | (460)                                    | (373)                            | 27,456  | 1,168                    | 28,624       |
| Cumulative effects of changes in accounting policies (Note 2.x) |                                     |         |                 | (165)             |                |        |  |  |                                  | (165)   |                          | (165)        |
| <b>BALANCE, APRIL 1, 2019</b>                                   | 5,317                               | 10,312  | 11,332          | 5,819             | (25)           | (102)  | 763  | (460)                                    | (373)                            | 27,291  | 1,168                    | 28,459       |
| Net loss attributable to owners of the parent                   |                                     |         |                 | 1,002             |                |        |  |  |                                  | 1,002   |                          | 1,002        |
| Cash dividends, ¥0 per share                                    |                                     |         |                 |                   |                |        |  |  |                                  |         |                          |              |
| Purchase of shares of subsidiaries                              |                                     |         | 19              |                   |                |        |  |  |                                  | 19      |                          | 19           |
| Purchase of treasury stock                                      |                                     |         |                 |                   |                | (2)    |  |  |                                  | (2)     |                          | (2)          |
| Net change in the year  |                                     |         |                 |                   |                |        | (614)  | 6  | (235)                            | (843)   |                          | (843)        |
| <b>BALANCE, MARCH 31, 2020</b>                                  | 5,317                               | ¥10,312 | ¥11,351         | ¥6,821            | (25)           | ¥(104) | ¥149   | ¥(454)                                   | ¥(608)                           | ¥27,467 | ¥1,168                   | ¥28,635      |

|   | Thousands of U.S. Dollars (Note 1) |           |                 |                   |  |  |  |           |           |          |                          |              |
|---|------------------------------------|-----------|-----------------|-------------------|--|--|--|-----------|-----------|----------|--------------------------|--------------|
|   | Common Stock                       |           | Capital Surplus | Retained Earnings | Treasury Stock                                   |  | Accumulated Other Comprehensive Income |           |           | Total    | Noncontrolling Interests | Total Equity |
|   | Amount                             | Amount    |                 |                   | Unrealized Gain on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans       |           |           |          |                          |              |
| <b>BALANCE, MARCH 31, 2019</b>                                  | \$94,771                           | \$104,145 | \$54,995        |                   | \$(937)  | \$7,012                                  | \$(4,228)                              | \$(3,428) | \$252,330 | \$10,734 | \$263,064                |              |
| Cumulative effects of changes in accounting policies (Note 2.x) |                                    |           | (1,517)         |                   |  |  |  |           | (1,517)   |          | (1,517)                  |              |
| <b>BALANCE, APRIL 1, 2019</b>                                   | \$94,771                           | \$104,145 | \$53,478        |                   | \$(937)  | \$7,012                                  | \$(4,228)                              | \$(3,428) | \$250,813 | \$10,734 | \$261,547                |              |
| Net loss attributable to owners of the parent                   |                                    |           | 9,209           |                   |  |  |  |           | 9,209     |          | 9,209                    |              |
| Cash dividends, \$0 per share                                   |                                    |           |                 |                   |  |  |  |           |           |          |                          |              |
| Purchase of shares of subsidiaries                              |                                    |           | 174             |                   |  |  |  |           | 174       |          | 174                      |              |
| Purchase of treasury stock                                      |                                    |           |                 |                   | (18)   |  |  |           | (18)      |          | (18)                     |              |
| Net change in the year  |                                    |           |                 |                   |  | (5,643)                                  | 56                                     | (2,160)   | (7,747)   |          | (7,747)                  |              |
| <b>BALANCE, MARCH 31, 2020</b>                                  | \$94,771                           | \$104,319 | \$62,687        |                   | \$(955)  | \$1,369                                  | \$(4,172)                              | \$(5,588) | \$252,431 | \$10,734 | \$263,165                |              |

\*(1) Share figures have been restated, as appropriate, to reflect a ten-for-one reverse stock split effected October 1, 2018. See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows Year Ended March 31, 2020

|   | Millions of Yen |                            | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------------------------|------------------------------------|
|   | 2020            | 2019 as Restated (Note1.b) |                                    |
| <b>OPERATING ACTIVITIES:</b>  |                 |                            |                                    |
| Income (loss) before income taxes   | ¥3,291          | ¥(3,074)                   | \$30,245                           |
| Adjustments for:  |                 |                            |                                    |
| Income taxes paid   | (433)           | (1,175)                    | (3,979)                            |
| Income taxes refunded   | 83              |                            | 763                                |
| Depreciation and amortization   | 2,066           | 1,886                      | 18,987                             |
| Amortization of goodwill  | 83              | 85                         | 763                                |
| Impairment Losses of Assets (Note 10)   | 930             | 315                        | 8,547                              |
| Loss on devaluation of inventories  | 268             |                            | 2,463                              |
| Business transformation expenses (Note 11)  |                 | 181                        |                                    |
| Loss on disaster (Note 12)  | (92)            | 102                        | (846)                              |
| Income (Loss) on foreign currency exchange  | 7               | (1)                        | 64                                 |
| Payments of compensation-related loss on the defense equipment business                         | (2,577)         |                            | (23,683)                           |
| Equity in earnings of associated companies  | (391)           | (375)                      | (3,593)                            |
| Loss on devaluation of investment securities (Note 3)   | 329             | 4                          | 3,024                              |
| Gain on sales of investment securities  | (232)           | (25)                       | (2,132)                            |
| Changes in assets and liabilities, net of effects:  |                 |                            |                                    |
| Increase in accrued expenses  | 1               | 2                          | 9                                  |
| Increase in provision for product warranties  | 1,402           |                            | 12,885                             |
| Increase in provision for customer compensation expenses  | 1,002           |                            | 9,209                              |
| Decrease in retirement benefit asset  | 139             | 22                         | 1,277                              |
| Increase in retirement benefit liabilities  | 11              | 83                         | 101                                |
| Increase (decrease) in asset retirement obligations   | 23              | (6)                        | 211                                |
| Provision for compensation-related loss on the defense equipment business (Note 2.z(a))         |                 | 5,061                      |                                    |
| Reversal of provision for compensation-related loss on defense equipment business (Note 2.z(a)) | (2,484)         |                            | (22,829)                           |
| Decrease in trade notes and accounts receivable   | 2,963           | 602                        | 27,231                             |
| Increase in inventories   | (1,263)         | (2,043)                    | (11,607)                           |
| Decrease (increase) in other current assets   | 220             | (273)                      | 2,021                              |
| (Decrease) Increase in trade notes and accounts payable   | (3,858)         | 1,590                      | (35,456)                           |
| (Decrease) increase in other current liabilities  | (483)           | 454                        | (4,439)                            |
| Other – net   | 271             | 285                        | 2,491                              |
| Total adjustments   | (2,015)         | 6,774                      | (18,518)                           |
| Net cash provided by operating activities   | 1,276           | 3,700                      | 11,727                             |
| <b>INVESTING ACTIVITIES:</b>  |                 |                            |                                    |
| Purchases of property, plant and equipment  | (1,809)         | (634)                      | (16,625)                           |
| Purchase of intangible assets   | (237)           | (149)                      | (2,178)                            |
| Proceeds from collection of long-term loans receivable  | 4               | 1                          | 36                                 |
| Proceeds from sales of investment securities  | 429             | 39                         | 3,943                              |
| Other – net   | 63              | (21)                       | 579                                |
| Net cash used in investing activities   | (1,550)         | (764)                      | (14,245)                           |
| <b>FINANCING ACTIVITIES:</b>  |                 |                            |                                    |
| Increase (decrease) in short-term bank loans – net  | 718             | (905)                      | 6,599                              |
| Proceeds from long-term debt  | 2,000           |                            | 18,380                             |
| Repayments of long-term debt  | (4,304)         | (2,218)                    | (39,555)                           |
| Dividends paid  |                 | (265)                      |                                    |
| Other – net   | (2)             | (2)                        | (18)                               |
| Net cash used in financing activities   | (1,588)         | (3,390)                    | (14,594)                           |
| <b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>                    | (91)            | (54)                       | (837)                              |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | (1,953)         | (508)                      | (17,949)                           |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | 10,092          | 10,600                     | 92,749                             |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | ¥8,139          | ¥10,092                    | \$74,800                           |

See notes to consolidated financial statements.

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Year Ended March 31, 2020

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

a. **The accompanying consolidated financial statements** - The accompanying consolidated financial statements of Sumitomo Precision Products Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.81 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

b. **Restatement for the year ended March 31, 2019** - The Company identified errors in accounting estimates of retirement benefit obligation of the prior years. Accordingly, the Company decided to correct the errors and restate its consolidated financial statements for the periods from the year ended March 31, 2016 through the year ended March 31, 2019, which were previously filed with the Financial Services Agency of Japan. The accompanying consolidated financial statements and related footnotes reflect such corrections and have been prepared based on such restatements. Following is a summary of the major accounts which were restated on the financial statements as of and for the year ended March 31, 2019:

| March 31, 2019                                | Millions of Yen        |             |             |
|---|------------------------|-------------|-------------|
|   | As Previously Reported | Adjustments | As Restated |
| Consolidated balance sheet:                   |                        |             |             |
| Retirement benefit asset                      |                        | ¥1,779      | ¥1,779      |
| Deferred tax assets                           | 2,940                  | 777         | 3,717       |
| Total Assets                                  | 81,345                 | 2,333       | 83,678      |
| Retirement benefit liabilities                | 1,085                  | 3,946       | 5,031       |
| Total Liabilities                             | 51,111                 | 3,943       | 55,054      |
| Consolidated statement of operations:         |                        |             |             |
| Operating income                              | ¥2,580                 | ¥(190)      | ¥2,390      |
| Loss before income taxes                      | (2,880)                | (194)       | (3,074)     |
| Net Loss attributable to owners of the parent | (2,252)                | (109)       | (2,361)     |
| Basic net loss per share of common stock      | (425.57)               | (20.43)     | (446.00)    |
| Consolidated Statement of Changes in Equity   |                        |             |             |
| Beginning retained earnings                   | ¥10,400                | ¥(1,790)    | ¥8,610      |

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation** - The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 18 (18 in 2019) significant subsidiaries (together, the "Group").

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

Investments in 4 (4 in 2019) associated companies are accounted for by the equity method.

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

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 10 years.

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

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** - Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification - "FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method** - ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements

prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. **Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

e. **Inventories** - Inventories are stated at the lower of cost, determined by the average method for finished products and work in process, by the specific identification method for certain work in process, and by the moving-average method for all raw materials and supplies, or net selling value.

f. **Investment Securities** - Investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities are reported at amortized cost; and (2) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined by the moving-average method. Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method. The Group's investment securities consist of marketable and nonmarketable available-for-sale securities.

g. **Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed generally by the declining-balance method, while the straight-line method is principally applied to buildings, structures acquired on or after April 1, 2016, and lease assets of the Company and property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 9 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

h. **Other Intangible Assets** - Intangible assets, except for goodwill, are stated at cost less accumulated amortization, which is computed by the straight-line method over the estimated useful lives of the assets. The useful life is principally 5 years for software for internal use.

i. **Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted future cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

Currency swaps are utilized to hedge exchange rate risk exposures in borrowings denominated in foreign currencies. Long-term debt denominated in foreign currencies are translated at the contracted rates if the currency swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

k. **Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

l. **Provision for Loss on Construction Contracts** - The provision for loss on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress. When there are losses on completed-contract method applied contracts, the allowance for losses on construction contracts is offset against the costs of construction contracts in process in the balance sheet.

m. **Provision for product warranties** - The Group estimated amount for probable future expenses with respect to product warranties and recorded as provision for the expenses in the balance sheet.

n. **Provision for customer compensation expenses** - The Company discovered inappropriate treatments in a certain manufacturing and inspection process of plate-fin type heat exchangers. The Company estimated the amount for expenses to be paid to the customers in the future in relate to this incident as described in Note z.(c) and recorded as provision for the expenses in the balance sheet.

o. **Retirement Benefits** - The Company and its consolidated domestic subsidiaries have defined benefit retirement plans covering substantially all of their employees. The Group accounts for retirement benefit liabilities based on projected benefit obligations and plan assets at the consolidated balance sheet date.

The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit

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or loss over 10 years, no longer than the expected average remaining service period of the employees.

- p. Research and Development Costs** - Research and development costs are charged to income as incurred.
- q. Asset Retirement Obligations** - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- r. Leases** - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.
- s. Construction Contracts** - Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.
- t. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- u. Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.
- v. Foreign Currency Financial Statements** - The consolidated balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate

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

- w. Per Share Information** - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years. Shares and per share figures have been restated, as appropriate, to reflect a ten-for-one reverse stock split effected October 1, 2018.
- x. Accounting Change** - From the beginning of the fiscal year ended March 31, 2020, some foreign consolidated subsidiaries have applied IFRS 16 "Leases". IFRS 16 requires the lessee to recognize all lease assets and liabilities on the balance sheet in principle. With the adoption of IFRS 16, the Group applied transitional measures that recognize the cumulative effects of adoption of IFRS 16 as of the date of adoption, as is permitted for first-time adopters. As a result, "Lease assets" increased by ¥192 million, "Current portion of long-term debt" increased by ¥66 million, and "Long-term debt" increased by ¥210 million at the year ended March 31, 2020. In addition, "Retained earnings" decreased by ¥165 million at the beginning of the year ended March 31, 2020. The impact on consolidated statement of operations, cash flows and earnings per share is immaterial.

## y. New Accounting Pronouncements

### (a) The Company and its domestic consolidated subsidiaries

**Revenue recognition** - On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No.30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

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

The Company expects to apply the accounting standard and guidance for annual periods beginning of the fiscal year ending March 31, 2022 and is in

the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

### Accounting standard for fair value measurement -

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Revised Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Revised Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Revised Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

To increase the international comparability of accounting standards, "Accounting Standard for Fair Value Measurement" and "Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as the "Fair Value Measurement Standards, etc.") were developed, and guidance and other rules were established with regard to the method for fair value measurement. Fair Value Measurement Standards, etc. will be applicable for the fair values of the following items.

- Financial instruments included in "Accounting Standard for Financial Instruments"

- Inventories held for trading purposes included in "Accounting Standard for Measurement of Inventories"

In addition, "Guidance on Disclosures about Fair Value of Financial Instruments" was revised to include notes regarding the breakdown by level of fair values of financial instruments.

The Company expects to apply this standard from the beginning of the fiscal year ending March 31, 2022. The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

### Accounting standard for disclosure of accounting estimates -

"Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No.31, March 31, 2020)"

The purpose of this accounting standard is to disclose information that will facilitate the understanding of the users of the financial statements, regarding items of accounting estimates recorded in the financial statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year. The Company expects to apply this standard from the end of the fiscal year ending March 31, 2021.

### Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections -

"Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)"

The purpose of this accounting standard is to clarify the principles and the overview of procedures of the accounting treatment adopted, in cases where the provisions of relevant accounting standards, etc. are unclear. The Company expects to apply this standard from the end of the fiscal year ending March 31, 2021.

### (b) Foreign consolidated subsidiaries

The Company expects to apply ASC 842 Leases from the beginning of the

fiscal year ending March 31, 2023. Main revisions are: revision to apply a control model to the identification of leases and distinguish between leases and service contracts; and revision to eliminate lease classification and recognition of assets and liabilities for all leases by the lessee. The Company is currently evaluating the potential impacts of applying these standards to be adopted by its subsidiaries located in the United States in the future period.

## z. Additional information

**(a) Reversal of provision for compensation-related loss on the defense equipment business** - It was found in January 2019 that the Company had adjusted estimated costs inappropriately and overcharged the Japanese Ministry of Defense (the "MOD") with respect to the contract with the MOD for the defense equipment business and the Company voluntarily reported this matter to the MOD. In the year ended March 31, 2019, the Company estimated the amount to be paid to the MOD and recorded ¥5,061 million in current liabilities as provision for compensation-related loss on defense equipment business, and also recorded in other expenses as compensation-related loss on the defense equipment business. The Company settled with the Acquisition, Technology & Logistics Agency and paid ¥2,577 million to the MOD on January 24, 2020. Accordingly, the difference of ¥2,484 million between the actual payment and the provision was recorded in other income as reversal of provision for compensation-related loss on defense equipment business.

**(b) Accounting estimates considering the spread of COVID-19 infection** - Although it is difficult to predict the extent of the impact or to foresee when the infection spreading will subside, the Company assumes that the impact of COVID-19 will continue at least to the end of the fiscal year ending March 31, 2021. The Company estimates the future taxable income with respect to realizability of deferred tax assets and the future cash flow with respect to impairment of long-lived assets based on the assumption that the impact in the fiscal year ending March 31, 2022 and thereafter is limited.

**(c) Inappropriate incident in legally registered manufacturing** - In December 2019, some inappropriate operations were found in certain manufacturing and inspection process of plate-fin type heat exchangers which is required to be in compliance with the High Pressure Gas Safety Act. Based on this Act, the Company was administratively punished by the Ministry of Economy, Trade and Industry with cancellation of registration as a specified equipment manufacturer on March 12, 2020. In addition, due to an infringement of the European Pressure Equipment Directive, the compliance certificate issued to each heat exchanger delivered overseas in the past was revoked by a private certification authority. It is confirmed that this fact was notified to the relevant authorities on July 16, 2020. For it is assumed that the Company will pay compensation to the customers which purchased the products with the deficiency, the Company recorded the estimated amount, ¥1,002 million, in current liabilities as provision for customer compensation expenses, and also recorded in other expenses. In addition, ¥268 million loss on devaluation of inventories was recorded in other expenses.



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## 3. INVESTMENT SECURITIES

The cost and aggregate fair value of available-for-sale securities at March 31, 2020 and 2019, were as follows:

| March 31, 2020    | Millions of Yen |                  |                   |            |
|-------------------|-----------------|------------------|-------------------|------------|
|                   | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity securities | ¥394            | ¥209             | ¥8                | ¥595       |

| March 31, 2019    | Millions of Yen |                  |                   |            |
|-------------------|-----------------|------------------|-------------------|------------|
|                   | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity securities | ¥737            | ¥1,070           |                   | ¥1,807     |

| March 31, 2020    | Thousands of U.S. Dollars |                  |                   |            |
|-------------------|---------------------------|------------------|-------------------|------------|
|                   | Cost                      | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity securities | \$3,621                   | \$1,921          | \$73              | \$5,469    |

The proceeds, realized gains, and realized losses of the available-for-sale securities which were sold during the year ended March 31, 2020 and 2019, were as follows:

| March 31, 2019    | Millions of Yen |                |                 |
|-------------------|-----------------|----------------|-----------------|
|                   | Proceeds        | Realized Gains | Realized Losses |
| Equity securities | ¥39             | ¥25            |                 |

| March 31, 2020    | Millions of Yen |                |                 |
|-------------------|-----------------|----------------|-----------------|
|                   | Proceeds        | Realized Gains | Realized Losses |
| Equity securities | ¥429            | ¥232           |                 |

| March 31, 2020    | Thousands of U.S. Dollars |                |                 |
|-------------------|---------------------------|----------------|-----------------|
|                   | Proceeds                  | Realized Gains | Realized Losses |
| Equity securities | \$3,943                   | \$2,132        |                 |

Loss on devaluation recognized for available-for-sale securities were ¥329 million and ¥4 million for the years ended March 31, 2020 and 2019, respectively.

For other-than-temporary declines in fair value by 40% or more of the cost, investment securities are reduced to net realizable value by a charge to income.

## 4. INVENTORIES

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

|                            | Millions of Yen |         | Thousands of U.S. Dollars |
|----------------------------|-----------------|---------|---------------------------|
|                            | 2020            | 2019    | 2020                      |
| Finished products          | ¥4,412          | ¥4,973  | \$40,548                  |
| Work in process            | 14,055          | 12,411  | 129,170                   |
| Raw materials and supplies | 8,088           | 8,280   | 74,331                    |
| Total                      | ¥26,555         | ¥25,664 | \$244,049                 |

## 5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bear interest at rates ranging from 0.28% to 5.20% at March 31, 2020, and from 0.28% to 5.20% at March 31, 2019.

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

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2020            | 2019    | 2020                      |
| Loans from banks and insurance companies, due serially to 2023 with interest rates ranging from 0.15% to 1.05% (2020 and 2019): |                 |         |                           |
| Collateralized  | ¥680            | ¥1,376  | \$6,249                   |
| Unsecured   | 7,470           | 8,891   | 68,652                    |
| Obligation under finance leases   | 427             | 150     | 3,924                     |
| Total   | 8,577           | 10,417  | 78,825                    |
| Less current portion  | (2,554)         | (4,170) | (23,472)                  |
| Long-term debt, less current portion  | ¥6,023          | ¥6,247  | \$55,353                  |

Annual maturities of long-term debt, as of March 31, 2020, for the next five years and thereafter were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2021                 | ¥2,554          | \$23,472                  |
| 2022                 | 3,055           | 28,077                    |
| 2023                 | 1,337           | 12,287                    |
| 2024                 | 274             | 2,518                     |
| 2025                 | 1,351           | 12,416                    |
| 2026 and thereafter  | 6               | 55                        |
| Total                | ¥8,577          | \$78,825                  |

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥ 680 million (\$ 6,249 thousand) at March 31, 2020, were as follows:

|                          | Millions of Yen | Thousands of U.S. Dollars |
|--------------------------|-----------------|---------------------------|
| Land                     | ¥409            | \$3,759                   |
| Buildings and structures | 14              | 129                       |
| Total                    | ¥423            | \$3,888                   |

The above assets are provided for a factory foundation mortgage.

The above collateralized long-term debt includes the current portion of long-term debt.

## 6. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans for employees.

Employees terminating their employment are, under most circumstances, entitled to retirement benefits determined based on the rate of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

Employees of the Company who retire at the mandatory retirement age are entitled to receive approximately 50% of their benefits in the form of an annuity with the balance in a lump-sum payment upon retirement. The funds for the annuity payments are entrusted to an outside trustee.

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows (excluding the benefit plans for which the simplified method was applied):

|                              | Millions of Yen |        | Thousands of U.S. Dollars |
|------------------------------|-----------------|--------|---------------------------|
|                              | 2020            | 2019   | 2020                      |
| Balance at beginning of year | ¥8,302          | ¥8,304 | \$76,298                  |
| Current service cost         | 564             | 559    | 5,183                     |
| Interest cost                | 82              | 81     | 754                       |
| Actuarial losses             | (74)            | (96)   | (680)                     |
| Prior service cost           |                 | (28)   |                           |
| Benefits paid                | (334)           | (518)  | (3,070)                   |
| Balance at end of year       | ¥8,540          | ¥8,302 | \$78,485                  |

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows (excluding the benefit plans for which the simplified method was applied):

|                                 | Millions of Yen |        | Thousands of U.S. Dollars |
|---------------------------------|-----------------|--------|---------------------------|
|                                 | 2020            | 2019   | 2020                      |
| Balance at beginning of year    | ¥5,404          | ¥5,333 | \$49,665                  |
| Expected return on plan assets  | 162             | 160    | 1,489                     |
| Actuarial gains                 | (472)           | (114)  | (4,338)                   |
| Contributions from the employer | 186             | 209    | 1,709                     |
| Benefits paid                   | (95)            | (184)  | (873)                     |
| Balance at end of year          | ¥5,185          | ¥5,404 | \$47,652                  |

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

|                                 | Millions of Yen |      | Thousands of U.S. Dollars |
|---------------------------------|-----------------|------|---------------------------|
|                                 | 2020            | 2019 | 2020                      |
| Balance at beginning of year    | ¥354            | ¥334 | \$3,253                   |
| Periodic benefit cost           | 61              | 29   | 561                       |
| Benefits paid                   | (33)            | (13) | (303)                     |
| Contributions to the obligation | 4               | 4    | 36                        |
| Balance at end of year          | ¥386            | ¥354 | \$3,547                   |

(4) A reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

|  | Millions of Yen |         | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
|  | 2020            | 2019    | 2020                      |
| Funded defined benefit obligation  | ¥3,601          | ¥3,625  | \$33,095                  |
| Plan assets  | (5,185)         | (5,404) | (47,652)                  |
| Total  | (1,584)         | (1,779) | (14,557)                  |
| Unfunded defined benefit obligation  | 5,325           | 5,031   | 48,939                    |
| Net amount of liabilities and asset recorded in the consolidated balance sheet | ¥3,741          | ¥3,252  | \$34,382                  |
| Retirement benefit liabilities   | 5,325           | 5,031   | 48,939                    |
| Retirement benefit asset   | (1,584)         | (1,779) | (14,557)                  |
| Net amount of liabilities and asset recorded in the consolidated balance sheet | ¥3,741          | ¥3,252  | \$34,382                  |

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

|   | Millions of Yen |       | Thousands of U.S. Dollars |
|---|-----------------|-------|---------------------------|
|   | 2020            | 2019  | 2020                      |
| Service cost  | ¥564            | ¥559  | \$5,183                   |
| Interest cost   | 82              | 81    | 754                       |
| Expected return on plan assets                            | (162)           | (160) | (1,489)                   |
| Recognized actuarial losses                               | 84              | 172   | 772                       |
| Amortization of prior service cost                        | (24)            | (24)  | (221)                     |
| Periodic benefit cost calculated by the simplified method | 61              | 29    | 561                       |
| Others  | 11              | 21    | 101                       |
| Net periodic benefit costs                                | ¥616            | ¥678  | \$5,661                   |

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

|                          | Millions of Yen |      | Thousands of U.S. Dollars |
|--------------------------|-----------------|------|---------------------------|
|                          | 2020            | 2019 | 2020                      |
| Prior service cost       | ¥(24)           | ¥3   | \$(221)                   |
| Actuarial gains (losses) | (315)           | 154  | (2,895)                   |
| Total                    | ¥(339)          | ¥157 | \$(3,116)                 |

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

|                                 | Millions of Yen |        | Thousands of U.S. Dollars |
|---------------------------------|-----------------|--------|---------------------------|
|                                 | 2020            | 2019   | 2020                      |
| Unrecognized prior service cost | ¥51             | ¥75    | \$469                     |
| Unrecognized actuarial losses   | (927)           | (612)  | (8,520)                   |
| Total                           | ¥(876)          | ¥(537) | \$(8,051)                 |

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## (8) Plan assets

### a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

|                           | 2020 | 2019 |
|---------------------------|------|------|
| Debt investments          | 46%  | 42%  |
| Equity investments        | 43   | 50   |
| Cash and cash equivalents | 3    | 2    |
| Others                    | 8    | 6    |
| Total                     | 100% | 100% |

### b. Method of determining the expected rate of return on plan assets

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

## (9) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

|  | 2020         | 2019         |
|--|--------------|--------------|
| Discount rate                          | 0.609-1.271% | 0.609-1.271% |
| Expected rate of return on plan assets | 3.0%         | 3.0%         |
| Expected rate of salary increase       | 1.0-2.7%     | 1.4-2.7%     |

The amounts of contribution required for the defined contribution plan paid by the Group were ¥32 million and ¥30 million for the years ended March 31, 2020 and 2019, respectively.

## 7. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

### (1) The provision for loss on construction contracts are offset against inventories in the balance sheet as of March 31, 2020. Amounts of provision for loss on construction contracts offset by inventories were as follows:

|                 | Millions of Yen | Thousands of U.S. Dollars |
|-----------------|-----------------|---------------------------|
| Work in process | ¥42             | \$386                     |

### (2) Provision for loss on construction contracts included in "Cost of sales" for the year ended March 31, 2020, were as follows:

|                 | Millions of Yen | Thousands of U.S. Dollars |
|-----------------|-----------------|---------------------------|
| Work in process | ¥56             | \$515                     |

## 8. EQUITY

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

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4)

the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. The Company meets the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve, and surplus

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

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company conducted a ten-for-one reverse stock split of common shares effective October 1, 2018. The corresponding figures shown here have been calculated on the assumption that the reverse stock split had been conducted at the beginning of the previous fiscal year.

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31,

2020 and 2019, principally consisted of the following:

|                                       | Millions of Yen |        | Thousands of U.S. Dollars |
|---------------------------------------|-----------------|--------|---------------------------|
|                                       | 2020            | 2019   | 2020                      |
| Employees' salaries and bonuses       | ¥3,647          | ¥3,714 | \$33,517                  |
| Net periodic retirement benefit costs | 165             | 159    | 1,516                     |
| Depreciation and amortization         | 430             | 386    | 3,952                     |
| Research and development costs        | 901             | 982    | 8,280                     |
| Goodwill amortization                 | 83              | 85     | 763                       |

## 10. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2020 and 2019.

### For the year ended March 31, 2020

The Company recognized an impairment loss for common assets and welfare facility since these assets became no longer in use. SPP Nagasaki Engineering Co., Ltd, Sumisei Hydraulic Systems Co., Ltd and CFN Precision, Ltd have also recognized an impairment loss for certain buildings and structures, machinery equipment, and other assets since they have expected that carrying amount of these assets exceed the sum of the discounted future cash flows. The Group recorded total impairment loss of ¥930 million as other expenses.

### For the year ended March 31, 2019

As the performance of SPP Nagasaki Engineering Co., Ltd. and CFN Precision, Ltd., wholly owned subsidiaries, have deteriorated, the Group recognized an impairment loss for certain buildings and structures, machinery and equipment, and other assets of the Aerospace business. An impairment loss totaling ¥315 million was recorded as other expenses. The recoverable amount was measured mainly by the value in use, which is calculated by discounting future cash flows at a discount rate of 10%. However, some assets were determined to have no fair value since the estimated future cash flows are negative.

## 11. BUSINESS TRANSFORMATION EXPENSES

Business transformation expenses are restructuring costs associated with the subsidiaries in Canada, the main items being additional retirement benefit and attorneys' fees.

## 12. INSURANCE INCOME AND LOSS ON DISASTER

Both insurance income and loss on disaster were mainly attributable to Typhoon No. 21, which occurred in September 2018.

## 13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.6% for the years ended March 31, 2020 and 2019.

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

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2020            | 2019    | 2020                      |
| Deferred tax assets:  |                 |         |                           |
| Reserve for accrued bonuses   | ¥408            | ¥391    | \$3,750                   |
| Retirement benefit liabilities  | 1,582           | 1,015   | 14,539                    |
| Loss on devaluation of inventories  | 990             | 900     | 9,098                     |
| Loss on devaluation of investment securities                              | 97              | 65      | 891                       |
| Loss on devaluation of other assets                                       | 15              | 15      | 138                       |
| Tax loss carryforwards  | 1,060           | 1,065   | 9,742                     |
| Impairment Losses of Assets   | 346             | 235     | 3,180                     |
| Provision for compensation-related loss on the defense equipment business |                 | 1,549   |                           |
| Provision for customer compensation expenses                              | 307             |         | 2,821                     |
| Provision for product warranties  | 414             |         | 3,805                     |
| Other   | 792             | 649     | 7,279                     |
| Total tax loss carryforwards and temporary differences                    | 6,011           | 5,884   | 55,243                    |
| Less valuation allowance for tax loss carryforwards                       | (1,004)         | (1,044) | (9,227)                   |
| Less valuation allowance for temporary differences                        | (1,867)         | (584)   | (17,158)                  |
| Total valuation allowance   | (2,871)         | (1,628) | (26,385)                  |
| Deferred tax assets   | ¥3,140          | ¥4,256  | \$28,858                  |
| Deferred tax liabilities:   |                 |         |                           |
| Retirement benefit asset  | ¥(485)          | ¥(119)  | \$(4,457)                 |
| Reserve for advanced depreciation of noncurrent assets                    | (113)           | (123)   | (1,039)                   |
| Net unrealized gain on available-for-sale securities                      | (53)            | (328)   | (487)                     |
| Other   | (131)           | (66)    | (1,204)                   |
| Deferred tax liabilities  | ¥(782)          | ¥(636)  | \$(7,187)                 |
| Net deferred tax assets   | ¥2,358          | ¥3,620  | \$21,671                  |

The increase in total valuation allowance was mainly due to impairment loss at consolidated subsidiaries.

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

|  | Millions of Yen   |                              |                               |                               |                               |               |          |
|--|-------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------|----------|
|  | 1 Year(s) or Less | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | Total    |
| Deferred tax assets  |                   |                              |                               |                               |                               |               |          |
| relating to tax loss carryforwards                         | ¥57               | ¥43                          | ¥10                           | ¥9                            | ¥3                            | ¥938          | ¥1,060   |
| Less valuation allowances for tax loss carryforwards       | (57)              | (43)                         | (10)                          | (9)                           | (3)                           | (882)         | ¥(1,004) |
| Net deferred tax assets relating to tax loss carryforwards |                   |                              |                               |                               |                               | 56            | 56       |

|  | Thousands of U.S. Dollars |                              |                               |                               |                               |               |         |
|--|---------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------|---------|
|  | 1 Year(s) or Less         | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | Total   |
| Deferred tax assets  |                           |                              |                               |                               |                               |               |         |
| relating to tax loss carryforwards                         | \$524                     | \$395                        | \$92                          | \$83                          | \$28                          | \$8,620       | \$9,742 |
| Less valuation allowances for tax loss carryforwards       | (524)                     | (395)                        | (92)                          | (83)                          | (28)                          | (8,105)       | (9,227) |
| Net deferred tax assets relating to tax loss carryforwards |                           |                              |                               |                               |                               | 515           | 515     |

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A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2020, is as follows:

|   |       |
|---|-------|
| Normal effective statutory tax rate                         | 30.6% |
| Expenses not permanently deductible for income tax purposes | 0.5   |
| Income not permanently taxable for income tax purposes      | (0.5) |
| Per capita in local tax                                     | 0.5   |
| Equity in earnings of associated companies                  | (3.6) |
| Change in valuation allowance                               | 38.4  |
| Other – net   | 1.6   |
| Actual effective tax rate                                   | 67.5% |

The reconciliation between the statutory effective tax rate and the actual tax rate is omitted due to the recording of a net loss for the year ended March 31, 2019.

## 14. LEASES

Total rental expenses including lease payments under finance lease agreements that do not transfer ownership of the leased property to the Group, accounted for as operating leases, were ¥ 566 million (\$ 5,202 thousand) and ¥401 million for the years ended March 31, 2020 and 2019, respectively.

## 15. RELATED-PARTY TRANSACTIONS

Balances and transactions of the Company with a subsidiary of Sumitomo Corporation as of and for year ended March 31, 2019, were as follows:

### Transaction between the Company and Related Parties

|                                   | Millions of Yen |        | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|--------|---------------------------|
|                                   | 2020            | 2019   |                           |
| Sumitomo Corporation:             |                 |        |                           |
| Accounts receivable-trade         | ¥839            | ¥1,658 | \$7,711                   |
| Sales                             | 6,045           | 4,842  | 55,556                    |
| Sumisho Aero-Systems Corporation: |                 |        |                           |
| Accounts receivable-trade         | 3,695           | 3,084  | 33,958                    |
| Sales                             | 5,231           | 4,468  | 48,075                    |
| Sumisho Metalex Corporation:      |                 |        |                           |
| Accounts receivable-trade         | 614             | 797    | 5,643                     |
| Sales                             | 1,536           | 2,406  | 14,116                    |

Sales prices and other conditions are determined on general terms and conditions.

## 16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt, including bank loans based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are not used for

speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts. Investment securities are mainly equity securities and their fair market values are monitored on a quarterly basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are generally hedged by using forward foreign currency contracts.

### (3) Risk Management for Financial Instruments

#### Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Because the counterparties to derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk. See Note 17 for more details regarding derivatives.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such exchange rate risk is hedged principally by forward foreign currency contracts. Interest rate swaps and currency swaps are used to manage exposure to market risks from changes in the interest rates and foreign currency exchange rates of loan payables.

Investment securities are managed by monitoring market value and the financial position of issuers on a regular basis.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount by the corporate treasury department.

#### Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

### (4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. See Note 17 for details on the fair values of derivatives.

### (a) Fair values of financial instruments

| March 31, 2020                | Millions of Yen  |                  |                 |
|-------------------------------|------------------|------------------|-----------------|
|                               | Carrying Amount  | Fair Value       | Unrealized Loss |
| Cash and cash equivalents     | ¥8,139           | ¥8,139           |                 |
| Notes and accounts receivable | 18,119           | 18,119           |                 |
| Investment securities         | 595              | 595              |                 |
| <b>Total</b>                  | <b>¥26,853</b>   | <b>¥26,853</b>   |                 |
| Short-term bank loans         | (15,765)         | (15,765)         |                 |
| Payables                      | (9,224)          | (9,224)          |                 |
| Long-term debt *(1)           | (8,577)          | (8,577)          |                 |
| <b>Total</b>                  | <b>¥(33,566)</b> | <b>¥(33,566)</b> |                 |

| March 31, 2019                | Millions of Yen  |                  |                 |
|-------------------------------|------------------|------------------|-----------------|
|                               | Carrying Amount  | Fair Value       | Unrealized Loss |
| Cash and cash equivalents     | ¥10,092          | ¥10,092          |                 |
| Notes and accounts receivable | 20,019           | 20,019           |                 |
| Investment securities         | 1,807            | 1,807            |                 |
| <b>Total</b>                  | <b>¥31,918</b>   | <b>¥31,918</b>   |                 |
| Short-term bank loans         | ¥(15,247)        | ¥(15,247)        |                 |
| Payables                      | (13,359)         | (13,359)         |                 |
| Long-term debt *(1)           | (10,417)         | (10,420)         | ¥(3)            |
| <b>Total</b>                  | <b>¥(39,023)</b> | <b>¥(39,026)</b> | <b>¥(3)</b>     |

| March 31, 2020                | Thousands of U.S. Dollars |                    |                 |
|-------------------------------|---------------------------|--------------------|-----------------|
|                               | Carrying Amount           | Fair Value         | Unrealized Loss |
| Cash and cash equivalents     | \$74,800                  | \$74,800           |                 |
| Notes and accounts receivable | 166,519                   | 166,519            |                 |
| Investment securities         | 5,469                     | 5,469              |                 |
| <b>Total</b>                  | <b>\$246,788</b>          | <b>\$246,788</b>   |                 |
| Short-term bank loans         | \$(144,886)               | \$(144,886)        |                 |
| Payables                      | (84,771)                  | (84,771)           |                 |
| Long-term debt *(1)           | (78,825)                  | (78,825)           |                 |
| <b>Total</b>                  | <b>\$(308,482)</b>        | <b>\$(308,482)</b> |                 |

\*(1) The above long-term debt includes the current portion of long-term debt.

#### Cash and cash equivalents and Notes and accounts receivable

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

#### Investment securities

The fair values are measured at the quoted market price of the stock exchange for the equity instruments. Fair value information for the investment securities by classification is included in Note 3.

#### Short-term bank loans and Payables

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

#### Long-term debt

The fair values of long-term debt and lease obligations are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate.

#### Derivatives

Fair value information for derivatives is included in Note 17.

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

|  | Millions of Yen |             | Thousands of U.S. Dollars |
|--|-----------------|-------------|---------------------------|
|  | 2020            | 2019        |                           |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥218            | ¥218        | \$2,003                   |
| <b>Total</b>   | <b>¥218</b>     | <b>¥218</b> | <b>\$2,003</b>            |

### (5) Maturity analysis for financial assets with contractual maturities

The entire balance for cash and cash equivalents, and notes and accounts receivable is due in one year or less as of March 31, 2020 and 2019. See Note 5 for annual maturities of long-term debt.

## 17. DERIVATIVES

The Group enters into derivative contracts to hedge market risks such as foreign exchange and interest rate fluctuations associated with certain assets and liabilities.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for speculative purposes.

Since all of the Group's derivative transactions are related to qualified hedges of underlying business exposures, market gain or loss risk on derivative instruments is generally offset by opposite movements in the value of the hedged assets or liabilities.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is applied.

| At March 31, 2020  | Hedged Item    | Millions of Yen |                                    |            |
|--|----------------|-----------------|------------------------------------|------------|
|  |                | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: (fixed rate payment, floating rate receipt) | Long-term debt | ¥780            | ¥340                               |            |
| Currency swaps   | Long-term debt | 851             | 606                                |            |

| At March 31, 2019  | Hedged Item    | Millions of Yen |                                    |            |
|--|----------------|-----------------|------------------------------------|------------|
|  |                | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: (fixed rate payment, floating rate receipt) | Long-term debt | ¥2,140          | ¥780                               |            |
| Currency swaps   | Long-term debt | 1,094           | 850                                |            |

| At March 31, 2020  | Hedged Item    | Thousands of U.S. Dollars |                                    |            |
|--|----------------|---------------------------|------------------------------------|------------|
|  |                | Contract Amount           | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps: (fixed rate payment, floating rate receipt) | Long-term debt | \$7,168                   | \$3,125                            |            |
| Currency swaps   | Long-term debt | 7,821                     | 5,569                              |            |

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and

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included in interest expense.

The above currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value.

In addition, the fair values of such interest rate swaps and currency swaps in Note 16 are included in that of hedged items (i.e., long-term debt).

The contractual or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## 18. OTHER COMPREHENSIVE INCOME

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

|  | Millions of Yen |          | Thousands of U.S. Dollars<br>2020 |
|--|-----------------|----------|-----------------------------------|
|  | 2020            | 2019     |                                   |
| Unrealized loss on available-for-sale securities:  |                 |          |                                   |
| Losses arising during the year                     | ¥(989)          | ¥(1,531) | \$(9,089)                         |
| Reclassification adjustments to profit or loss     | 84              | 20       | 772                               |
| Amount before income tax effect                    | (905)           | (1,511)  | (8,317)                           |
| Income tax effect                                  | 275             | 466      | 2,527                             |
| Total  | ¥(630)          | ¥(1,045) | \$(5,790)                         |
| Foreign currency translation adjustments:          |                 |          |                                   |
| Adjustments arising during the year                | ¥(22)           | ¥(121)   | \$(202)                           |
| Total  | ¥(22)           | ¥(121)   | \$(202)                           |
| Defined retirement benefit plans:                  |                 |          |                                   |
| Adjustments arising during the year                | ¥(399)          | ¥10      | \$(3,667)                         |
| Reclassification adjustments to profit or loss     | 60              | 147      | 551                               |
| Amount before income tax effect                    | (339)           | 157      | (3,116)                           |
| Income tax effect                                  | 104             | (48)     | 956                               |
| Total  | ¥(235)          | ¥109     | \$(2,160)                         |
| Share of other comprehensive income in associates: |                 |          |                                   |
| (Losses) gains arising during the year             | ¥(3)            | ¥50      | \$(27)                            |
| Total  | ¥(3)            | ¥50      | \$(27)                            |
| Total other comprehensive loss                     | ¥(890)          | ¥(1,007) | \$(8,179)                         |

## 19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### 1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial

information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. The Group consists of three segments: aerospace and related products, heat energy and environmental related products, and ICT related products. Aerospace and related products consists of manufacturing and sale of propeller systems, landing gear systems, heat control systems, space equipment, hydraulic pumps, hydraulic valves, and others. Heat energy and environmental related products consist of manufacturing and sale of LNG vaporizers, heat exchangers, ozone generators, and others. ICT related products consist of manufacturing and sale of semiconductor equipment and others.

### 2. Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." The cost allocation method was renewed in the year ended March 31, 2020 and some of the cost was charged directly to each segment. The information below is applying the new method and the previous year is restated.

|   | Millions of Yen<br>2020        |  |                      |         |                 |              |
|---|--------------------------------|--|----------------------|---------|-----------------|--------------|
|   | Reportable Segment             |  |                      |         |                 |              |
|   | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Total   | Reconciliations | Consolidated |
| Sales:  |                                |  |                      |         |                 |              |
| Sales to external customers   | ¥31,693                        | ¥9,032   | ¥10,292              | ¥51,017 |                 | ¥51,017      |
| Intersegment sales or transfers                                       |                                |  |                      |         |                 |              |
| Total   | ¥31,693                        | ¥9,032   | ¥10,292              | ¥51,017 |                 | ¥51,017      |
| Segment profit (operating income)                                     | ¥1,755                         | ¥357   | ¥1,242               | ¥3,354  |                 | ¥3,354       |
| Segment assets  | 51,417                         | 10,008   | 8,861                | 70,286  | ¥7,199          | 77,485       |
| Other:  |                                |  |                      |         |                 |              |
| Depreciation  | 1,475                          | 342  | 249                  | 2,066   |                 | 2,066        |
| Amortization of goodwill  | 3                              |  | 80                   | 83      |                 | 83           |
| Increase in property, plant and equipment and intangible assets       | 1,389                          | 315  | 417                  | 2,121   |                 | 2,121        |
| Investment in associated companies accounted for by the equity method |                                |  | 1,501                | 1,501   |                 | 1,501        |

|   | Millions of Yen<br>2019        |  |                      |         |                 |              |
|---|--------------------------------|--|----------------------|---------|-----------------|--------------|
|   | Reportable Segment             |  |                      |         |                 |              |
|   | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Total   | Reconciliations | Consolidated |
| Sales:  |                                |  |                      |         |                 |              |
| Sales to external customers   | ¥30,369                        | ¥9,036   | ¥9,586               | ¥48,991 |                 | ¥48,991      |
| Intersegment sales or transfers                                       |                                |  |                      |         |                 |              |
| Total   | ¥30,369                        | ¥9,036   | ¥9,586               | ¥48,991 |                 | ¥48,991      |
| Segment profit (operating income)                                     | ¥862                           | ¥303   | ¥1,225               | ¥2,390  |                 | ¥2,390       |
| Segment assets  | 52,245                         | 11,241   | 11,551               | 75,037  | ¥8,641          | 83,678       |
| Other:  |                                |  |                      |         |                 |              |
| Depreciation  | 1,299                          | 336  | 251                  | 1,886   |                 | 1,886        |
| Amortization of goodwill  | 3                              |  | 82                   | 85      |                 | 85           |
| Increase in property, plant and equipment and intangible assets       | 985                            | 193  | 97                   | 1,275   |                 | 1,275        |
| Investment in associated companies accounted for by the equity method |                                |  | 1,375                | 1,375   |                 | 1,375        |

|   | Thousands of U.S. Dollars<br>2020 |  |                      |           |                 |              |
|---|-----------------------------------|--|----------------------|-----------|-----------------|--------------|
|   | Reportable Segment                |  |                      |           |                 |              |
|   | Aerospace and Related Products    | Heat Energy and Environmental Related Products | ICT Related Products | Total     | Reconciliations | Consolidated |
| Sales:  |                                   |  |                      |           |                 |              |
| Sales to external customers   | \$291,269                         | \$83,007                                       | \$94,587             | \$468,863 |                 | \$468,863    |
| Intersegment sales or transfers                                       |                                   |  |                      |           |                 |              |
| Total   | \$291,269                         | \$83,007                                       | \$94,587             | \$468,863 |                 | \$468,863    |
| Segment profit (operating income)                                     | \$16,129                          | \$3,281  | \$11,414             | \$30,824  |                 | \$30,824     |
| Segment assets  | 472,539                           | 91,977   | 81,436               | 645,952   | \$66,161        | 712,113      |
| Other:  |                                   |  |                      |           |                 |              |
| Depreciation  | 13,556                            | 3,143  | 2,288                | 18,987    |                 | 18,987       |
| Amortization of goodwill  | 28                                |  | 735                  | 763       |                 | 763          |
| Increase in property, plant and equipment and intangible assets       | 12,765                            | 2,895  | 3,833                | 19,493    |                 | 19,493       |
| Investment in associated companies accounted for by the equity method |                                   |  | 13,795               | 13,795    |                 | 13,795       |

### 4. Information about Geographical Areas

#### (1) Sales

|  | Millions of Yen<br>2020 |                              |        |        |        |            |       |         |
|--|-------------------------|------------------------------|--------|--------|--------|------------|-------|---------|
|  | Japan                   | The United States of America | Canada | Europe | China  | Other Asia | Other | Total   |
|  | ¥28,117                 | ¥5,473                       | ¥4,760 | ¥5,890 | ¥4,295 | ¥2,187     | ¥295  | ¥51,017 |

|  | Millions of Yen<br>2019 |                              |        |        |        |            |       |         |
|--|-------------------------|------------------------------|--------|--------|--------|------------|-------|---------|
|  | Japan                   | The United States of America | Canada | Europe | China  | Other Asia | Other | Total   |
|  | ¥25,608                 | ¥4,828                       | ¥3,863 | ¥6,952 | ¥4,832 | ¥2,766     | ¥142  | ¥48,991 |

|  | Thousands of U.S. Dollars<br>2020 |                              |          |          |          |            |         |           |
|--|-----------------------------------|------------------------------|----------|----------|----------|------------|---------|-----------|
|  | Japan                             | The United States of America | Canada   | Europe   | China    | Other Asia | Other   | Total     |
|  | \$258,405                         | \$50,299                     | \$43,746 | \$54,131 | \$39,472 | \$20,099   | \$2,711 | \$468,863 |

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

#### (2) Property, plant and equipment

Information about property, plant and equipment by geographical area is not disclosed because Japanese GAAP does not require such disclosure if total assets in Japan represent more than 90% of the consolidated amounts.

### 5. Information about Major Customers

Information about major customers is not disclosed for the years ended March 31, 2020 and 2019, because there is no customer that represents more than 10% of net sales in the consolidated statement of income.

### 6. Information about Impairment Losses of Assets

|                             | Millions of Yen<br>2020        |  |                      |                       |       |
|-----------------------------|--------------------------------|--|----------------------|-----------------------|-------|
|                             | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total |
| Impairment losses of assets | ¥295                           |  |                      | ¥635                  | ¥930  |

|                             | Millions of Yen<br>2019        |  |                      |                       |       |
|-----------------------------|--------------------------------|--|----------------------|-----------------------|-------|
|                             | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total |
| Impairment losses of assets | ¥315                           |  |                      |                       | ¥315  |

|                             | Thousands of U.S. Dollars<br>2020 |  |                      |                       |         |
|-----------------------------|-----------------------------------|--|----------------------|-----------------------|---------|
|                             | Aerospace and Related Products    | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total   |
| Impairment losses of assets | \$2,711                           |  |                      | \$5,836               | \$8,547 |

### 7. Information about Amortization of Goodwill

|                            | Millions of Yen<br>2020        |  |                      |                       |       |
|----------------------------|--------------------------------|--|----------------------|-----------------------|-------|
|                            | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total |
| Amortization of goodwill   | ¥3                             |  | ¥80                  |                       | ¥83   |
| Goodwill at March 31, 2020 | 13                             |  | 425                  |                       | 438   |

|                            | Millions of Yen<br>2019        |  |                      |                       |       |
|----------------------------|--------------------------------|--|----------------------|-----------------------|-------|
|                            | Aerospace and Related Products | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total |
| Amortization of goodwill   | ¥3                             |  | ¥82                  |                       | ¥85   |
| Goodwill at March 31, 2019 | 16                             |  | 516                  |                       | 532   |

|                            | Thousands of U.S. Dollars<br>2020 |  |                      |                       |       |
|----------------------------|-----------------------------------|--|----------------------|-----------------------|-------|
|                            | Aerospace and Related Products    | Heat Energy and Environmental Related Products | ICT Related Products | Elimination/Corporate | Total |
| Amortization of goodwill   | \$28                              |  | \$735                |                       | \$763 |
| Goodwill at March 31, 2020 | 119                               |  | 3,906                |                       | 4,025 |

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Independent Auditor's Report  
March 31, 2020

**Deloitte.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Sumitomo Precision Products Co., Ltd.:

### Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Emphasis of Matter

As discussed in Note 1.b to the consolidated financial statements, the accompanying consolidated financial statements have been restated. Our opinion is not modified in respect of this matter.

### Convenience Translation

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

### Basis for Opinion

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

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

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

Member of  
Deloitte Touche Tohmatsu Limited

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

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

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

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

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

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

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

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

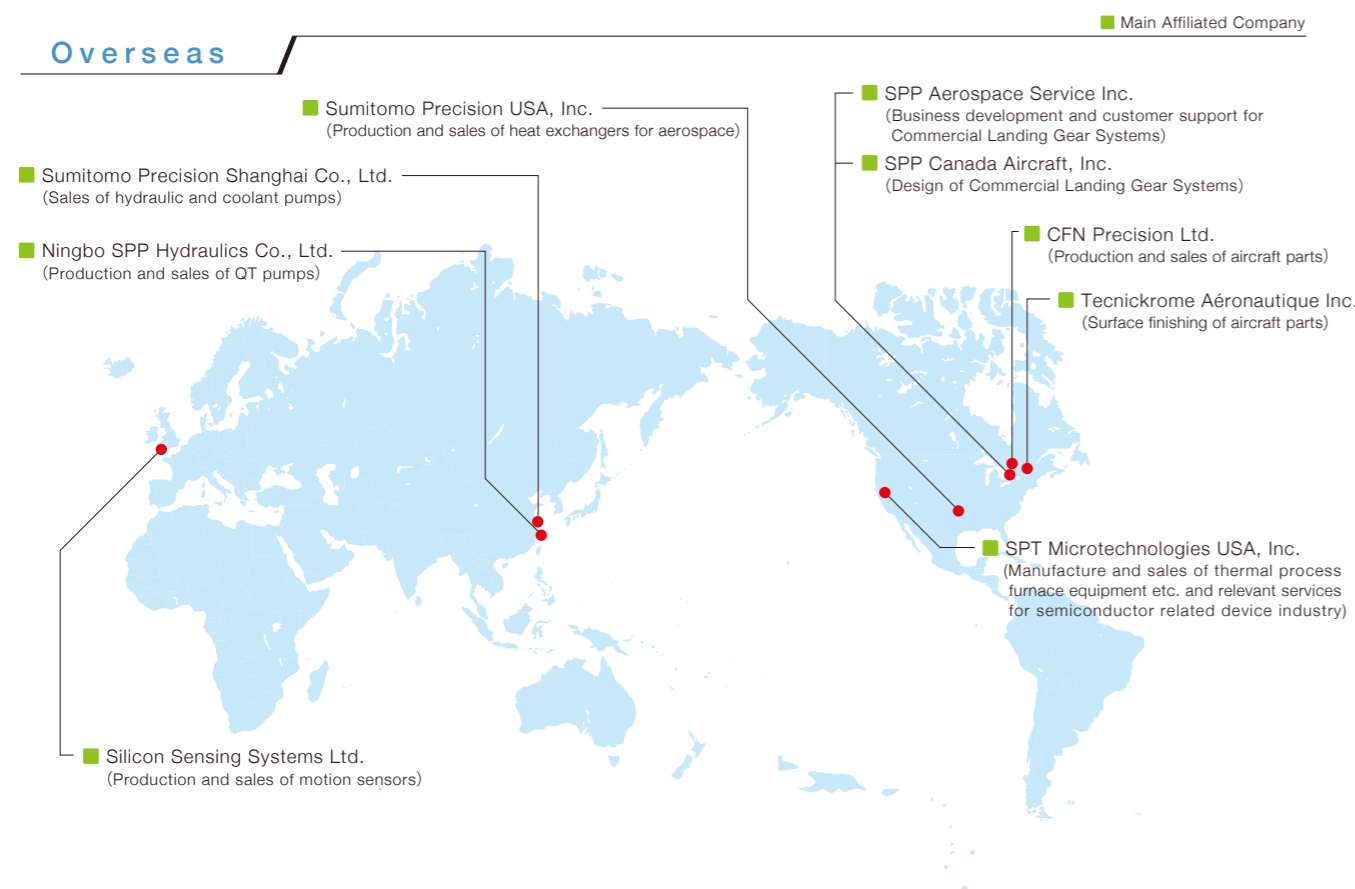
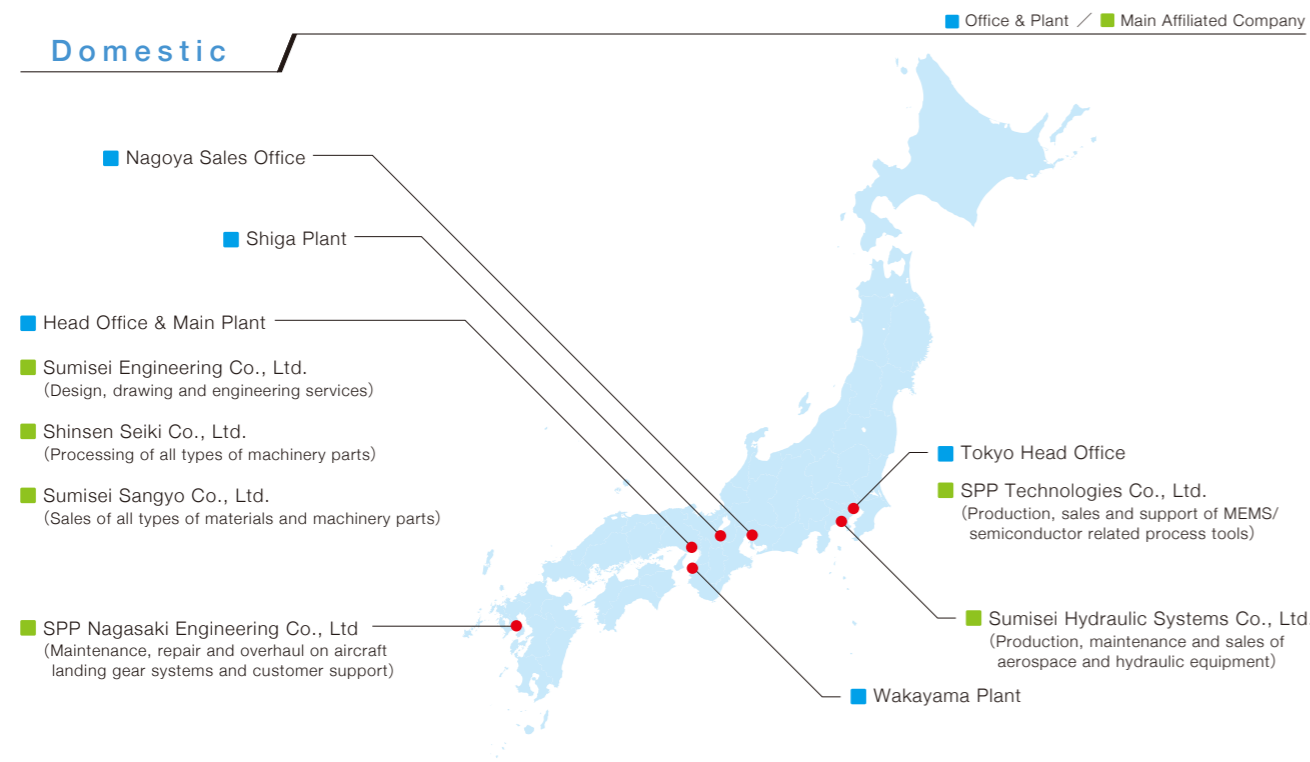
### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

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

*Deloitte Touche Tohmatsu LLC*

September 29, 2020

## Domestic and Overseas Bases



## Company Profile / Stock Information

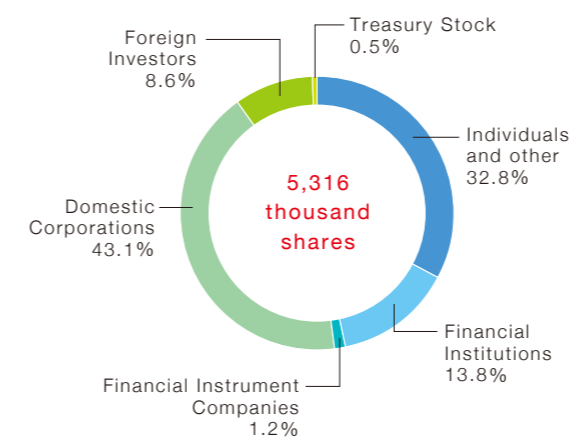
### Company Profile (As of March 31, 2020)

|                     |  |
|---------------------|--|
| Company Name        | Sumitomo Precision Products Co., Ltd.  |
| Established         | January, 1961  |
| Paid-in Capital     | ¥10,311 million  |
| President           | Hideaki Takahashi  |
| Number of Employees | 1,765 (Consolidated)<br>1,067 (Non-consolidated)   |
| Head Office         | 1-10 Fuso-cho, Amagasaki, Hyogo 660-0891, Japan  |
| Plant               | Main Plant (Amagasaki), Shiga Plant, Wakayama Plant (Plant site area: 136,844 square Meters) |
| URL                 | <a href="https://www.spp.co.jp">https://www.spp.co.jp</a>                                    |

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

|                              |   |
|------------------------------|---|
| Fiscal Year                  | From April 1 of each year through March 31 of the following year  |
| Ordinary Shareholder Meeting | June  |
| Record Date                  | Ordinary Shareholder Meeting: March 31<br>Year-end Dividends: March 31<br>Interim Dividends: September 30 |
| Transfer Agent               | 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan<br>Sumitomo Mitsui Trust Bank, Limited                |
| Method of Public Notices     | To be posted on the Company's Website ( <a href="https://www.spp.co.jp">https://www.spp.co.jp</a> )       |
| Stock Code                   | 6355  |
| Number of Authorized Shares  | 20,000,000  |
| Number of Issued Shares      | 5,316,779   |
| Number of Shareholders       | 4,624   |
| Minimum Trading Unit         | 100   |
| Stock Exchange Listing       | Tokyo   |

### Breakdown of Shareholders



### Major Shareholders

| Name of Shareholder                                  | Number of Shares (thousands) | Shareholding Ratio (%) |
|--|------------------------------|------------------------|
| Sumitomo Corporation                                 | 1,462                        | 27.64                  |
| Nippon Steel Corporation                             | 764                          | 14.46                  |
| The Master Trust Bank of Japan, Ltd. (trust account) | 235                          | 4.44                   |
| Sumitomo Precision Products Co., Ltd. Kyoeikai       | 122                          | 2.32                   |
| Japan Trustee Services Bank, Ltd. (trust account)    | 111                          | 2.10                   |
| DFA INTL SMALL CAP VALUE PORTFOLIO                   | 93                           | 1.77                   |
| Japan Trustee Services Bank, Ltd. (trust account 5)  | 62                           | 1.17                   |
| Kazuhiro Yamamoto                                    | 62                           | 1.17                   |
| Sumitomo Mitsui Banking Corporation                  | 54                           | 1.03                   |
| KIA FUND 136   | 45                           | 0.87                   |

\*1 The shareholding ratio is calculated based on the total number of issued shares minus the number of treasury shares.

\*2 Japan Trustee Services Bank, Ltd. merged with JTC Holdings, Ltd. and Trust & Custody Services Bank, Ltd. on July 27, 2020, and is currently Custody Bank of Japan, Ltd.

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