

ANNUAL REPORT 2020

Year ended March 31, 2020

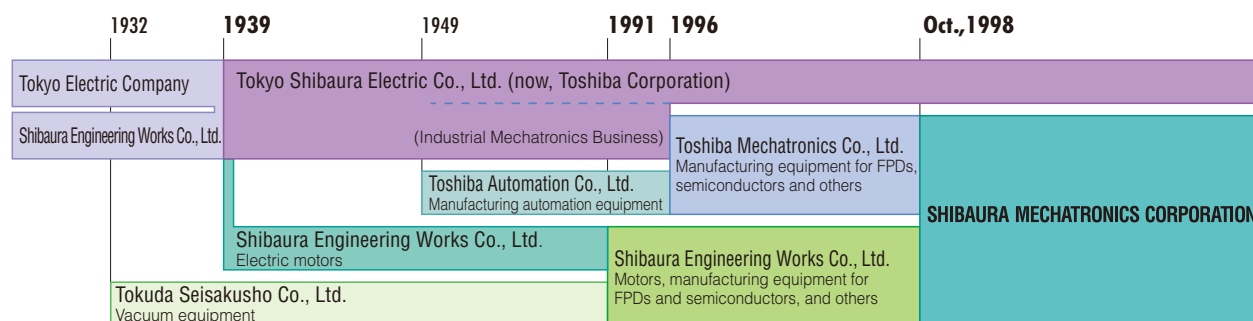
ANNUAL REPORT 2020

Profile

Shibaura Mechatronics was established in 1939 as Shibaura Engineering Works Co., Ltd. Initially, our primary focus was on the motor business, but in 1998 we struck out in a new direction, and reestablished ourselves as a producer of manufacturing equipment for flat panel displays (FPDs) and semiconductors. We also took on a new name, Shibaura Mechatronics Corporation.

Extensive know-how and skills we have cultivated over many years guide us in delivering total solutions in areas as diverse as high-accuracy mechatronics, cleaning, vacuum processing, sputtering, etching and bonding technologies. Our capabilities range from the development of manufacturing equipment for FPDs, semiconductors, electronic components and optical thin films, to the provision of comprehensive service support.

History



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Forward-Looking Statements

This annual report contains forward-looking statements concerning Shibaura Mechatronics' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject to a number of risks and uncertainties that, relate to economic conditions, worldwide megacompetition in the electronics business, customer demand, foreign currency exchange rates, tax rules, regulations and other factors. Shibaura therefore wishes to caution readers that actual results may differ materially from our expectations.

Financial Highlights

Consolidated	Year ended March 31,					Year ended March 31, 2020
	2020	2019	2018	2017	2016	(Thousands of U.S. dollars) (Note 1)
	(Millions of yen)					\$
Net sales	¥ 47,141	¥ 53,090	¥ 49,257	¥ 42,737	¥ 45,550	28,700
Orders received	46,632	51,021	53,355	42,651	45,077	17,866
Operating income	3,123	4,000	2,498	1,500	1,292	12,766
Net income	1,944	2,481	1,747	931	743	20,497
Depreciation and amortization	1,389	1,556	1,406	1,566	1,411	25,076
Capital expenditures	2,231	1,717	1,126	1,222	1,536	527,627
R&D expenses	2,729	2,743	2,492	2,210	2,065	
Total assets	57,421	61,967	59,939	53,721	56,253	181,201
Net assets	19,720	18,369	16,129	16,533	15,675	(U.S. dollars)
	(yen)					\$ 4.05
Net income per share	¥ 440.73	¥ 562.90	¥ 365.82	¥ 188.44	¥ 150.41	1,260
Number of employees	1,260	1,221	1,207	1,202	1,177	

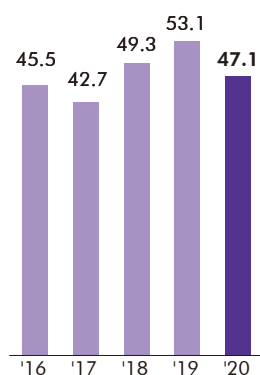
Note 1 : The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥ 108.83 = U.S.\$1.00, as of March 31, 2020.

Note 2 : With an effective date of October 1, 2018, the Company conducted a stock consolidation at a ratio of one share for every 10 shares of common stock.

Net income per share is calculated on the assumption that the share consolidation took place in April 2015.

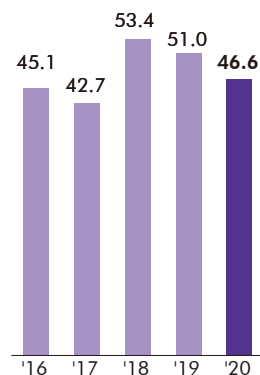
Net Sales

(¥Billions)



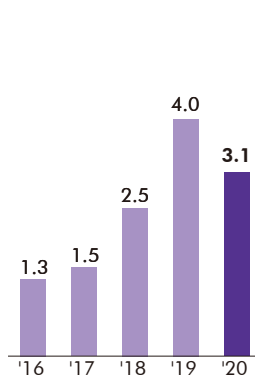
Orders Received

(¥Billions)



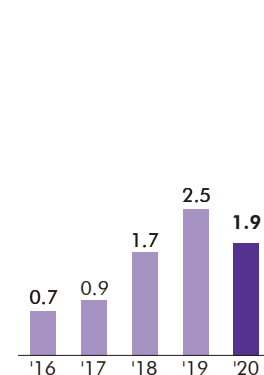
Operating Income

(¥Billions)



Net Income

(¥Billions)



*Smart Solutions & Services
for Your Manufacturing*

To Our Shareholders



We will drive growth by developing and launching strong products, and continue to reinforce our management structure.

In FY2019, the business environment of the Shibauro Mechatronics Group became more uncertain due to the effects of US-China trade friction and the global spread of COVID-19.

The FPD (Flat Panel Display) industry saw continued capital investment in equipment, primarily in China, for both large-size panels and small- and medium-sized panels, though there were some cases of postponed delivery and delayed investment decisions.

In the semiconductor industry, capital investment remained firm in such areas as logic and foundry, and in China; but one area, memories, saw delays in investment decisions, and in the recovery of capital investment. In addition, capital investment continued to be restrained at OSAT, a back-end contract manufacturer.

In these circumstances, our business results for FY2019 were as follow.

Orders received declined to ¥46,632 million, reflecting delays in capital investment decisions and investment restraint. Net sales decreased to 47,141 million yen, on factors that included decreased orders. Operating income declined to 3,123 million yen, reflecting such factors as lower sales.

Looking at the FY2020 business environment, we anticipate continued capital investment in the FPD industry, mainly for OLED.

The semiconductor industry is expected to see a recovery in capital investment for memories, and capital investment for logic and foundry is expected to remain firm, largely for applications in advanced fields.

A medium-to-long term increase in capital investment can be expected, against the backdrop of expanded semiconductor and FPD applications, in such areas as IoT, 5G communications and AI. However, one source of concern is the continuing uncertain outlook due to the impact of the global spread of COVID-19.

In this business environment, Shibauro Group will continue to promote the development and launch of strong products, and make every effort to expand orders and grow the business. We will also continue to direct effort to strengthening our management structure.

Shigeki Fujita
Representative Director
President and Chief Executive Officer

Financial Review

Results Summary

In FY2019 Shibaura Mechatronics recorded orders received of 46,632 million yen (a year-on-year decrease of 8.6%), net sales of 47,141 million yen (a year-on-year decrease of 11.2%), operating income of 3,123 million yen (a year-on-year decrease of 21.9%), ordinary income of 2,769 million yen (a year-on-year decrease of 26.8%), and net income of 1,944 million yen (a year-on-year decrease of 21.6%).

The results for each business segment were as follows:

1. Fine Mechatronics Segment

Net sales were 27,779 million yen, down 1.8% year-on-year, and segment income was 1,467 million yen, a 56.5% improvement over the previous year.

While orders received for FPD front-end process equipment increased, mainly for small- and medium-sized panels, net sales declined as a result of a number of decisions to delay deliveries and postpone investment decisions.

Net sales of equipment for semiconductor front-end processes increased on robust orders received, mainly for logic and foundry and wafers.

The segment as a whole saw higher orders received than in the previous year, but net sales fell slightly. Segment income increased, reflecting changes in the product mix, plus higher sales of equipment for semiconductor front-end processes.

2. Mechatronics Systems Segment

Net sales were 15,197 million yen, down 26.6% year-on-year, and segment income also fell to 1,404 million yen, a 52.5% decrease.

In equipment for FPD back-end processes, we saw delayed investment decisions and investment restraint for both large panels and for small- and medium-sized panels. Orders were sluggish compared to the boom of the previous year.

In equipment for semiconductor back-end processes, there was continued progress in investment in advanced fields, but a tendency to restraint in investment in parts for mobile devices.

In vacuum application equipment we again saw restrained investment, particularly in automotive and electronic

components.

Orders received and net sales were both lower year-on-year. Segment income decreased on factors that included lower sales.

3. Vending Machines and Systems Segment

Net sales were 2,251 million yen, a year-on-year increase of 7.5%, though segment income was 3 million yen, down 78.7%.

Net sales of ticket vending machines and from development contracts were high and contributed to the segment's higher overall sales. However, segment income decreased as a result of changes in the product composition and sluggish sales of services.

4. Real Estate Leasing Segment

Rental income from real estate was largely in line with plans, with net sales of ¥1,914 million, a 3.8% decrease year-on-year, and segment income of ¥562 million, a 1.1% increase.

Research and Development Expenditure

The Shibaura Mechatronics Group as a whole recorded research and development costs of 2,729 million yen, including development costs of 407 million yen for basic technologies that could not be appropriated to any specific segment.

R&D is advanced by the development and design departments in business divisions, the Research and Development Division, and by the technology divisions in our consolidated subsidiary companies. In addition, we are pushing forward efficient research and development and the commercialization of advanced technologies by strengthening our relations and collaborations with Toshiba Group and business partners.

Research and development expenses and research results for each segment are as follows:

1. Fine Mechatronics Segment

R&D expenses for the segment totaled 1,214 million yen.

In flat panel manufacturing equipment, we have developed a wet process device for high-definition small and medium-sized panels and an inkjet coating device for alignment

films, and we have made progress on development of a vacuum firing furnace for flexible OLED.

In semiconductor equipment we worked on the development of wet cleaning equipment that can be used in next generation devices, single wafer nitride film wet etching equipment and dry etching equipment for masks.

2. Mechatronics Systems Segment

R&D expenses for the segment totaled 935 million yen.

In liquid crystal and OLED module assembly equipment, we worked on the development of OLB equipment for small- and medium-sized panels, and for large-sized high-definition panels.

In semiconductor assembly equipment, we developed high-speed, high-precision bonding equipment for FO-WLP / PLP and μ LED.

In the field of vacuum equipment, we are working on the development of sputtering equipment for optical thin films and for electromagnetic wave shielding films.

3. Vending Machines and Systems Segment

R&D expenses for the segment totaled 171 million yen.

In the ticket vending machine field, we continued to develop ticket vending machines that accept cash and credit card payments. We have also developed cashless ticket machines that accept credit, electronic money, and QR code payments.

Financial Condition

Total assets at the end of the current period were 4,545 million yen lower than at the end of the previous fiscal year, and stood at 57,421 million yen. This was mainly due to decreases in cash and deposits of 461 million yen, in notes and accounts receivable of 2,925 million yen, and in work in process of 412 million yen.

Liabilities decreased by 5,897 million yen to 37,701 million yen. This was mainly due to decreases in notes and accounts payable-trade of 4,026 million yen, in accrued income taxes of 1,005 million yen, and in advances received of 590 million yen.

Net assets increased by 1,351 million yen to 19,720 million

yen. This was mainly due to an increase of 1,944 million yen, the result of recording net income attributable to shareholders of the parent company.

Cash Flows

The balance of cash and cash equivalents (hereinafter referred to as "cash") at the end of the period was 12,709 million yen, a year-on-year decrease of 461 million yen.

Net cash from operating activities increased by 1,279 million yen (following an increase of 1,461 million yen in the previous fiscal year). This was mainly due to increased funds resulting from recording net income before adjustments for taxes and a decrease in trade receivables, though there was a decrease in cash due to a decrease in trade payables.

Cash from investment activities decreased by 901 million yen (following a decrease of 721 million yen in the previous fiscal year). This was mainly due to a decrease in cash following the acquisition of fixed assets.

Free cash flow, the aggregate of cash flow from operations and cash flow from investment activities, increased by 378 million yen (following an increase of 740 million yen in the previous fiscal year).

Cash from financing activities decreased by 826 million yen (following a decrease of 870 million yen in the previous fiscal year). This was mainly due to a decrease in cash from the payment of dividends.

FINANCIAL SECTION

ANNUAL REPORT 2020 Year ended March 31, 2020

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Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Balance Sheet

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
Assets			
Current assets:			
Cash and bank deposits <i>(Notes 15 and 18)</i>	¥ 12,725	¥ 13,186	\$ 116,923
Notes and accounts receivable, trade <i>(Note 15)</i>	27,318	30,243	251,012
Electronically recorded monetary claims <i>(Note 15)</i>	497	495	4,569
Allowance for doubtful accounts	(1,074)	(198)	(9,865)
Inventories <i>(Note 6)</i>	2,869	3,477	26,362
Accounts receivable, other	1,684	1,903	15,472
Other current assets	450	395	4,138
Total current assets	44,469	49,501	408,611
Property, plant and equipment:			
Land <i>(Note 16)</i>	119	119	1,096
Buildings and structures <i>(Note 16)</i>	29,472	28,919	270,807
Machinery and equipment	6,029	5,942	55,398
Leased assets	86	297	796
Construction in progress	975	458	8,961
Total	36,681	35,735	337,058
Accumulated depreciation	(25,577)	(25,199)	(235,022)
Property, plant and equipment, net	11,104	10,536	102,036
Investments and other assets:			
Investments in securities <i>(Notes 5 and 15)</i>	80	124	732
Deferred tax assets <i>(Note 9)</i>	768	826	7,058
Other assets	1,005	981	9,234
Allowance for doubtful accounts	(5)	(1)	(44)
Total investments and other assets	1,848	1,930	16,980
Total assets	¥ 57,421	¥ 61,967	\$ 527,627

	March 31,		March 31,
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable, trade (Note 15)	¥ 11,107	¥ 15,134	\$ 102,061
Short-term bank loans (Notes 7 and 15)	5,100	5,100	46,862
Current portion of long-term debt (Notes 7 and 15)	1,200	4,500	11,026
Current portion of lease obligations (Note 7)	15	5	142
Advances received	484	1,074	4,446
Accrued expenses	3,290	3,519	30,233
Accrued income taxes (Note 9)	151	1,157	1,390
Provision for directors' bonuses	37	39	339
Provision for loss on order received	-	3	-
Other current liabilities	713	769	6,547
Total current liabilities	22,097	31,300	203,046
Long-term liabilities:			
Long-term debt (Notes 7 and 15)	4,600	1,500	42,268
Net defined benefit liability (Note 12)	7,452	7,349	68,475
Lease obligations (Note 7)	59	14	539
Long-term accounts payable-other	2	2	22
Provision for directors' retirement benefits	21	15	193
Reserve for repair and maintenance	301	304	2,763
Asset retirement obligations	91	36	836
Long-term guarantee deposits (Note 15)	3,078	3,078	28,284
Total long-term liabilities	15,604	12,298	143,380
Total liabilities	37,701	43,598	346,426
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity:			
Capital stock:			
Authorized: 10,000,000 shares			
Issued: 5,192,619 shares at March 31, 2020 and 2019	6,762	6,762	62,129
Capital surplus	9,038	9,038	83,044
Retained earnings	8,716	7,391	80,089
Less treasury stock, at cost	(4,023)	(4,038)	(36,957)
Total shareholders' equity	20,493	19,153	188,305
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	5	29	47
Foreign currency translation adjustments	260	282	2,391
Remeasurements of defined benefit plans	(1,038)	(1,095)	(9,542)
Total valuation and translation adjustments	(773)	(784)	(7,104)
Total net assets	19,720	18,369	181,201
Total liabilities and net assets	¥ 57,421	¥ 61,967	\$ 527,627

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Operations

	Years ended March 31,		Year ended
	2020	2019	March 31,
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
Net sales	¥ 47,141	¥ 53,090	\$ 433,170
Cost of sales <i>(Notes 6, 8 and 16)</i>	32,287	37,699	296,677
Gross profit	14,854	15,391	136,493
Selling, general and administrative expenses <i>(Notes 8, 12 and 20)</i>	11,731	11,391	107,793
Operating income	3,123	4,000	28,700
Other income (expenses):			
Interest and dividend income	9	9	87
Gain on sales of investment securities	22	-	204
Foreign exchange gain (loss), net	(28)	119	(254)
Interest expense	(120)	(129)	(1,104)
Commission fee	(30)	(29)	(277)
Gain(loss) on valuation of derivatives, net	23	(237)	210
Office relocation expenses	(154)	-	(1,416)
Other, net	(76)	50	(701)
Ordinary income	2,769	3,783	25,449
Income before income taxes	2,769	3,783	25,449
Income taxes <i>(Note 9)</i> :			
Current	764	1,333	7,018
Deferred	61	(31)	565
	825	1,302	7,583
Net income	1,944	2,481	17,866
Net income attributable to owners of parent	¥ 1,944	¥ 2,481	\$ 17,866

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income

	Years ended March 31,		Year ended
	2020	2019	March 31,
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
Net income	¥ 1,944	¥ 2,481	\$ 17,866
Other comprehensive income: <i>(Note 10)</i>			
Valuation difference on available-for-sale securities	(24)	(2)	(221)
Remeasurements of defined benefit plans	57	177	524
Foreign currency translation adjustments	(22)	(79)	(203)
Total other comprehensive income	11	96	100
Comprehensive income	¥ 1,955	¥ 2,577	\$ 17,966
(Breakdown)			
Comprehensive income attributable to owners of parent	1,955	2,577	17,966

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Shareholders' equity					Valuation and translation adjustments			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total net assets
	(Millions of yen)								
Balance as of April 1, 2018	51,926,194	¥ 6,762	¥ 9,038	¥ 5,264	¥ (4,054)	¥ 31	¥ 361	¥ (1,273)	¥ 16,129
Net income	—	—	—	2,481	—	—	—	—	2,481
Dividends of surplus (Note 11)	—	—	—	(354)	—	—	—	—	(354)
Purchase of treasury shares	—	—	—	—	(0)	—	—	—	(0)
Disposal of treasury shares	—	—	—	—	16	—	—	—	16
Net change during the year	—	—	—	—	—	(1)	(79)	178	98
Balance as of April 1, 2019	51,926,194	¥ 6,762	¥ 9,038	¥ 7,391	¥ (4,038)	¥ 29	¥ 282	¥ (1,095)	¥ 18,369
Net income	—	—	—	1,944	—	—	—	—	1,944
Dividends of surplus (Note 11)	—	—	—	(619)	—	—	—	—	(619)
Purchase of treasury shares	—	—	—	—	(1)	—	—	—	(1)
Disposal of treasury shares	—	—	—	—	16	—	—	—	16
Net change during the year	—	—	—	—	—	(24)	(22)	57	11
Balance as of March 31, 2020	51,926,194	¥ 6,762	¥ 9,038	¥ 8,716	¥ (4,023)	¥ 5	¥ 260	¥ (1,038)	¥ 19,720

(Thousands of U.S. dollars) (Note 1)

Balance as of April 1, 2019	\$ 62,129	\$ 83,044	\$ 67,915	\$(37,101)	\$ 268	\$ 2,594	\$ (10,066)	\$ 168,783
Net income	—	—	17,866	—	—	—	—	17,866
Dividends of surplus <i>(Note 11)</i>	—	—	(5,692)	—	—	—	—	(5,692)
Purchase of treasury shares	—	—	—	(7)	—	—	—	(7)
Disposal of treasury shares	—	—	—	151	—	—	—	151
Net change during the year	—	—	—	—	(221)	(203)	524	100
Balance as of March 31, 2020	<u>\$ 62,129</u>	<u>\$83,044</u>	<u>\$ 80,089</u>	<u>\$ (36,957)</u>	<u>\$ 47</u>	<u>\$ 2,391</u>	<u>\$ (9,542)</u>	<u>\$ 181,201</u>

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		Year ended
	2020	2019	March 31,
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 1)
Net cash provided by Operating activities			
Income before income taxes and non-controlling interest	¥ 2,769	¥ 3,783	\$ 25,449
Depreciation and amortization	1,389	1,556	12,766
Increase (decrease) in allowance for doubtful accounts	879	(169)	8,076
Increase in net defined benefit liability	160	218	1,471
Interest and dividend income	(9)	(9)	(87)
Interest expense	120	129	1,104
Foreign exchange losses	(15)	(21)	(139)
Decrease in advances received	(579)	(138)	(5,318)
Decrease (increase) in notes and accounts receivable-trade	2,914	(1,794)	26,773
Increase in inventories	(537)	(989)	(4,940)
Decrease in notes and accounts payable-trade	(4,149)	(270)	(38,122)
Increase (decrease) in accrued consumption taxes	(39)	67	(355)
Other, net	201	(77)	1,847
Subtotal	3,104	2,286	28,525
Interest and dividends received	10	9	87
Interest paid	(121)	(130)	(1,112)
Income taxes paid	(1,714)	(703)	(15,747)
Net cash provided by operating activities	1,279	1,462	11,753
Net cash used in Investment activities			
Payments into time deposits	(0)	(0)	(0)
Proceeds from sales of investment securities	36	-	328
Purchases of property, plant and equipment	(843)	(618)	(7,743)
Proceeds from sales of property, plant and equipment	177	0	1,629
Other, net	(271)	(104)	(2,492)
Net cash used in investment activities	(901)	(722)	(8,278)
Net cash used in Financing activities			
Repayments of finance lease obligations	(6)	(16)	(53)
Proceeds from long-term loans payable	4,300	-	39,511
Repayments of long-term loans payable	(4,500)	(500)	(41,349)
Purchases of treasury stock	(1)	(0)	(7)
Cash dividends paid	(619)	(354)	(5,692)
Net cash used in financing activities	(826)	(870)	(7,590)
Effect of exchange rate change on cash and cash equivalents	(14)	(83)	(125)
Net decrease in cash and cash equivalents	(462)	(213)	(4,240)
Cash and cash equivalents at beginning of year	13,171	13,384	121,027
Cash and cash equivalents at end of year (Note 18)	¥ 12,709	¥ 13,171	\$ 116,787

The accompanying notes are an integral part of the consolidated financial statements.

Shibaura Mechatronics Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2020

1. Basis of Presentation

Shibaura Mechatronics Corporation (the “Company”) and its consolidated subsidiaries (collectively, the “Companies” or the “Group”) maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which differ in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. In addition, the non-consolidated balance sheet of the Company as of March 31, 2020 and the non-consolidated statement of operations for the year then ended are included, as other information, in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥ 108.83 = U.S. \$ 1.00, the approximate rate of exchange in effect on March 31, 2020. This translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements

(1) Basis of consolidation

The accompanying consolidated financial statements include the accounts of Shibaura Mechatronics Corporation and eight subsidiaries over which the Company exerts substantial control, either through majority ownership of voting stock and / or by other means. All assets and liabilities of the subsidiaries are revalued at fair value upon acquisition, if applicable. All significant intercompany balances and transactions have been eliminated in consolidation.

Investment in an unconsolidated subsidiary that is not deemed material to the consolidated financial statements is stated at cost.

Certain subsidiaries have a fiscal year end which differs from that of the Company. As a result, adjustments have been made for any significant transactions which took place during the intervening period between the year end of the subsidiaries and that of the Company.

(2) Foreign currency translation

The revenue and expense accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the average rate of exchange in effect during each fiscal year. The balance sheet accounts, except for the components of shareholders' equity, are also translated into Japanese yen at the rate of exchange in effect at each balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from translations are presented as "Foreign currency translation adjustments," a component of net assets in the accompanying consolidated financial statements.

Foreign currency monetary assets and liabilities are translated into Japanese yen at the rate of exchange in effect at each balance sheet date and the resulting translation gains or losses are credited or charged to income.

(3) Cash and cash equivalents

The Company and its subsidiaries consider all highly liquid investments with a maturity of three months or less from their purchase dates to be cash equivalents.

(4) Securities

Marketable securities categorized as other securities are carried at fair value with unrealized holding gains or losses, net of applicable income taxes, accounted for as a separate component of net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is computed based on the moving average method.

(5) Derivatives

All derivatives are carried at fair value except for interest rate swaps which meet specific hedge criteria.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(6) Inventories

Finished goods and raw materials	— moving average method (in cases where profitability has declined, the book value is reduced accordingly)
Semi-finished goods and work in process	— individual cost method (in cases where profitability has declined, the book value is reduced accordingly)

(7) Depreciation and amortization (except for leased assets)

Depreciation of property, plant and equipment is generally computed by the declining-balance method, based on the estimated useful lives of the respective assets. The straight-line method is applied to certain research facilities acquired during the year ended March 31, 1995, and buildings acquired on or after April 1, 1998. Foreign consolidated subsidiaries compute depreciation primarily using the straight-line method. The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	3 – 60 years
Machinery and equipment	2 – 17 years

Intangible assets, which are included in “other assets” of the accompanying consolidated balance sheet, are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over a period of 5 years, based on the estimated useful life of the software.

(8) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is determined based on the Company’s historical experience with write-offs, plus an estimate of specific doubtful accounts based on a review of the collectibility of individual receivables.

(9) Provision for directors’ bonuses

To provide for the payment of bonuses to directors and statutory auditors, an allowance is made based on the projected amount incurred.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(10) Provision for loss on order received

A provision for losses on orders received is provided at an amount to cover the estimated possible losses involved on orders for which a loss occurrence is probable and can be reasonably estimated at the balance sheet date.

(11) Provision for retirement benefits

An allowance for employees' retirement benefits is provided, based on the projected retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date. The retirement benefit obligation for employees is attributed to each period by the straight-line attribution method. Actuarial gains or losses are charged to expenses from the fiscal year subsequent to the fiscal year when incurred using a straight-line method over a period of 10 years within the average remaining years of service of the employees. Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Unrecognized prior service cost and unrecognized actual gains and losses are included in remeasurements of defined benefit plans under Remeasurements of defined benefit plans in net assets after the tax effect adjustment.

(12) Provision for directors' retirement benefits

Certain directors, audit & supervisory board members and corporate officers of the Company and certain consolidated subsidiaries are entitled to lump-sum payments under their respective unfunded retirement benefit plans. Provision for retirement allowances for these officers has been made at the estimated amounts which would be paid if all directors, audit & supervisory board members and corporate officers resigned as of the balance sheet date.

(13) Reserve for repair and maintenance

Certain research facilities acquired during the year ended March 31, 1995 require periodic repairs and maintenance. An accrual for these repair and maintenance expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(14) Revenues and costs of construction contracts

Revenues and costs of construction contracts are recognized by the percentage of completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost.

The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(15) Leased assets

The depreciation of leased assets under finance leases is calculated using the straight-line method over the lease term with residual value of zero.

2. Summary of Significant Items for the Presentation of Consolidated Financial Statements (continued)

(16) Hedge accounting

Interest rate swaps which meet specific hedge criteria and qualify for special hedge accounting treatment are not remeasured at fair value.

Hedging instruments and hedged items are summarized as follows:

Hedging instruments	Hedged items
Interest rate swap agreements	Interest on long-term debt

The Company uses derivative transactions to hedge its exposure to interest rate fluctuation risk on long-term debt.

For interest rate swaps which meet the criteria for special hedge accounting, the assessment of hedge effectiveness is omitted.

(17) Research and development expenses

Research and development expenses are expensed as incurred and included in cost of sales or selling, general and administrative expenses.

(18) Consumption tax

The tax-excluded method is used with respect to consumption tax and local consumption taxes.

(19) Adoption of consolidated taxation system

The Company and some of its domestic consolidated subsidiaries have adopted the consolidated taxation system.

Application of tax effect accounting on transition from the consolidated taxation system to the group tax sharing system

With regard to the transition to the group tax sharing system introduced by the “Act Partially Amending the Income Tax Act, etc.” (Act No. 8 of 2020) and items under the non-consolidated taxation system reviewed in line with the transition to the group tax sharing system, the Company and certain consolidated subsidiaries have applied the provisions of the Tax Act before the revisions in determining the amount of deferred tax assets and liabilities pursuant to Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), instead of applying Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018).

3. Accounting Standard Issued but Not Yet Effective

Accounting Standards issued by March 31, 2020 but not yet effective are as follows;

- “Accounting Standards for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 31, 2020)

(1) Summary

The International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board of the United States of America (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS No.15, issued by IASB and Topic 606 issued by FASB) in May 2014. Considering that IFRS No.15 is applicable from the fiscal year beginning on and after January 1, 2018 and Topic 606 from the fiscal year beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it along with implementation guidance.

The ASBJ developed its standard for revenue recognition with the objective to align the Japan standards to the basic principles of IFRS No. 15 in order to allow consistency and comparability with other international bases of financial statement presentation. However, the ASBJ also gave consideration to alternative treatments so as to not impair comparability across other practices in Japan

(2) Date of application

The Company and its domestic subsidiaries expect to apply the new standard for the fiscal year ending March 31, 2022.

(3) Effect of application

The effect of applying the “Accounting Standard for Revenue Recognition,” on the consolidated financial statements is currently under assessment.

- “Accounting Standard for Disclosure of Accounting Estimates” (Accounting Standards Board of Japan (“ASBJ”) Statement No.31, March 31, 2020)

(1) Summary

“Sources of estimation uncertainty” (the “Source”) is required to be disclosed under IAS 1 “Presentation of Financial Statements”, which was issued by the IASB in 2003. Comment providers requested the ASBJ to include a requirement for disclosure of the Source which are useful for the users of the financial statements in the notes to the financial statements prepared under accounting principles generally accepted in Japan.

As a result, the ASBJ developed and published “Accounting Standard for Disclosures of Accounting Estimates” (the “Disclosure Standard”).

When the ASBJ developed this Disclosure Standard, a basic policy was set up, which is that each note to the financial statements should not be described in

detail, but only the principle (purpose of disclosure) should be provided. Specific contents of this principle should be determined by reference to the Company's purpose of the disclosure. The Disclosure Standard has been developed referring to IAS 1, paragraph 125.

(2) Date of application

The Company and its domestic subsidiaries expect to apply the new standard for the fiscal year ending March 31, 2021.

- “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (“ASBJ”) Statement No.24, March 31, 2020)

(1) Summary

The Standards Advisory Council requested that the ASBJ improve footnote information related to “accounting principle and procedure developed by management in the absence of an accounting standard that specifically applies to a transaction”. In response, the ASBJ made revisions to the standard and published it as “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”. In improving such footnote information, Business Accounting Principles Interpretive Note 1-2 has continuously been applied in order not to affect accounting practices where the accounting standard applied to a transaction is already clearly determined.

(2) Date of application

The Company and its domestic subsidiaries expect to apply the new standard for the fiscal year ending March 31, 2021.

4. Additional Information

(Performance-based stock compensation plan for the Company's directors)

The Company has introduced a performance-based stock compensation plan (the “Plan”) for directors of the Company (excluding outside directors) and executive officers who have entered into an engagement agreement with the Company (hereinafter “Directors, etc.”).

(1) Transaction summary

The Company will set up a monetary trust. This trust will be used to acquire common shares of the Company. A director shall be granted shares in each fiscal year. The stock-based compensation will be delivered to the Directors via the trust. Note that in principle the Directors will receive delivery of said shares at the scheduled time every year.

(2) Shares remaining in the trust

The shares of the Company that remain in the trust are recorded as treasury stock under net assets at book value (excluding associated costs). The book value of these treasury stock shares at the end of the fiscal year under review was ¥39 million (\$358 thousand) and there were 11 thousand shares.

(Impact of the spread of novel coronavirus disease)

The spread of novel coronavirus disease is ongoing as of the date of preparation of these consolidated financial statements, and continues to affect the Group's business activities. In preparing the consolidated financial statements, the Group makes accounting estimates such as those in respect of collectibility of deferred tax assets, valuation of allowance for doubtful accounts, and impairment of fixed assets. These accounting estimates reflect the current situation based on available information, assuming that overseas travel restrictions aimed at preventing the spread of novel coronavirus disease infections will be lifted in June 2020.

5. Investments in Securities

At March 31, 2020 and 2019, marketable securities classified as other (available-for-sale) securities are summarized as follows:

	March 31						March 31,		
	2020			2019			2020		
	Amount recorded in			Amount recorded in			Amount recorded in		
	Acquisition costs	the balance sheet	Difference	Acquisition costs	the balance sheet	Difference	Acquisition costs	the balance sheet	Difference
	(Millions of yen)			(Millions of yen)			(Thousands of U.S. dollars)		
Other securities whose market value recorded in the balance sheet exceeds their acquisition costs:									
Equity securities	¥ 13	¥ 18	¥ 5	¥ 38	¥ 71	¥ 33	\$ 120	\$ 165	\$ 45
Debt securities	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	¥ 13	¥ 18	¥ 5	¥ 38	¥ 71	¥ 33	\$ 120	\$ 165	\$ 45

At March 31, 2020 and 2019, non-marketable securities carried at cost are summarized as follows:

	March 31,		March 31,
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in affiliates:			
Affiliates	¥ 52	¥ 52	\$ 479
Other	1	1	6

For the year ended March 31, 2020, other securities sold are summarized as follows:

	Year ended March 31			Year ended March 31		
	2020			20		
	Sales proceeds	Total gain on sales	Total loss on sales	Sales proceeds	Total gain on sales	Total loss on sales
	(Millions of yen)			(Thousands of U.S. dollars)		
Equity securities	¥ 38	¥ 22	—	\$ 348	\$ 205	—
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	¥ 38	¥ 22	—	\$ 348	\$ 205	—

For the year ended March 31, 2019, no other securities were sold.

6. Inventories

Inventories at March 31, 2019 and 2018 are summarized as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Finished products	¥ 939	¥ 1,121	\$ 8,628
Raw materials	214	228	1,965
Work in process	1,716	2,128	15,769
Total	¥ 2,869	¥ 3,477	\$ 26,362

Inventories as of March 31, 2020 and 2019 were written down due to lower profitability and unrealized loss on inventories was charged to cost of sales in the amounts of ¥128 million (\$1,183 thousand) and ¥527 million, respectively.

7. Short-Term Bank Loans and Long-Term Debt

The weighted average interest rate per annum on the short-term bank loans outstanding at March 31, 2020 and 2019 was 1.0%.

Long-term debt and lease obligations at March 31, 2020 and 2019 are summarized as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unsecured:			
0.7% to 1.3% loans from banks due 2020 to 2024	5,800	6,000	53,294
Lease obligations	74	19	681
Total	5,874	6,019	53,975
Less current portion	1,215	4,505	11,168
Long-term debt and lease obligations, net	¥ 4,659	¥ 1,514	\$ 42,807

Aggregate annual maturities of long-term debt and lease obligations at March 31, 2020 are summarized as follows:

	March 31, 2020	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2021	¥ 1,215	\$ 11,169
2022	16	146
2023	815	7,493
2024 and thereafter	3,828	35,167
Total	¥ 5,874	\$ 53,975

7. Short-Term Bank Loans and Long-Term Debt (continued)

The Company entered into one-year contracts for commitment lines of credit with six banks in the aggregated amount of approximately ¥6,000 million (\$55,132 thousand) to optimize the free cash flow on August 1, 2019. The outstanding balance of bank borrowings under these commitment lines at March 31, 2020 was zero.

8. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2020 and 2019 are as follows:

Year ended March 31,		Year ended
2020	2019	March 31,
		2020
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥ 2,729	¥ 2,743	\$ 25,076

9. Income Taxes and Deferred Tax Assets

The major components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are summarized as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Net defined benefit liability	¥ 1,962	¥ 1,909	\$ 18,032
Accrued employees' bonuses	423	469	3,884
Reserve for repair and maintenance	94	94	860
Enterprise tax payable	26	78	242
Costs of construction for the percentage of completion	155	225	1,422
Tax loss carried forward	—	95	—
Other	1,827	1,695	16,792
Gross deferred tax assets	4,487	4,565	41,232
Valuation allowances for tax loss carryforwards	—	(83)	—
Valuation allowance for temporary differences	(3,591)	(3,509)	(32,994)
Total deferred tax assets	896	973	8,238
Deferred tax liabilities:			
Unrecognized holding gain on other securities	0	(5)	(2)
Other	(128)	(142)	(1,178)
Total deferred tax liabilities	(128)	(147)	(1,180)
Net deferred tax assets	¥ 768	¥ 826	\$ 7,058

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

Not applicable

9. Income Taxes and Deferred Tax Assets (continued)

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.6% and 30.6% for the years ended March 31, 2020 and 2019. Income taxes of the foreign consolidated subsidiaries are generally based on the tax rates applicable in their countries of incorporation.

The reconciliations between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rates for the years ended March 31, 2020 and 2019 are summarized as follows:

	March 31,	
	2020	2019
Effective statutory tax rates	30.6%	30.6%
Effect of:		
Non-deductible expenses	1.1	1.5
Change in valuation allowance	2.7	8.3
Inhabitants tax per capital	0.5	0.3
Different tax rates applied to foreign consolidated subsidiaries	(1.5)	(0.3)
Foreign tax	1.9	0.5
Experimental and research expense tax credit	(5.9)	(9.3)
Difference between assessment year and previous year	0.4	0.7
Additional income taxes	—	1.9
Other	0.0	0.2
Effective tax rates	<u>29.8%</u>	<u>34.4%</u>

10. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2020 and 2019:

	Year ended March 31,		Year ended
	2020	2019	March 31,
	(Millions of yen)		(Thousands of U.S. dollars)
Valuation difference on other (available-for-sale) securities:			
Current year gains (losses)	¥ (7)	¥ (1)	\$ (61)
Reclassification adjustments for gains and losses included in net income	(22)	—	(203)
Amount before tax effect	(29)	(1)	(264)
Tax effect	5	(1)	43
Valuation difference on available-for-sale securities	(24)	(2)	(221)
Foreign currency translation adjustment:			
Current year gains (losses)	(22)	(79)	(203)
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	(22)	(79)	(203)
Tax effect	—	—	—
Foreign currency translation adjustment	(22)	(79)	(203)
Remeasurements of defined benefit plans:			
Current year gains (losses)	(102)	(56)	(941)
Reclassification adjustments for gains and losses included in net income	159	233	1,465
Amount before tax effect	57	177	524
Tax effect	—	—	—
Remeasurements of defined benefit plans	57	177	524
Total other comprehensive income	¥ 11	¥ 96	\$ 100

11. Information on Dividends

The Company paid cash dividends as follows:

Date of board resolution	Class of stock	Total dividend amount	Dividends per share *1	Record date	Effective date
May 21, 2019	Common stock	¥ 619 million	¥140.00 *1	March 31, 2019	June 5, 2019

*1 Dividends per share of ¥140.00 for the year ended March 31, 2019 before the consolidation of shares.

Approval of dividends payments for which the record date is in the fiscal year and effective date is in the following fiscal year is planned as follows:

Date of board resolution	Class of stock	Total dividend amount	Source of dividends	Dividends per share	Record date	Effective date
May 21, 2020	Common stock	¥ 486 million	Retained earnings	¥110.00	March 31, 2020	June 8, 2020

12. Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who retire from the Companies. Eligible employees may also receive additional payments under the plans.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

1 Defined benefit plans

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

	Year ended March 31,		Year ended March 31,
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 9,416	¥ 9,441	\$ 86,520
Service costs	364	368	3,346
Interest costs	32	32	296
Actuarial (gain) loss	(36)	(24)	(328)
Retirement benefit paid	(288)	(401)	(2,644)
Balance at the end of the year	¥ 9,488	¥ 9,416	\$ 87,190

12. Retirement Benefits (continued)

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

	Year ended March 31,		Year ended
	2020	2019	March 31,
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 3,214	¥ 3,171	\$ 29,529
Expected return on plan assets	64	63	591
Actuarial (gain) loss	(138)	(80)	(1,269)
Contributions by the Company	350	345	3,219
Retirement benefit paid	(195)	(286)	(1,795)
Balance at the end of the year	<u>¥ 3,295</u>	<u>¥ 3,213</u>	<u>\$ 30,275</u>

(3) The changes in net defined benefit liability that are calculated by the simplified method for the years ended March 31, 2020 and 2019 are as follows:

	Year ended March 31,		Year ended
	2020	2019	March 31,
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,147	¥ 1,039	\$ 10,538
Retirement benefit expense	208	189	1,913
Retirement benefit paid	(92)	(69)	(845)
Other	(5)	(13)	(47)
Balance at the end of the year	<u>¥ 1,258</u>	<u>¥ 1,146</u>	<u>\$ 11,559</u>

12. Retirement Benefits (continued)

(4) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2019 for the Group's defined benefit plans:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 6,142	¥ 6,094	\$ 56,444
Plan assets at fair value	(3,294)	(3,214)	(30,274)
	2,848	2,880	26,170
Unfunded retirement benefit obligation	4,604	4,469	42,305
Net liability for retirement benefits in the balance sheet	7,452	7,349	68,475
Liability for retirement benefits	7,452	7,349	68,475
Net liability for retirement benefits in the balance sheet	¥ 7,452	¥ 7,349	\$ 68,475

Notes:

Net defined benefit liability calculated by the simplified method is included.

(5) The components of retirement benefit expense for the years ended March 31, 2020 and 2019 are as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service costs	¥ 364	¥ 368	\$ 3,346
Interest costs	32	32	296
Expected return on plan assets	(64)	(63)	(591)
Amortization of actuarial loss	176	250	1,621
Amortization of prior service cost	(17)	(17)	(155)
Retirement benefit expense calculated by the simplified method	208	188	1,913
Retirement benefit expense for defined benefit plans	¥ 699	¥ 758	\$ 6,430

12. Retirement Benefits (continued)

(6) The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ 17	¥ 17	\$ 156
Actuarial gains	(74)	(194)	(680)
Total	¥ (57)	¥ (177)	\$ (524)

(7) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows:

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ (31)	¥ (48)	\$ (285)
Unrecognized actuarial losses	1,069	1,143	9,827
Total	¥ 1,038	¥ 1,095	\$ 9,542

(8) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
Bonds	16.9%	17.0%
Shares	18.8%	21.2%
Cash and deposits	1.3%	0.8%
General accounts	43.9%	42.6%
Other	19.1%	18.4%
Total	100.0%	100.0%

12. Retirement Benefits (continued)

(9) The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans are as follows:

	March 31,	
	2020	2019
Discount rate	0.31–0.36%	0.31–0.36%
Long-term expected return on plan assets	2.0%	2.0%
Salary increase rate	4.2%	4.2%
Lump-sum election rate	70.0%	70.0%

② Defined contribution plans

The amount required to be contributed to the defined contribution plans is ¥17 million (\$155 thousand) for the year ended March 31, 2020.

13. Contingent Liabilities

The Company had the following contingent liability as of March 31, 2020 and 2019 :

	March 31,		March 31,
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Guarantee for housing loans of employees	¥ 3	¥ 4	\$ 31

14. Derivatives and Hedging Activities

The Company has entered into interest-rate swap contracts to manage its exposure to interest-rate risk on long-term debt. As a matter of policy, the Company does not enter into derivative transactions for trading purposes. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high credit ratings.

In accordance with the Company's policy, derivative transactions are entered into under the decision-making rules approved by the Management Strategy Committee of the Company. The Treasury Division with the responsibility to enter into such contracts monitors and controls the inherent risk and performance on a daily basis and reports these to management of the Company, if and when necessary.

In accordance with the special hedge accounting under the Accounting Standard for Financial Instruments, the Company does not record certain interest-rate swap arrangements at fair value but charges or credits the net cash flows from the swap arrangements to the interest arising from the respective hedged borrowings.

At March 31, 2020 and 2019, the fair value information for derivatives, for which hedge accounting was applied, was not presented since all derivatives were accounted for using the special hedge accounting and accordingly their fair value was recorded as part of the fair value of the hedged borrowings.

14. Derivatives and Hedging Activities (continued)

I. Derivative transactions which do not qualify for hedge accounting

Currency-related transactions

	As of March 31, 2020			
	Contract	Contract	Fair value	Unrealized
	amount	amount		
	amount	over 1 year		gain(loss)
	(Millions of yen)			
Foreign Exchange				
Forward Contracts				
To sell foreign currencies				
U.S. Dollars	¥ 2,689	¥ 309	¥ (10)	¥ (10)
Total	¥ 2,689	¥ 309	¥ (10)	¥ (10)
To buy foreign currencies				
U.S. Dollars	¥ —	¥ —	¥ —	¥ —
Total	¥ —	¥ —	¥ —	¥ —

	As of March 31, 2019			
	Contract	Contract	Fair value	Unrealized
	amount	amount		
	amount	over 1 year		gain(loss)
	(Millions of yen)			
Foreign Exchange				
Forward Contracts				
To sell foreign currencies				
U.S. Dollars	¥ 2,400	¥ —	¥ (64)	¥ (64)
Total	¥ 2,400	¥ —	¥ (64)	¥ (64)
To buy foreign currencies				
U.S. Dollars	¥ —	¥ —	¥ —	¥ —
Total	¥ —	¥ —	¥ —	¥ —

	As of March 31, 2020			
	Contract	Contract	Fair value	Unrealized
	amount	amount		
	amount	over 1 year		gain(loss)
	(Thousands of U.S. dollars)			
Foreign Exchange				
Forward Contracts				
To sell foreign currencies				
U.S. Dollars	\$ 24,709	\$ 2,838	\$ (96)	\$ (96)
Total	\$ 24,709	\$ 2,838	\$ (96)	\$ (96)
To buy foreign currencies				
U.S. Dollars	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —

14. Derivatives and Hedging Activities (continued)

Notes:

Fair value is principally based on obtaining quotes from counterparty financial institutions.

II. Derivative transactions which qualify for hedge accounting

Interest-related transaction

Type of derivative transaction	Principal item hedged	As of March 31, 2020		
		Contract amount	Contract amount over 1 year	Fair value
			(Millions of yen)	

Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	¥ 3,200	¥ 2,500	¥ —
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Type of derivative transaction	Principal item hedged	As of March 31, 2019		
		Contract amount	Contract amount over 1 year	Fair value
			(Millions of yen)	

Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	¥ 6,000	¥ 1,500	¥ —
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Type of derivative transaction	Principal item hedged	As of March 31, 2020		
		Contract amount	Contract amount over 1 year	Fair value
			(Thousands of U.S. dollars)	

Interest rate swap transaction Pay fixed/Receive variable	Long-term debt	\$ 29,404	\$ 22,972	\$ —
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Notes:

The fair value of interest rate swaps accounted for using the special treatment is included in the fair value of the underlying long-term debt.

15. Financial Instruments

① Matters relating to financial instruments

(1) Policy of financial instruments

The Group makes capital investments primarily through bank loans to secure the necessary principal and maintain liquidity. Derivatives are used, not for speculative nor trading purposes, but to manage risk of foreign currency exchange rates and interest rate fluctuations arising from business operations.

(2) Contents and risk management for financial instruments

Receivables such as trade notes and accounts receivable are exposed to a customer's credit risk. Receivables from each customer are constantly checked to reduce risk of the customer's default.

Investment securities are equity securities of customers of the Group and exposed to the market price fluctuation risk.

While foreign currency-denominated operating receivables are exposed to exchange rate fluctuation risk, the Group hedges this risk by, as a general rule, primarily utilizing forward exchange contracts for foreign currency-denominated operating payables. Trade payables, which are operating payables, are settled within a year. Short-term bank loans are used to primarily to procure working capital, while long-term debt is used to procure funds required for long-term stability. Although some items with variable interest rates are exposed to interest rate fluctuation risk, derivative transactions (interest rate swaps) are utilized in part to fix interest payments. To control credit risk related to derivatives, based on internal guidelines, the Group enters into derivative transactions with counterparties with high credit ratings. In addition, the Treasury Division of the Group regularly monitors risk and gain or loss, and reports them to management of the Company.

Operating payables and bank loans are exposed to liquidity risk.

Each entity of the Group performs cash management using monthly cash flow information.

(3) Supplementary information on fair value of financial instruments

Fair values of financial instruments are based on their quoted price in active markets. If the quoted price is not available, other rational valuation techniques are used. Because various assumptions and factors are reflected in estimating fair value, different assumptions could result in different fair value. The contract or notional amounts of derivatives which are shown in the below table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

15. Financial Instruments (continued)

② Matters concerning the fair value of financial instruments, etc.

Amounts as of March 31, 2020 and 2019 on the accompanying consolidated balance sheet fair value and the difference between them are as follows.

	March 31, 2020		
	Carrying value	Fair value	Difference
	<i>(Millions of yen)</i>		
(1) Cash and bank deposits	¥ 12,725	¥ 12,725	¥ —
(2) Notes and accounts receivable, trade	27,318	27,318	—
(3) Electronically recorded monetary claims	497	497	—
(4) Investment securities - Other securities	27	27	—
(5) Notes and accounts payable, trade	(11,107)	(11,107)	—
(6) Short-term bank loans	(5,100)	(5,100)	—
(7) Current portion of long-term debt	(1,200)	(1,200)	—
(8) Long-term debt	(4,600)	(4,601)	(1)
(9) Other long-term liabilities	(3,078)	(2,900)	178
(10) Derivative transactions	(13)	(13)	—

	March 31, 2019		
	Carrying value	Fair value	Difference
	<i>(Millions of yen)</i>		
(1) Cash and bank deposits	¥ 13,186	¥ 13,186	¥ —
(2) Notes and accounts receivable, trade	30,243	30,243	—
(3) Electronically recorded monetary claims	495	495	—
(4) Investment securities - Other securities	72	72	—
(5) Notes and accounts payable, trade	(15,134)	(15,134)	—
(6) Short-term bank loans	(5,100)	(5,100)	—
(7) Current portion of long-term debt	(4,500)	(4,500)	—
(8) Long-term debt	(1,500)	(1,496)	4
(9) Other long-term liabilities	(3,078)	(2,884)	194
(10) Derivative transactions	(58)	(58)	—

	March 31, 2020		
	Carrying value	Fair value	Difference
	<i>(Thousands of U.S. dollars)</i>		
(1) Cash and bank deposits	\$ 116,923	\$ 116,923	\$ —
(2) Notes and accounts receivable, trade	251,012	251,012	—
(3) Electronically recorded monetary claims	4,569	4,569	—
(4) Investment securities - Other securities	247	247	—
(5) Notes and accounts payable, trade	(102,061)	(102,061)	—
(6) Short-term bank loans	(46,862)	(46,862)	—
(7) Current portion of long-term debt	(11,026)	(11,026)	—
(8) Long-term debt	(42,268)	(42,279)	(11)
(9) Other long-term liabilities	(28,284)	(26,648)	1,636
(10) Derivative transactions	(119)	(119)	—

15. Financial Instruments (continued)

(*) Liabilities are presented in parentheses in the above table.

Notes:

- a) Method of measurement of fair value of financial instruments and matters concerning securities and derivative transactions

- (1) Cash and bank deposits, (2) Notes and accounts receivable, trade, and
(3) Electronically recorded monetary claims

As these instruments are settled in a short period of time, their fair value approximates carrying value.

- (4) Investment securities - Other securities

The fair value of equity securities reflects quoted stock exchange pricing at the balance sheet date.

- (5) Notes and accounts payable, trade, (6) Short-term bank loans, (7) Current portion of long-term debt

As these items are settled in a short period of time, their fair value approximates carrying value.

- (8) Long-term debt

As for the fair value of long-term debt, future cash flows from payments of principal and interest are discounted to present value using the interest rate applicable to a similar new loan. For long-term debt with floating interest rates subject to the special hedge accounting hedged by designated interest rate swaps, future cash flows from payments for principal and interest, combined with cash flows from the designated interest rate swaps, are discounted to present value using the interest rate applicable to a similar new loan.

- (9) Other long-term liabilities

Other long-term liabilities consist of long-term guarantee deposits. The fair value of other long-term liabilities is determined by discounting future cash flows to the present value using a risk free rate.

- (10) Derivative transactions

See Note 14 for details on derivative transactions.

- b) As non-marketable equity securities of ¥52 million (\$479 thousand) do not have a quoted market price and their future cash flows cannot be estimated, the Group considers it extremely difficult to determine their fair value. Hence, the items are not included in “(4) Investment securities - Other securities.”

15. Financial Instruments (continued)

c) Financial assets due subsequent to the balance sheet date

Cash and bank deposits of ¥12,725 million (\$116,923 thousand), Notes and accounts receivable, trade of ¥27,318 million (\$251,012 thousand), Electronically recorded monetary claims of ¥497 million (\$4,569 thousand) are due within one year subsequent to March 31, 2020 and Cash and bank deposits of ¥13,167 million, Notes and accounts receivable, trade of ¥30,243 million, Electronically recorded monetary claims of ¥495 million are due within one year subsequent to March 31, 2019.

16. Investment in Rental Property

The Company owns an office building (including land) for rent by third parties in Yokohama city, part of which is used by the Company.

Information on Consolidated Balance Sheet

	Carrying amount			Fair value
	April 1, 2019	Decrease	March 31, 2020	March 31, 2020
	<i>(Millions of yen)</i>			
Rental property	¥ 5,579	¥ 121	¥ 5,458	¥ 7,816

	Carrying amount			Fair value
	April 1, 2018	Decrease	March 31, 2019	March 31, 2019
	<i>(Millions of yen)</i>			
Rental property	¥ 5,631	¥ 51	¥ 5,579	¥ 7,816

	Carrying amount			Fair value
	April 1, 2019	Decrease	March 31, 2020	March 31, 2020
	<i>(Thousands of U.S. dollars)</i>			
Rental property	\$ 51,266	\$ 1,114	\$ 50,153	\$ 71,822

Notes:

- The carrying amount on the consolidated balance sheet is determined at the amount of acquisition costs less accumulated depreciation and impairment loss.
- Decrease represents depreciation during the year.
- Fair value at March 31, 2020 and 2019 is internally determined by the Company based on the real-estate appraisal standard.

16. Investment in Rental Property (continued)

Information on Consolidated Statement of Operations

	Year ended March 31, 2020		
	Rental income	Rental costs	Difference
	(Millions of yen)		
Rental property	¥ 1,528	¥ 1,075	¥ 453

	Year ended March 31, 2019		
	Rental income	Rental costs	Difference
	(Millions of yen)		
Rental property	¥ 1,580	¥ 1,139	¥ 440

	Year ended March 31, 2020		
	Rental income	Rental costs	Difference
	(Thousands of U.S. dollars)		
Rental property	\$ 14,042	\$ 9,878	\$ 4,164

Notes:

Because the rental property includes an office space internally used by the Company, rental income related to such office space is not included in the above table. Costs incidental to this real estate, such as depreciation, repair cost, insurance cost, taxes and public charges, are included in rental costs.

17. Segment Information

① Segment information

(1) Overview of reporting segments

The Company's reporting segments are determined as the Group's units for which discrete financial information is available, which the Board of Directors regularly monitors in order to decide on the allocation of business resources and evaluate business performance.

The Company adopts the division system in its Group organization based on the product or service lines.

Each division draws up a domestic and overseas comprehensive strategy for its products or services to manage and develop operations.

The Company has four reporting segments: Fine mechatronics, Mechatronics systems, Vending machines & systems, and Real estate leasing.

The product or service lines belonging to each reporting segment are as follows.

Fine mechatronics:

Flat Panel Display ("FPD") manufacturing equipment (wet cleaning equipment, developing equipment, Etching equipment, Stripping equipment, PI inkjet coater, Cell assembly equipment), Semiconductor manufacturing equipment (wafer inspection equipment, etching equipment, aching equipment, wet cleaning equipment), Railroad maintenance equipment, and other items.

Mechatronics systems:

FPD manufacturing equipment (outer lead bonders), Semiconductor manufacturing equipment (die bonders, flip chip bonders, inner lead bonders), Vacuum equipment (sputtering equipment, vacuum bonding equipment, industrial vacuum evaporation equipment), Rechargeable battery manufacturing equipment, Precision parts manufacturing equipment, Other automation equipment, and other items.

Vending machines & systems:

Vending machines, ticket vending machines, and others.

Real estate leasing:

Real estate leasing and management, and other businesses.

(2) Methods of calculating amounts for net sales, income or loss, assets and other items by reporting segment

The accounting policies applied by each reporting business segment are those outlined in "Significant items for the preparation of consolidated financial statements".

Reporting segment is an ordinary income basis.

Internal sales between segments are mainly based on price to be applied for third-party transactions.

17. Segment Information (continued)

(3) Information on sales, income or loss, assets and other items by reporting segment

Information for the fiscal years ended March 31, 2020 and 2019 is summarized as follows:

Year ended March 31, 2020					
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	Total
			(Millions of yen)		
Sales					
Sales to external customers	¥ 27,779	¥ 15,197	¥ 2,251	¥ 1,914	¥ 47,141
Intersegment sales or transfers	40	210	0	—	250
Total sales	27,819	15,407	2,251	1,914	47,391
Segment income	1,467	1,404	3	562	3,436
Segment assets	29,510	10,828	1,727	6,206	48,271
Other					
Depreciation and amortization	618	430	41	300	1,389
Interest income	7	0	0	—	7
Interest expense	5	1	6	—	12
Increase in tangible and intangible fixed assets	1,421	411	134	265	2,231
Year ended March 31, 2019					
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	Total
			(Millions of yen)		
Sales					
Sales to external customers	¥ 28,292	¥ 20,715	¥ 2,093	¥ 1,990	¥ 53,090
Intersegment sales or transfers	58	175	0	—	233
Total sales	28,350	20,890	2,093	1,990	53,323
Segment income	937	2,959	14	556	4,466
Segment assets	29,782	14,086	1,660	6,414	51,942
Other					
Depreciation and amortization	842	403	18	293	1,556
Interest income	7	0	0	—	7
Interest expense	6	2	4	—	12
Increase in tangible and intangible fixed assets	736	643	59	279	1,717

17. Segment Information (continued)

	Year ended March 31, 2020				Total
	Fine mechatronics	Mechatronics systems	Vending machines & systems	Real estate leasing	
	<i>(Thousands of U.S. dollars)</i>				
Sales					
Sales to external customers	\$ 255,253	\$ 139,644	\$ 20,680	\$ 17,593	\$ 433,170
Intersegment sales or transfers	367	1,925	0	—	2,292
Total sales	255,620	141,569	20,680	17,593	435,462
Segment income	13,479	12,908	26	5,163	31,576
Segment assets	271,155	99,498	15,870	57,025	443,548
Other					
Depreciation and amortization	5,682	3,952	373	2,759	12,766
Interest income	67	0	0	—	67
Interest expense	48	9	50	—	107
Increase in tangible and intangible fixed assets	13,054	3,774	1,232	2,437	20,497

(4) Reconciliations between the reporting segment total and the amounts presented in the consolidated financial statements.

a) Segment income

	Year ended March 31,		Year ended
	2020	2019	March 31, 2020
	<i>(Millions of yen)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Reporting segments	¥ 3,436	¥ 4,466	\$ 31,576
Unallocated amounts	(408)	(459)	(3,746)
Other	(259)	(224)	(2,381)
Consolidated	¥ 2,769	¥ 3,783	\$ 25,449

Notes:

Included in the “Unallocated amounts” above are unallocable operating expenses which primarily relate to research and development expenses incurred over the entire Group as part of the Company’s research and development activities.

17. Segment Information (continued)

b) Segment assets

	As of March 31,		As of
	2020	2019	March 31,
	<i>(Millions of yen)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Reporting segments	¥ 48,271	¥ 51,942	\$ 443,548
Unallocated amounts	9,150	10,025	84,079
Consolidated	¥ 57,421	¥ 61,967	\$ 527,627

Notes:

Included in the “Unallocated amounts” above are unallocable assets which primarily consist of surplus funds (cash and bank deposits) and investment funds (investment securities) owned by the Company and deferred tax assets.

c) Other

	Year ended March 31, 2020					
	Reporting segments	Adjustment amount	Consolidated	Reporting segments	Adjustment amount	Consolidated
		<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>	
Depreciation and amortization	¥ 1,389	¥ —	¥ 1,389	\$ 12,766	\$ —	\$ 12,766
Interest income	7	0	7	67	1	68
Interest expense	12	108	120	107	997	1,104
Increase in tangible and intangible fixed assets	2,231	—	2,231	20,497	—	20,497

	Year ended March 31, 2019		
	Reporting segments	Adjustment amount	Consolidated
		<i>(Millions of yen)</i>	
Depreciation and amortization	¥ 1,556	¥ —	¥ 1,556
Interest income	7	0	7
Interest expense	12	117	129
Increase in tangible and intangible fixed assets	1,717	—	1,717

17. Segment Information (continued)

② Related information

(1) Information by each product and service

Information by each product and service is omitted because equivalent information has been disclosed in segment information.

(2) Information by geographical area

a) Sales

Year ended March 31, 2020			
Japan	Northeastern Asia	Other	Total
<i>(Millions of yen)</i>			
¥ 17,326	¥ 28,394	¥ 1,421	¥ 47,141

Year ended March 31, 2019			
Japan	Northeastern Asia	Other	Total
<i>(Millions of yen)</i>			
¥ 18,435	¥ 33,813	¥ 842	¥ 53,090

Year ended March 31, 2020			
Japan	Northeastern Asia	Other	Total
<i>(Thousands of U.S. dollars)</i>			
\$ 159,203	\$ 260,903	\$ 13,064	\$ 433,170

Notes:

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

b) Tangible fixed assets

As of March 31, 2020		
Japan	Northeastern Asia	Total
<i>(Millions of yen)</i>		
¥ 11,094	¥ 10	¥ 11,104

As of March 31, 2019		
Japan	Northeastern Asia	Total
<i>(Millions of yen)</i>		
¥ 10,525	¥ 11	¥ 10,536

As of March 31, 2020		
Japan	Northeastern Asia	Total
<i>(Thousands of U.S. dollars)</i>		
\$ 101,941	\$ 95	\$ 102,036

17. Segment Information (continued)

c) Information by main customer

Year ended March 31, 2020: Not applicable

Year ended March 31, 2019: Not applicable

③ Impairment losses on fixed assets by reporting segment

Year ended March 31, 2020: Not applicable

Year ended March 31, 2019: Not applicable

④ Depreciation and remaining balance of goodwill by reporting segment

Year ended and as of March 31, 2020: Not applicable

Year ended and as of March 31, 2019: Not applicable

⑤ Gain on negative goodwill by reporting segment

Year ended March 31, 2020: Not applicable

Year ended March 31, 2019: Not applicable

18. Cash and Cash Equivalents

Reconciliations of cash and cash equivalents as of March 31, 2020 and 2019 between the amounts shown in the consolidated balance sheets and the consolidated statements of cash flows are as follows:

	As of March 31,		As of
	2020	2019	March 31,
	<i>(Millions of yen)</i>	<i>(Millions of yen)</i>	2020
			<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥ 12,725	¥ 13,186	\$ 116,923
Time deposits with maturities in excess of three months	(16)	(15)	(136)
Cash and cash equivalents	<u>¥ 12,709</u>	<u>¥ 13,171</u>	<u>\$ 116,787</u>

19. Non-cash Transactions

Lease assets and lease obligations recorded relating to lease transactions were ¥55 million and ¥55 million, respectively for the year ended March 31, 2020 and not applicable, respectively for the year ended March 31, 2019.

20. Selling, General and Administrative Expenses

For the years ended March 31, 2020 and 2019, major selling, general and administrative expenses are summarized as follows:

	Year ended March 31,		Year ended
	2020	2019	March 31,
	<i>(Millions of yen)</i>		2020
			<i>(Thousands of U.S. dollars)</i>
Packing and delivery expenses	¥ 88	¥ 78	\$ 806
Sales commissions	419	714	3,853
Advertising expenses	13	19	115
Employees' salaries and allowances	5,084	5,024	46,718
Provision for director's bonuses	37	45	339
Provision of allowance for doubtful accounts	875	138	8,042
Retirement benefit expenses	285	333	2,623
Provision for directors' retirement benefits	5	3	45
Depreciation	883	1,078	8,115
Rent expenses	92	81	848
Research and development expenses	2,725	2,737	25,043

21. Related Party Transactions

Year ended and as of March 31, 2020: Not applicable

Year ended and as of March 31, 2019: Not applicable

22. Per Share Information

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year, assuming full dilution of common stock equivalents. Net assets per share are computed based on the weighted-average number of shares of common stock outstanding at each balance sheet date.

	As of March 31,		As of
	2020	2019	March 31,
	(Yen)		2020
			(U.S. dollars)
Net income:			
– Basic	¥ 440.73	¥ 562.90	\$ 4.05
Net assets	4,468.29	4,166.33	41.06

Notes:

The information regarding diluted net income per share for the years ended March 31, 2020 and 2019 is omitted because there was no stock with dilutive effect.

The weighted average number of shares of common stock outstanding excludes treasury stock shares held by the Company. Treasury stock shares held in trust as a performance-based stock compensation plan for the Company's directors and executive officers, are included in those treasury stock shares for the years ended March 31, 2020 and 2019.

The basis of calculating net income per share were as follows:

	As of March 31,		As of
	2020	2019	March 31,
	(Yen)		2020
			(U.S. dollars)
Net income	¥ 1,944	¥ 2,481	\$ 17,866
Net income attributable to non-controlling interests	-	-	-
Net income attributable to owners of parent	1,944	2,481	17,866
	(Thousand shares)		
Weighted average number of shares of common stock outstanding	4,411	4,407	

23. Significant Subsequent Events

Not applicable



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shibaura Mechatronics Corporation

Opinion

We have audited the consolidated financial statements of Shibaura Mechatronics Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 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.

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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing 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, and 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express 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 presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all



relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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.

A handwritten signature in black ink that reads "Masahiko Hagimori".
Masahiko Hagimori

Designated Engagement Partner
Certified Public Accountant

September 18, 2020

Directors, Vice Presidents and Auditors

As of June 24, 2020

Directors and Vice Presidents

Shigeki Fujita

Representative Director
President and Chief Executive Officer

Yoshitsugu Ogawa

Director
Executive Vice President
Executive General Manager of Mechatronics System Division

Keigo Imamura

Director
Executive Vice President
Executive General Manager of Fine Mechatronics Division

Kenichi Ikeda

Director
Senior Vice President
Chief Financial Officer

Tomoko Inaba

Outside Director

Yuichiro Takada

Outside Director

Hisashi Shindo

Senior Vice President
Deputy Executive General Manager of Mechatronics System Division

Kazuyuki Yamanaka

Senior Vice President
Executive General Manager of Production & Procurement Division

Yoshio Yuyama

Advanced Vice President
Deputy Executive General Manager of Mechatronics System Division

Kazuhiko Okui

Vice President
Executive General Manager of General Affairs & Human Resources Division

Yoshiaki Kurokawa

Vice President
Deputy Executive General Manager of Fine Mechatronics Division

Kazutoshi Horiuchi

Vice President
Deputy Executive General Manager of Fine Mechatronics Division

Auditors

Yasuhiko Yamato

Auditor

Kazumasa Uchida

Outside Auditor

Hiroyuki Matsumoto

Outside Auditor

Investor Information

As of March 31, 2020

Date Established	October 12, 1939
Capital	6,762 Million-Yen
Number of Employees	Consolidated : 1,260
Common Stock	Authorized : 10,000,000 shares Issued and outstanding : 5,192,619 shares
Number of Shareholders	5,152
Stock Listings	The Tokyo Stock Exchange (Code : 6590)
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
Independent Auditor	PricewaterhouseCoopers Aarata LLC
Headquarters	2-5-1, Kasama, Sakae-ku, Yokohama, Kanagawa Pref. 247-8610, Japan TEL : +81-45-897-2421 FAX : +81-45-897-2470 https://www.shibaura.co.jp/

Common Stock Price Range (The Tokyo Stock Exchange)

	Year ended March 31,				
	2020	2019	2018	2017	2016
High (yen)	4,655	4,350(484)	528	317	320
Low (yen)	2,052	3,040(334)	240	179	170

Note : With an effective date of October 1, 2018, the Company conducted a stock consolidation at a ratio of one share for every 10 shares of common stock. Stock prices for March 2019 list the highest and lowest stock prices recorded after the stock consolidation, and figures in parentheses indicate the highest and lowest stock prices prior to the share consolidation.

Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	519	11.73
Shin-Etsu Engineering Co., Ltd.	259	5.86
NuFlare Technology, Inc.	259	5.86



SHIBAURA MECHATRONICS CORPORATION

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