



ANNUAL REPORT 2019

It's all about TIME

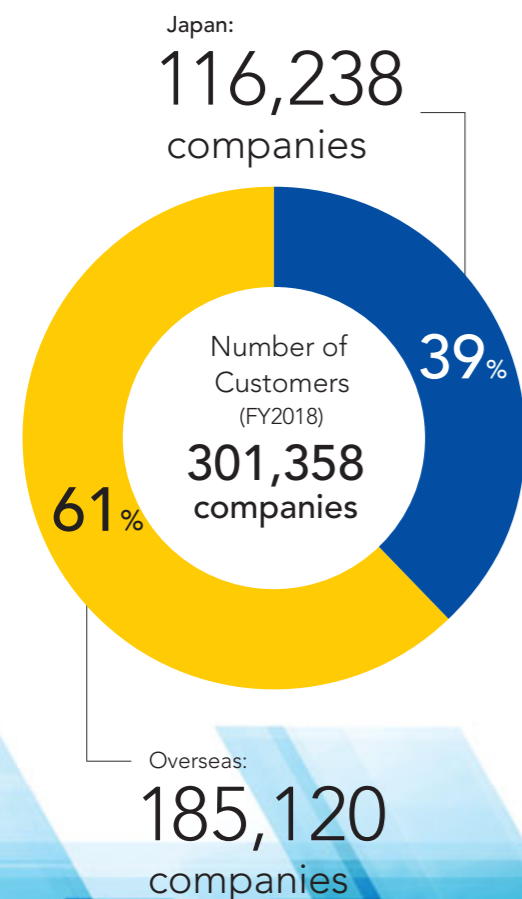


MISUMI Group Inc.



Customers

MISUMI Group's corporate customers number more than 300,000 around the world. In Japan and overseas, many customers continue to favor MISUMI.



MISUMI Group encompasses both manufacturing and distribution businesses, which are supported by a powerful IT infrastructure and business foundation. Our mission is to provide time-based value to customers by achieving reliable and quick delivery globally using this unique business model.

Business Model Transformation toward a Production Materials Platform



The manufacturing business develops, manufactures and sells precision components both for automated equipment used in FA* and for die sets used at manufacturing sites.

MISUMI uses an original method to catalog MTO products that formerly had to be drawn for ordering. The convenient, reliable and quick delivery of online ordering by model number without drawings, as well as the provision of associated CAD system services and other features, resolves customer inefficiencies.

* Factory Automation



The distribution business handles a wide range of products from third-party brands in addition to MISUMI's own branded products. The number of participating manufacturers exceeds 3,000 companies in Japan, with more than 20 million items handled. Global business rollout is being expanded. Customer needs are being met for one-stop purchasing and management of production materials.

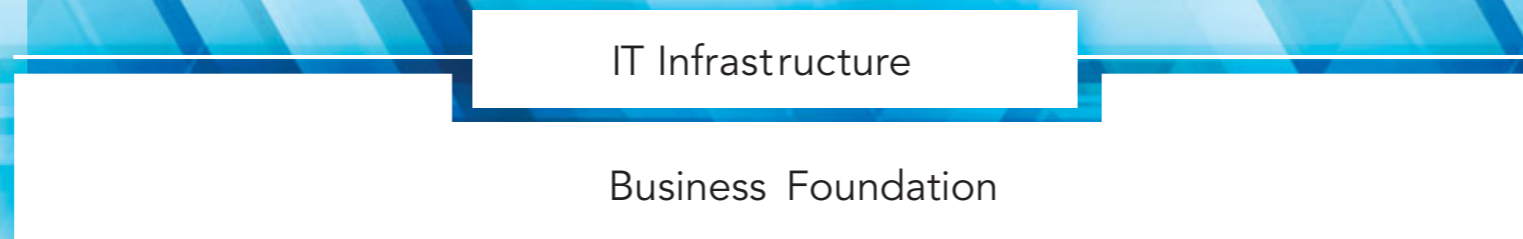
The Reasons Why Customers Favor MISUMI

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* Make to Order

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Forward-Looking Statements
This annual report contains forward-looking statements regarding MISUMI Group's business performance estimates and business environment forecasts. All forward-looking statements are based on judgments derived from information available to MISUMI Group at the time of publication, and these forecasts include uncertainties. Certain risks and uncertainties could cause MISUMI's actual results to differ materially from any projections presented in this report. Please be advised that our actual business performance and the future business environment may differ from the forecasts indicated in this document.



We will further innovate the MISUMI model to respond to the advancement of digital manufacturing.

Ryusei Ono

Representative Director, President and CEO

Competitive Advantages That Allow Us to Offer Reliable and Quick Delivery in the Global Market

MISUMI Group has developed a unique business model as both a “manufacturing business” with functions for manufacturing and selling components for factory automation equipment and die sets required at manufacturing sites, and a “distribution business” that sells a wide range of products from production auxiliary materials to consumables, including products from third-party manufacturers.

At manufacturing sites, the startup of a production line may be delayed if even one machine component is unavailable, thereby significantly impacting business plans. Many companies in the manufacturing industry conduct production activities in multiple countries and regions, and at present very few suppliers can deliver identical components from manufacturers’ home countries to factories in other countries without delay.

We eliminate inefficiencies in customers’ processes for procuring production materials, offering reliable and quick delivery to ensure the delivery date when customers order from MISUMI. In other words, we provide our customers with time-based value propositions, which I believe to be our foremost mission. In order to accomplish this mission globally, we aim to be a company with competitive advantages not found in other companies, in terms of the business model, organization, business strategies and operations, by pursuing a time-based strategy.

MISUMI Group has continued to improve its corporate value over many years. This is because we have constantly considered customer convenience while focusing on optimization within the manufacturing industry and continuously advancing and innovating a business model that offers the most suitable products and services with high quality (Q), at low cost (C) with reliable and quick delivery times (T) around the world.

Concepts for Achieving Our Corporate Mission (Four Excellences)



Record-High Net Sales for the Eighth Consecutive Year despite an Economic Slowdown

During FY2018 (April 1, 2018 – March 31, 2019), the global economy slowed down due to sluggish sales in the smartphone and automotive industries and prolonged U.S.-China trade conflict, waning appetite for capital investment in the manufacturing industry, decelerating month after month, particularly in the second half. Under these conditions, consolidated net sales were ¥331.9 billion, an increase of 6.1% year on year. Although short of our plan, net sales reached a record high for the eighth consecutive year. In terms of profit, we continued to invest to accelerate growth while thoroughly managing expenses in expectation of the current slowdown in demand. Operating income was ¥31.8 billion, a decrease of 8.5%, and net income attributable to owners of parent was ¥24.0 billion, a decrease of 6.1%.

Sales of the FA Business increased 3.8% year on year. Despite the impact of a slowdown in capital investment demand, mainly in China and South Korea, we proactively captured demand for automation in Southeast Asia and Europe through the steady permeation of the competitive advantages of our reliable and quick delivery. Operating income decreased 6.6% due to an increase in expenses to strengthen the business, but we maintained a high level of profitability, with an operating income margin of 17.2%.

In the Die Components Business, despite a decrease in automobile-related demand in principal countries, sales were almost flat year on year due to strong sales activities in Southeast Asia. Operating income increased 4.1% due to a decrease in amortization of goodwill and other expenses.

In the VONA Business, sales increased 11.4% year on year, supported by continued growth in Japan due to proactive measures to expand sales, as well as expansion in Southeast Asia and other regions. However, operating income decreased 23.1% due to an increase in upfront expenses for business expansion in Japan and overseas.

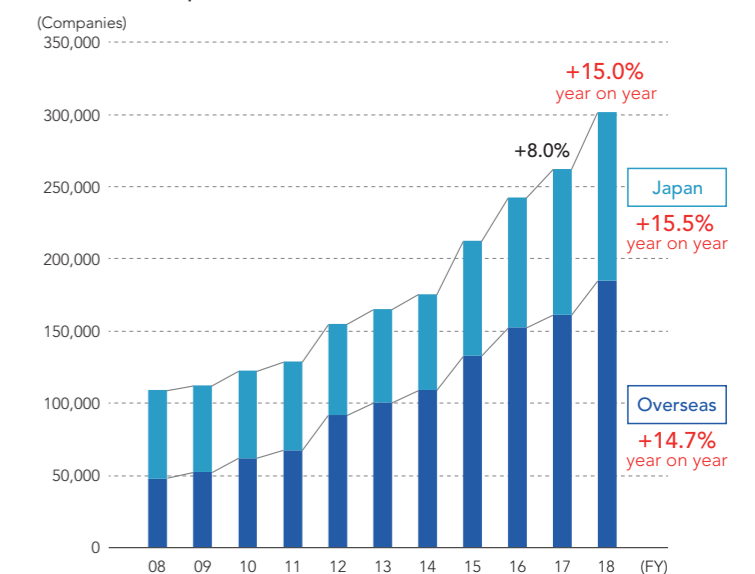
By region, sales in Asia increased 6% (on a local currency basis), reflecting demand from mass production factories in the automotive and electronics sectors in Southeast Asia, despite weak capital investment demand in China. In the Americas, sales increased 7% (on a local currency basis) because of expansion of the FA product lineup and full-scale market development in Mexico. In Europe, sales increased 12% (on a local currency basis) as the competitive advantage of our reliable and quick delivery helped us win customers in a wide range of industries. The overseas sales ratio for FY2018 was 47%.

Number of Corporate Customers Surpassed 300,000 Globally

The reason customers worldwide favor MISUMI Group is our daily evolution in pursuit of high quality (Q), low cost (C), and reliable and quick delivery times (T). In addition, we handle 26.7 million products for the manufacturing industry, one of the largest lineups in the world. Customers can rest assured that MISUMI handles any product they may wish to order. This assurance is a substantial advantage that earns the confidence of customers worldwide.

Notwithstanding the severe business environment of FY2018, the number of corporate customers increased 15% year on year to surpass 300,000 globally due to MISUMI’S unique advantages. This is a demonstration that the MISUMI Group business model is in demand among customers worldwide, and I am confident that such demand will continue to grow.

Number of Corporate Customers



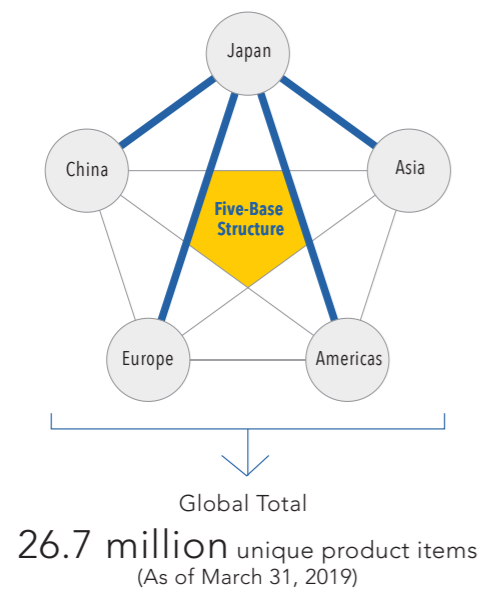
A major factor contributing to surpassing 300,000 customers in FY2018 was our business model as a manufacturing business that offers reliable and quick delivery of precision mechanical components with 80 sextillion size variations and at the same time being able to provide a huge lineup of products with the same reliable and quick delivery due to the expansion of the VONA Business.

Our e-commerce site MISUMI-VONA is a platform that creates a global link between the needs of customers for efficient, one-stop procurement of various products used at their manufacturing sites and the needs of suppliers of production auxiliary materials to expand sales channels outside

their own sales networks. We strive for high quality, low cost, and reliable and quick delivery of the 26.7 million products the site handles. In addition, we are proactively expanding sales in the Japanese market, and we are creating e-commerce sites in overseas markets that respond in detail to the needs of local customers. MISUMI is increasing the number of customers globally by establishing a unique platform that can respond immediately to customer feedback.

Strengthening our IT infrastructure in this way has enhanced MISUMI Group's competitive advantage, which has contributed to record-high consolidated net sales and an increase in the number of customers in FY2018.

Global Product Network



Global Rollout of New E-Commerce Sites

Example: Renewal of e-commerce site in China



mevii is an online service introduced in 2016 that enables automatic estimations and placement of orders for precision machinery parts based on 3D CAD data. In March 2019, MISUMI incorporated a new service: provision of cutting plates for FA components. With this addition, mevii is now able to handle most blueprint processed parts used in equipment and apparatus design, allowing customers to instantly obtain estimations and place orders for these parts. Going forward, by enhancing the functionality of our e-commerce websites and online services in pursuit of customer convenience, we aim to continue to be favored in the market.

Screenshot of mevii's Cutting Plate Service



Continuing Business Model Evolution Adapted to Digital Manufacturing

In FY2019, uncertainty has increased in the global economy, including Japan, due to concerns over further prolongation of U.S.-China trade conflict. In addition, there are few new industries at this time that could take the place of smartphones to drive the FA industry, and geopolitical risks in Europe and elsewhere also need to be monitored. Concerns of an economic slowdown could therefore intensify over the short term. However, from a long-term perspective, we recognize that advancement of digital manufacturing is accelerating globally and the trend toward automation remains unchanged. Therefore, MISUMI Group will increase market share by further refining competitive advantages of its global reliable and quick delivery and continue to advance business model evolution

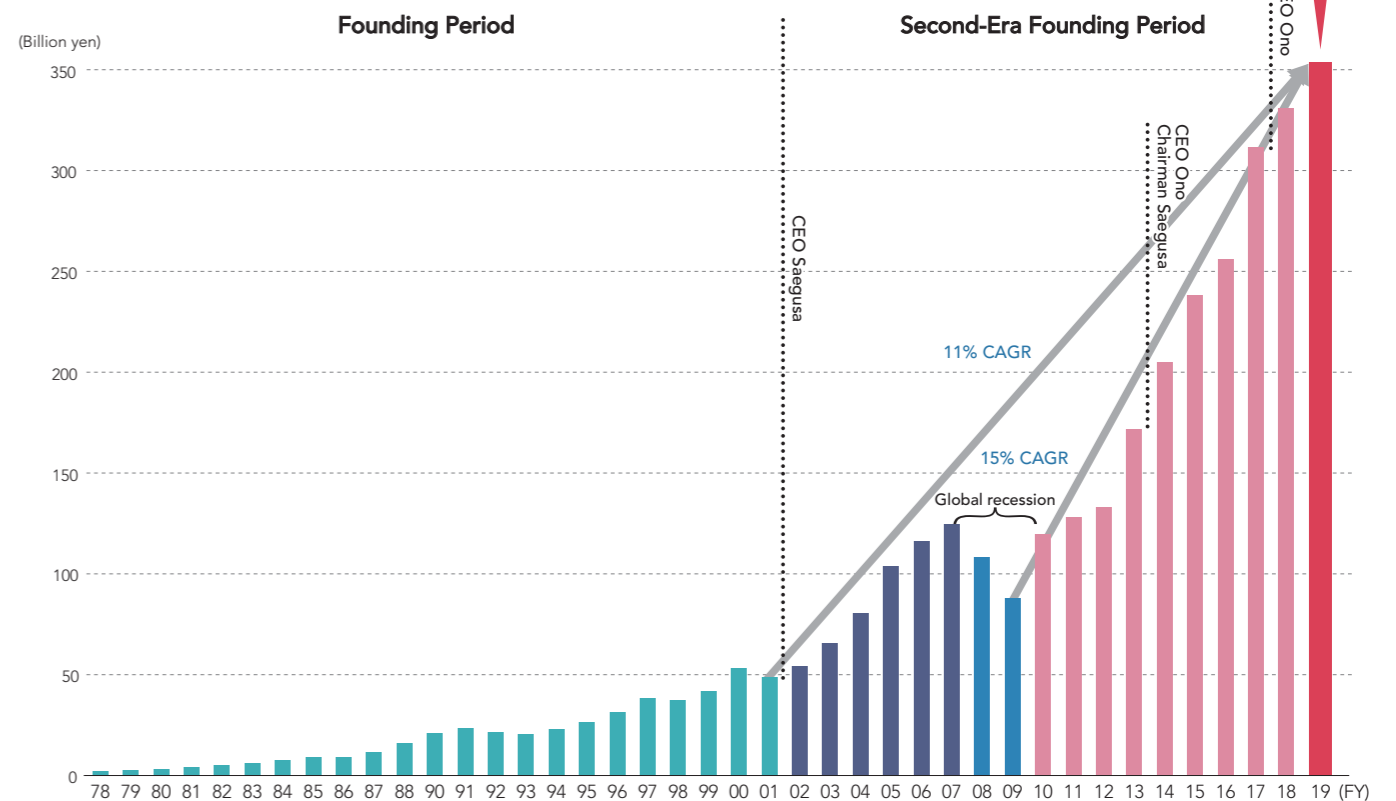
adapted to digital manufacturing. At the same time, to address the anticipated decline in short-term demand, we will review expansion plans and operational period for manufacturing sites, and work to increase profit by reducing procurement costs.

Based on these measures, in FY2019 we forecast net sales of ¥355.0 billion, operating income of ¥35.4 billion, and net income attributable to owners of parent of ¥25.9 billion.

In FY2019, we aim for sustainable growth through ongoing enhancement of our reliable and quick delivery in line with the advancement of digital manufacturing and expansion of our global customer base. We appreciate your ongoing support going forward.

Growth of MISUMI Group

Consolidated Net Sales Aiming to achieve sustainable growth via strategic management and our own unaided efforts



Note: FY1989 has been omitted due to a change in the fiscal year end.

The Reasons Why Customers Favor MISUMI

Customers favor MISUMI because we are able to offer time-based value through the relentless pursuit of "reliable and quick delivery." Our standard delivery time in Japan is two days, with an on-time delivery rate of 99.96%. We will continue to enhance our reliable and quick delivery system globally to help further raise the efficiency of our customers' procurement of production materials.

Advantages of MTO

In MISUMI's catalogs, component sizes can be specified at the micron level, and when these variations are included, we boast a product lineup of 80 sextillion (1 trillion × 80 billion) handled items. We can provide reliable and quick delivery of any component from this vast range anytime, anywhere and in any quantity.

Enhancing Global Reliable and Quick Delivery

Building a reliable and quick delivery system globally is crucial for further strengthening our competitiveness and ensuring a stable supply of products. To get a head start in responding to robust demand for automation, we will capture demand for quick delivery by expanding both production capacity at our five bases in Japan, China, Asia, the Americas and Europe, and our global distribution system.

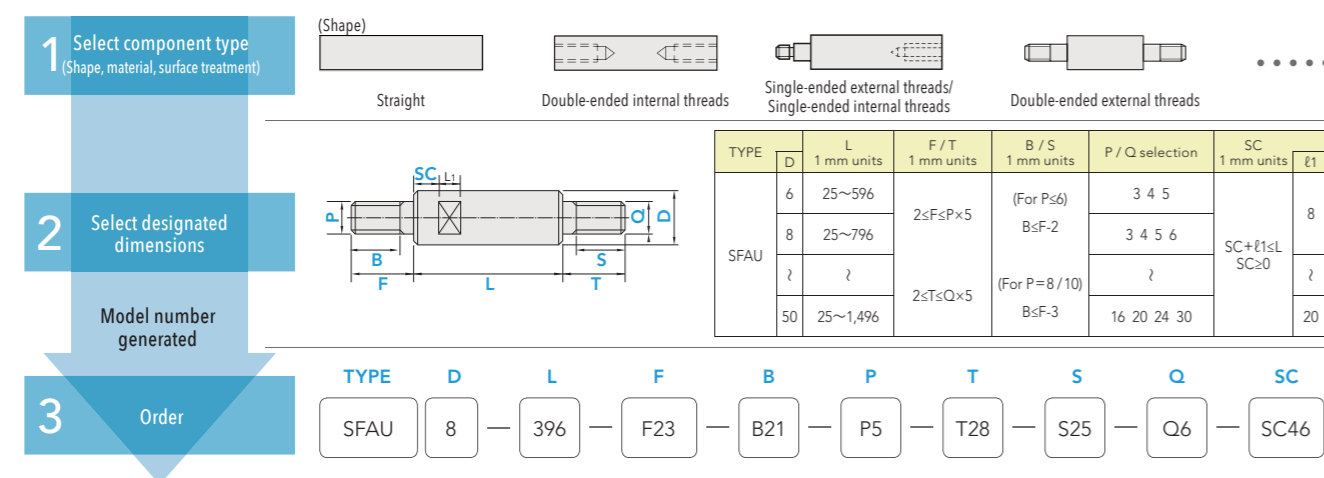
Fundamental Reform through Product Standardization

In MISUMI's catalogs, components that were formerly special-order items are standardized, allowing customers to place orders simply by selecting the dimensions and specifications of components from the catalog. This enables a significant reduction in time compared to the conventional method of placing orders, which entails preparing diagrams of each component, one by one.

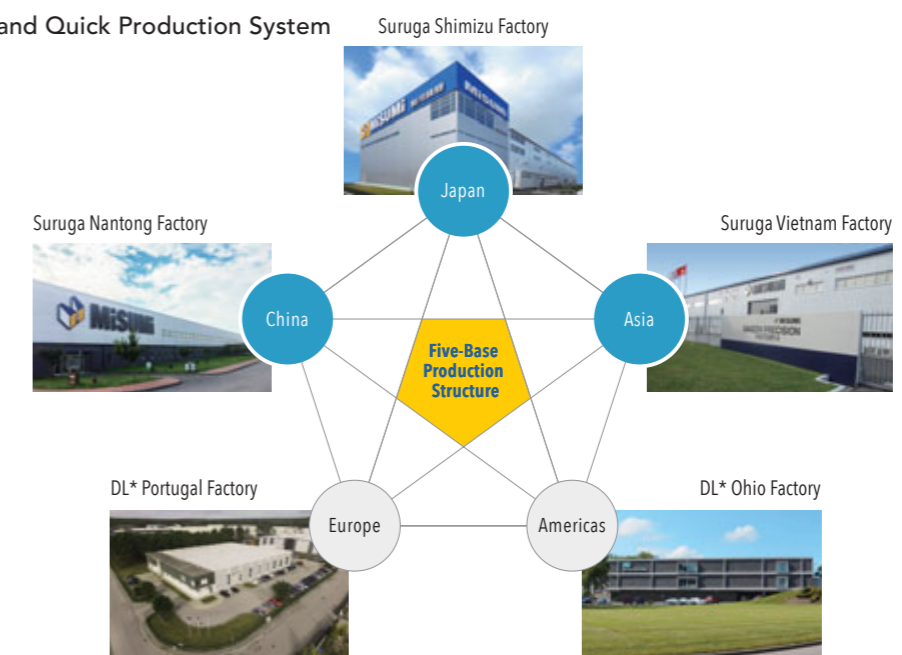
Business Foundation That Supports Reliable and Quick Delivery

We have established world-class competitiveness by realizing MISUMI's unique "Q (high quality), C (low cost), T (reliable and quick delivery time)" business model at our manufacturing and logistics sites worldwide.

Procedure for Ordering Components from MISUMI Catalogs



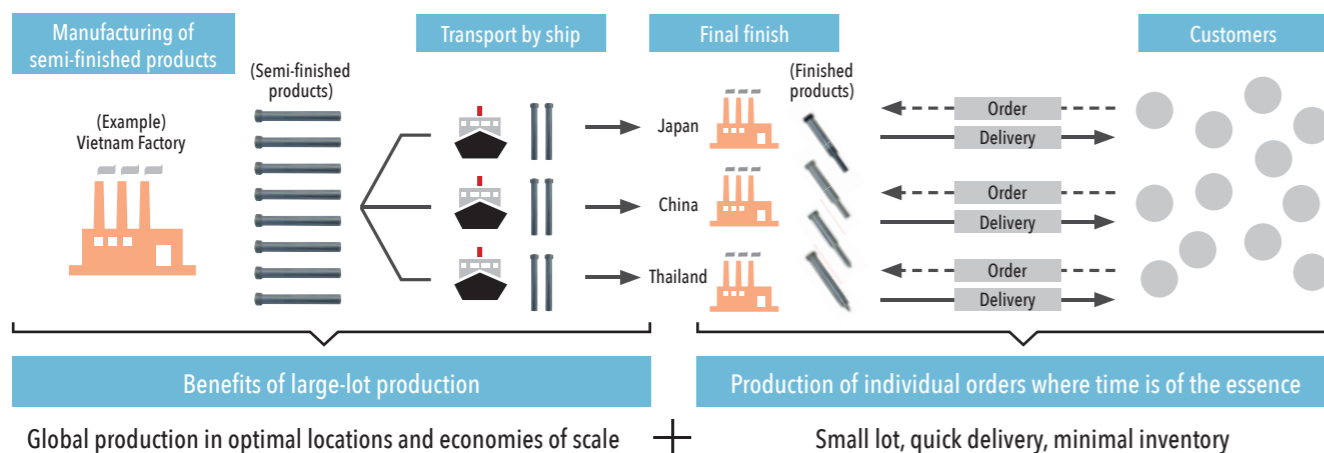
Global Reliable and Quick Production System



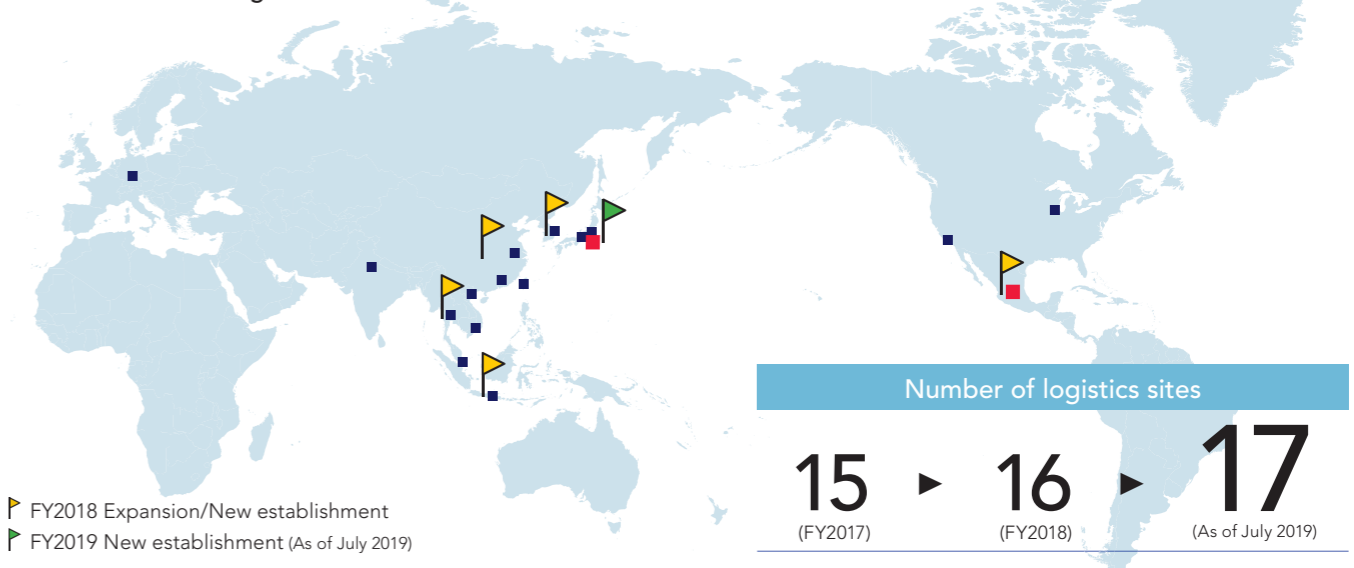
* Dayton Lamina Corporation

Uniting Our Two Contradictory Competitive Advantages

The key to reliably ship our extensive product variations with a short lead time while minimizing inventory is "semi-finished" parts. MISUMI's unique approach to resolving this issue is to mass-produce partially completed products, or semi-finished parts, at large factories such as in Vietnam and finish them according to customer orders at points of purchase around the world, thus achieving low costs as well as ensuring reliable and quick delivery.



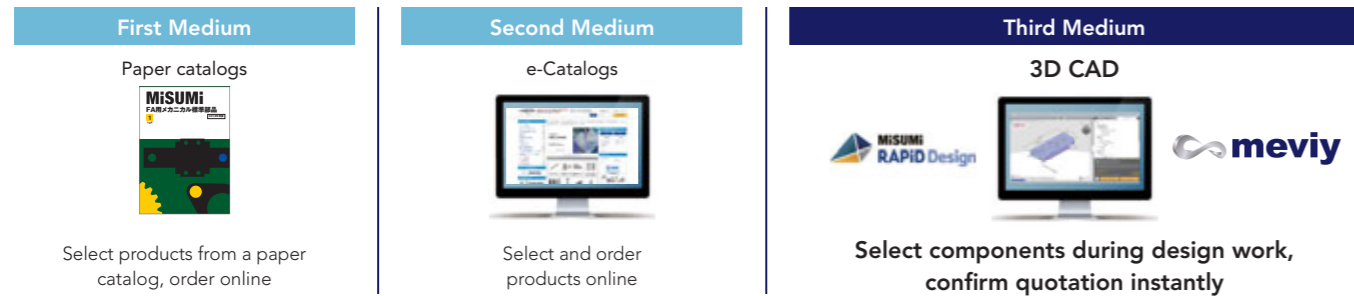
Increase in Global Logistics Sites



Feature: Digital Revolution for Components Procurement in the Manufacturing Industry

A digital transformation is currently gaining momentum at manufacturing sites worldwide.

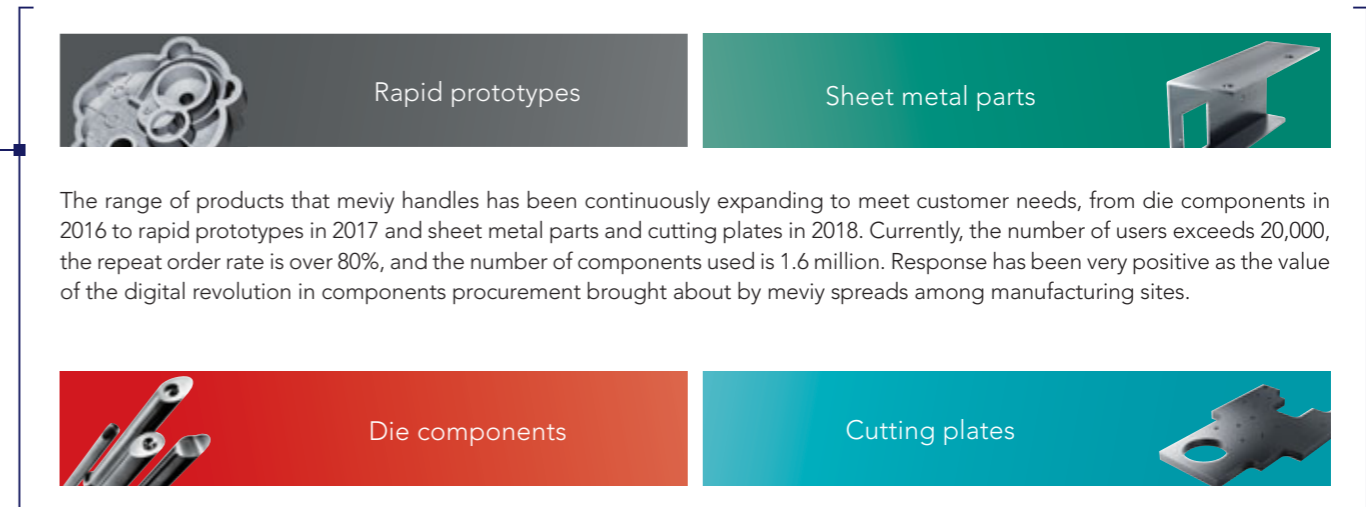
Aiming to reinforce the adoption of digital manufacturing, MISUMI has further evolved its meviy service, a digital revolution in components procurement that provides new "time-based value" beyond traditional paper and e-catalogs.



With strengths in providing make to order (MTO) products for which size can be specified from the micron level even for single-piece orders, MISUMI has also given rise to components procurement process innovations in the manufacturing industry through paper catalogs and e-catalogs with superior search ability, enabling reliable and quick delivery of products to customers.

As a third medium in addition to paper and e-catalogs, we are providing tools that incorporate 3D CAD systems for further business model evolution.

meviy is able to accomplish reliable and quick delivery of complex components that used to be ordered only through blueprint because of the difficulty of listing in standardized catalogs.



The range of products that meviy handles has been continuously expanding to meet customer needs, from die components in 2016 to rapid prototypes in 2017 and sheet metal parts and cutting plates in 2018. Currently, the number of users exceeds 20,000, the repeat order rate is over 80%, and the number of components used is 1.6 million. Response has been very positive as the value of the digital revolution in components procurement brought about by meviy spreads among manufacturing sites.

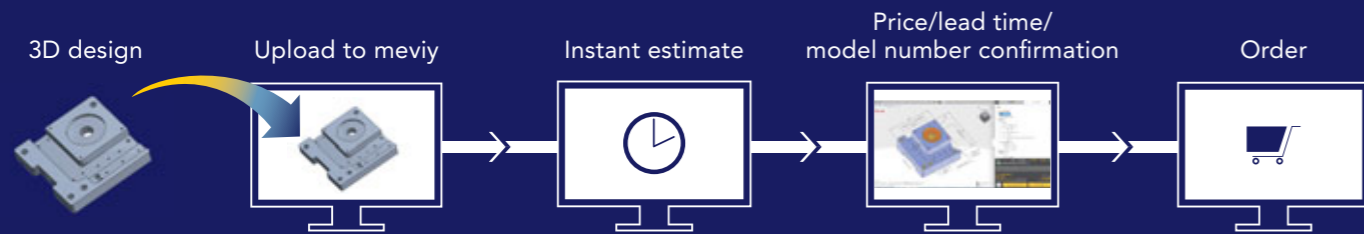
Here is the difference!


By uploading 3D data, obtain a quotation instantly, with shipping in as early as one day.

Despite the proliferation of 3D CAD in the manufacturing industry for equipment designing, many aspects of components procurement still rely on manpower such as preparation of blueprints, requests for quotation, confirmation of lead time and negotiating, which remain enormously inefficient. Our revolutionary digital system, meviy, is a new online service that resolves the many issues underlying components procurement by using only data, without manual intervention, even for components that could only be ordered through blueprint in the past.

By simply uploading 3D data of components, it is possible to instantly obtain a quotation, place an order, and with shipping as early as one day, labor and time are significantly reduced. We will provide even greater time-based value by continuing to expand our service offerings and roll out meviy as a platform that enables customers anywhere in the world to easily procure components.

Front-End Innovation



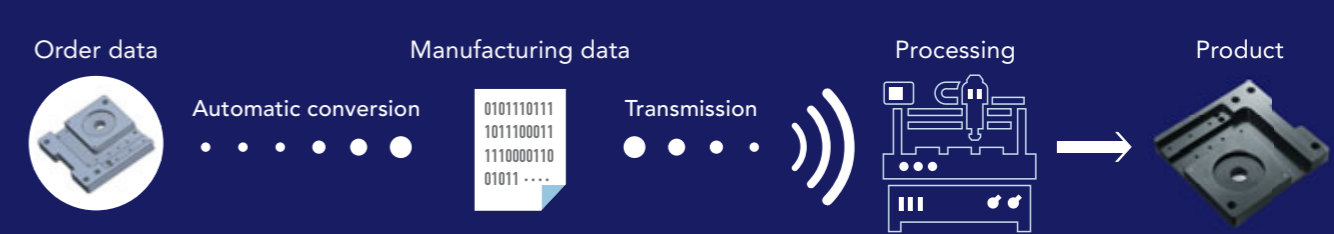
Point 1 Direct procurement from 3D data; no need to prepare a blueprint

- Components can be procured using only 3D data, freeing customers from the preparation of blueprints, each of which can take about 30 minutes.

Point 2 Proprietary system for automatic quotation

- An automatic quotation system with an original algorithm that can calculate prices and lead time instantly 24 hours a day, 365 days a year helps reduce waiting time from nearly one week to practically zero.
- The system can also instantly determine the possibility of manufacturing, thereby avoiding re-work due to design errors.

Back-End Innovation



Point 3 Realize reliable and quick delivery

- With our unique digital manufacturing system, manufacturing data can be directly transmitted to the factory machine tools for processing, with shipping in as early as one day.
- Significantly reduces manufacturing lead time, which usually takes around two weeks.

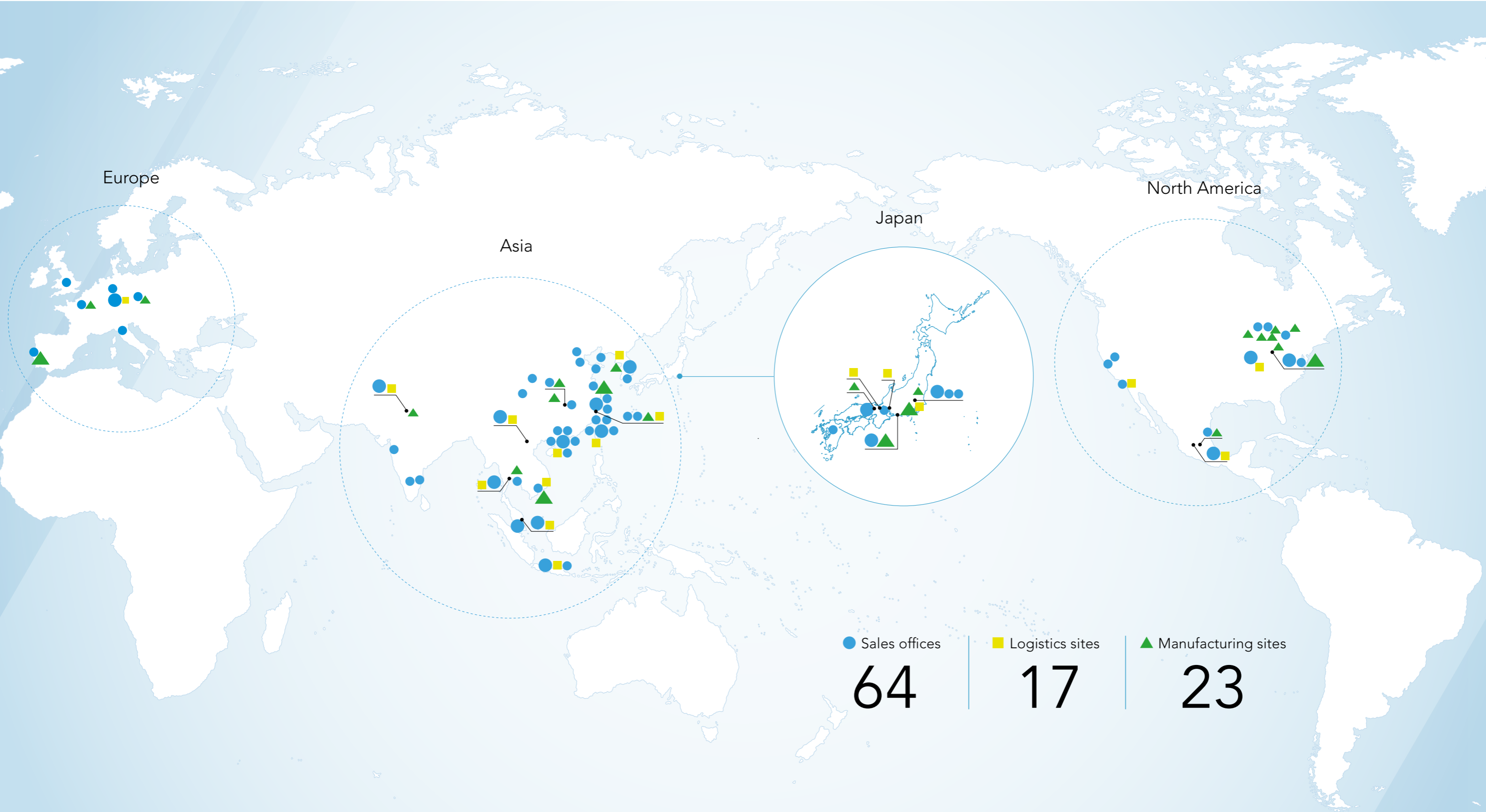
Customer feedback
Unipres Corporation

We are working to reduce man-hours in design. meviy eliminates the 2D blueprint preparation after the 3D data has been completed, allowing us to spend more time on plan formulation and other creative tasks. It also helps reduce lead time in the globalizing automotive industry by providing components anywhere in the world with the same process and quality as those available in Japan.

Customer feedback
YUKI Precision Co., Ltd.

We are always trying to streamline communication in the procurement process as much as possible so that we can concentrate on the high value-added tasks that require in-house work such as designing.

Using meviy has had a significant impact on reducing lead time in our procurement. We obtain quotations instantly, and are amazed that components that usually take about two to three weeks to arrive are delivered in less than half that time. It has also been a great help in space development work, which has very stringent deadlines.



Environmental Initiatives and Social Contributions

Basic Approach

MISUMI Group aims to contribute to the sustainable development of society. In addition to contributing to society through our core business, we conduct procurement that considers environmental conservation and other societal demands as we strive to provide highly reliable products and services based on our Group-wide Environmental Policy. We also focus on helping to cultivate talent for the next generation of the manufacturing industry.

Environmental Policy

The environmental efforts of MISUMI Group Inc. and its operating companies are based on the following three policies.

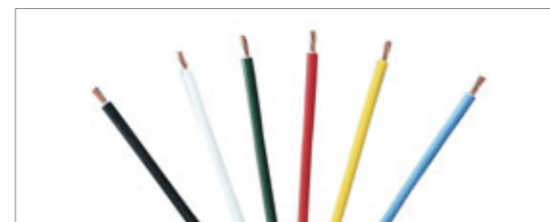
1. Reduce environmental load and prevent pollution in business activities
2. Comply with environmental laws, regulations, and other requirements
3. Regularly review environmental targets and continuously improve on them

Note: Our activities comply with ISO 14001

Environmentally Conscious Products

Concern about reducing environmental load is increasing globally, and MISUMI Group is also experiencing stronger customer interest in environmentally conscious products. One example of our response to such customer need is our non-halogen-type cable (electrical wiring). Non-halogen-type cable does not produce harmful halogen gases when the cable is incinerated upon disposal, and its use is expected to grow in the future. We currently carry not only MISUMI brand products, but also third-party brands, and our selection continues to expand. MISUMI Group will continue to build its product

lineup as the use of environmentally conscious products becomes more popular.

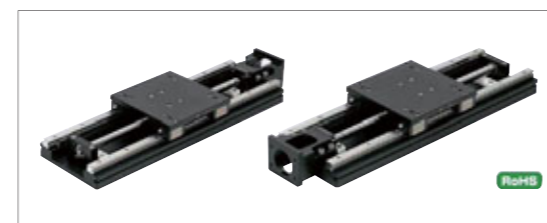


Non-halogen-type cables

Management of Environmental Chemical Substances

Controls over environmental chemical substances are tightening each year under the EU's Restriction of Hazardous Substances (RoHS) Directive and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) Directive. MISUMI Group recognizes that compliance with these standards is an important factor in a customer's product selection. As such, MISUMI Group has been testing product content for relevant substances on the basis of RoHS and REACH, conducting surveys of partner manufacturers' management systems and proactively providing them with guidance for improvement. We also disclose the

status of our compliance with the RoHS Directive in our catalogs and on our website.



Single axis units

ISO Environmental Activities

MISUMI Group consolidated subsidiaries SURUGA Production Platform Co., Ltd. and Dayton Lamina Corporation and other main manufacturing sites in Japan and overseas have received ISO 14001 certification and conduct management and operations in accordance with environmental activity policies.

Green Procurement Guidelines

MISUMI Group formulated its Green Procurement Guidelines in 2006 (revised in 2013) to ensure adherence to environmental chemical substances legislation and other requirements.

Sponsorship of "ROBO-ONE"

ROBO-ONE is a bipedal robot fighting tournament that began in 2002. As the main sponsor of ROBO-ONE since 2016, MISUMI Group supports the passion of people involved in manufacturing.

"MISUMI presents the 34th ROBO-ONE" was held at the Bando Kobe Science Museum in Kobe, Hyogo Prefecture on February 23–24, 2019. ROBO-ONE is becoming increasingly



global, with a total of 185 participating robots (ROBO-ONE: 105 robots; Light: 80 robots) from five countries, including South Korea and Taiwan in addition to Japan. We presented MISUMI Awards to three robots that fascinated spectators with excellent design and dynamic movements.

34th ROBO-ONE MISUMI Award Winners



(Left) Robot name: REDUCTION Team name: Shibaura Institute of Technology SRDC
 (Center) Robot name: YOGOROZA Team name: Doubt
 (Right) Robot name: Lupus Team name: Fukuoka Institute of Technology Robot Project

Student Manufacturing Support

To support student manufacturing, every year MISUMI Group broadly solicits applications from student groups that take on challenges in manufacturing at universities, technical colleges and other schools and provides MISUMI products free of charge. We have provided support to more than 1,700 student groups since the program began in FY2008.

To support the success of women in the engineering field, from FY2018 we are also supporting the activities of SAKURA Tempesta, a junior and senior high school student team

participating in the international FIRST® Robotics Competition (FRC) fighting tournament. The team has a female leader and has participated in world competitions for two years in a row. Going forward, we will conduct activities with the team to communicate the appeal of manufacturing.

MISUMI Group will continue to actively support students who are set to become the next generation of the manufacturing industry.

Examples of the Groups We Supported in FY2018

Total Groups Receiving Student Manufacturing Support in FY2018: 226

Team name: Tohoku University FROM THE EARTH

Comment from team member

For the "Engine Project," which began in FY2018, it was helpful to be able to choose from an extensive selection of products, including the aluminum frame we needed. We would like to continue working to improve technologies using MISUMI products.



Supporting Women in the Field of Engineering

Team name: SAKURA Tempesta

Comment from team member

We have always built our robots largely using parts from MISUMI. With the wide variety of part types, quick delivery and excellent processing services, we can create high-precision robots in a limited time and depend on them to perform well. Using the groundbreaking meviy system has been a great help.



Reinforcing Corporate Governance and Maintaining Transparency

(As of June 30, 2019)

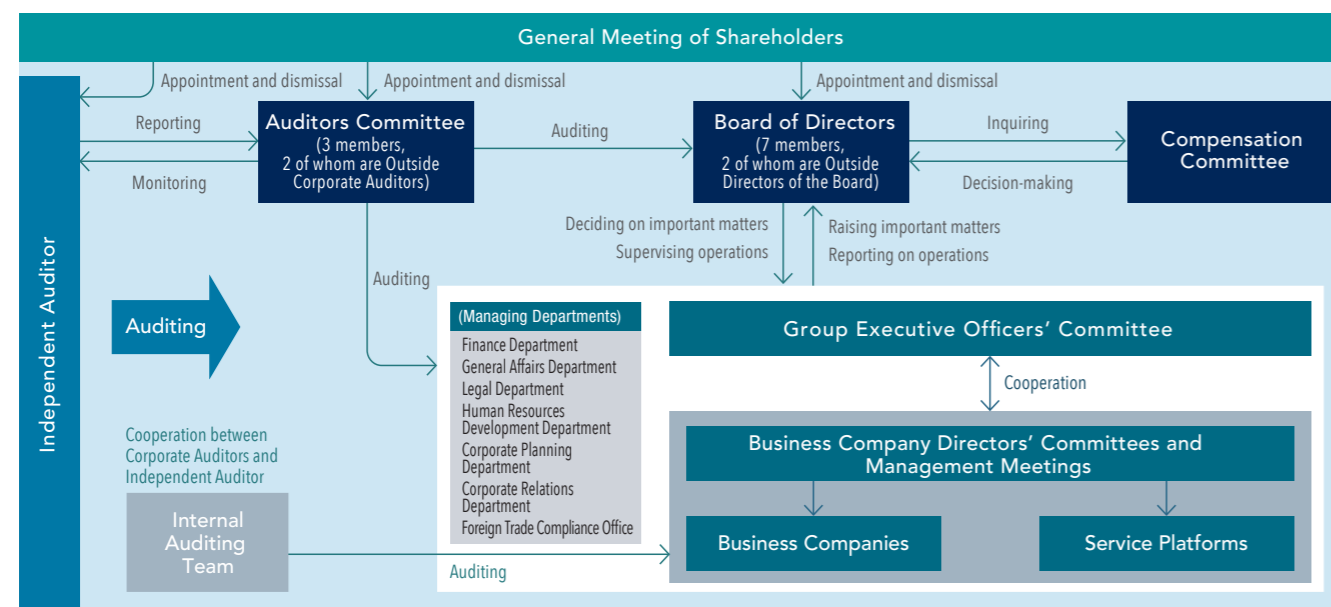
Basic Approach to Corporate Governance

In 2015, MISUMI Group Inc. enacted and disclosed the MISUMI Group Corporate Governance Basic Policy with the aim of contributing to the Group's continuous growth and medium- to long-term enhancement of its corporate value.

(https://www.misumi.co.jp/assets/doc/ir/library/corporate_governance_e.pdf)

Said policy states that each principle provided in the Corporate Governance Code that became applicable at the Tokyo Stock Exchange as of June 2015 will be implemented.

Corporate Governance System



Corporate Management Body and Organization

MISUMI Group directs and audits its business practices through its Board of Directors, Group Executive Officers' Committee and Auditors Committee.

Board of Directors

The Board of Directors determine the strategic direction of MISUMI Group and decide upon important business executional matters. Concurrently, they are responsible for supervising and instructing Corporate Officers and Representative Corporate Officers in charge of the Business Companies and Service Platforms, as well as for putting in place suitable internal control systems.

The Board of Directors also regularly review MISUMI Group's operation pertaining to the Internal Control System and Code of Conduct, as well as the Internal Reporting System, making evaluations and changes as required.

The Board of Directors comprise seven Directors, including two Outside Directors of the Board. As a general rule, they hold regular meetings once a month, as well as extraordinary meetings as deemed necessary, during which they make decisions regarding management and business, and supervise operational execution.

Group Executive Officers' Committee/Business Companies Directors' Committees and Management Meetings

The Group Executive Officers' Committee is composed of five full-time Directors and Corporate Officers from MISUMI Group Inc., Business Companies and Service Platforms. As a general rule, they hold regular meetings once a month to reinforce both supervision and execution. A "Business Company" structure was established for MISUMI Group's business side, and "Service Platforms" were established for business support and service functions.

Authority and responsibility have been delegated to these entities. In so doing, MISUMI Group has attempted to realize integrated management of manufacturing and sales with SURUGA Production Platform, thereby expediting the decision-making process. In an effort to clarify the decision-making process, structures such as Business Companies directors' committees and management meetings take place within MISUMI Group's respective Business Companies and Service Platforms. At Business Company directors' meetings, the Executive Directors of MISUMI Group Inc. and the Representative Corporate Officers of the Business Companies and other entities participate as "Outside Business Company Directors" and oversee the management and duties of the management teams of the Business Companies.

Auditors Committee

The Auditors Committee comprises three Corporate Auditors including two Outside Corporate Auditors. The Corporate Auditors audit Directors' execution of their duties and closely cooperate with the Independent Auditor and the Internal Auditing Team to improve the effectiveness and efficiency of the auditing process.

Compensation Committee

The Compensation Committee comprises two Outside Directors of the Board and the CEO as an advisory body to the Board of Directors. The Compensation Committee deliberates and makes decisions regarding appropriate standards for compensation of Directors and other officers through discussions among the members.

Status of the Internal Control System

MISUMI Group Inc.'s Board of Directors agreed on "Basic Policy on the Internal Control System" at the Board of Directors' meeting held on May 14, 2015, on the basis of the Companies Act Article 362,

Paragraph 4(6) and the Ordinance for Enforcement of the Companies Act Article 100, Paragraphs 1 and 3. The decisions are as follows:

| | |
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| System for storing and managing information related to the execution of duties by MISUMI Group Inc.'s Directors | <ul style="list-style-type: none"> Minutes of important meetings such as Board of Directors' meetings and Group Executive Officers' Committee meetings shall be prepared according to laws and regulations, and shall be stored in a suitable manner. |
| Regulations and other systems related to controlling risk of loss of MISUMI Group Inc. and its subsidiaries | <ul style="list-style-type: none"> Regarding risks such as those related to compliance with the Act, the environment, information, export management and natural disasters by MISUMI Group Inc. and its subsidiaries (hereinafter collectively referred to as "MISUMI Group"), various regulations and company rules and manuals shall be maintained to ensure a proper risk management system is in place. In the event of unforeseen contingencies related to MISUMI Group, a contingency countermeasures task force shall be established to swiftly respond to the situation, and progress shall be reported to the Board of Directors. |
| System for ensuring duties of executives such as the Directors of MISUMI Group Inc. and its subsidiaries are being executed efficiently | <ul style="list-style-type: none"> Management plans of MISUMI Group are ultimately approved at the Board of Directors' meetings, and their progress is checked at the Group Executive Officers' Committee meeting held during the following month. Important matters discovered during the progress check and the like are discussed at the Board of Directors' meeting, the Group Executive Officers' Committee meeting or other meetings. In the monthly Board of Directors' meeting, business performance reports are prepared, and the Board monitors business performance and advises and gives instructions on important matters. |
| System for ensuring execution of duties by employees of MISUMI Group Inc. and its subsidiaries, such as its Directors, is in compliance with laws and regulations as well as the Articles of Incorporation | <ul style="list-style-type: none"> Executives of MISUMI Group shall abide by the MISUMI Group Code of Conduct, and ensure that they are in compliance with laws and regulations as well as the Articles of Incorporation. A system shall be established wherein duties can be implemented appropriately by MISUMI Group's decision-making rules, such as the official regulations of administrative authority. An Internal Reporting System shall be established that covers the entire MISUMI Group for early detection of violations against laws, regulations or company rules, as well as behaviors that suggest violations, and ensure prevention of detrimental treatment of whistle-blowers. |
| System for ensuring the suitability of reports by the Directors of subsidiaries related to the execution of duties and other work in the corporate group comprising MISUMI Group Inc. and its subsidiaries | <ul style="list-style-type: none"> MISUMI Group Inc. shall have each of its subsidiaries report once a month on their business performance and state of implementation of duties. MISUMI Group Inc. shall ensure the suitability of duties of each of its subsidiaries through reports made by each subsidiary on its business performance and confirmation of progress on its management plan at the Group Executive Officers' Committee. An internal audit division shall regularly audit the work of each subsidiary. MISUMI Group shall not associate in any way with anti-social forces, stipulating as such within its Code of Conduct, and shall respond in a resolute manner, unified in this stance as a Group. |
| Matters related to employees that are to assist the work of MISUMI Group Inc. Corporate Auditors | <ul style="list-style-type: none"> Corporate Auditors shall be able to freely appoint auditing assistants, and the Corporate Auditor shall take part in matters including the relocation and evaluation of the auditing assistants. Auditing assistants shall carry out their auditing duties under the instructions of Corporate Auditors. |
| System related to reporting to Corporate Auditors of MISUMI Group Inc. | <ul style="list-style-type: none"> Corporate Auditors shall attend important meetings such as those of the Board of Directors and the Group Executive Officers' Committee. Directors and employees shall immediately report incidents or potential incidents that would have a serious impact on MISUMI Group to the corporate auditors. Executives of MISUMI Group shall submit reports related to the execution of their duties in an appropriate manner when requested by the Corporate Auditors. Corporate Auditors shall hold regular meetings with the Independent Auditor and internal auditing division to exchange opinions and information, and shall request reports from the Independent Auditor as needed. The section in charge of the Internal Reporting System shall submit regular reports to the Corporate Auditors regarding the state of internal reporting within MISUMI Group. Prevention of detrimental treatment of executives of MISUMI Group who have submitted reports to the Corporate Auditors shall be ensured. |
| Matters related to policies for accounting for expenses, etc. arising in the execution of duties by the Corporate Auditors of MISUMI Group Inc. | <ul style="list-style-type: none"> An annual budget will be set each year for expenses related to the Corporate Auditors performing their duties. In addition, any expenses necessary for the execution of the other duties by the Corporate Auditors will either be prepaid or reimbursed promptly upon request from the Corporate Auditors. |

Operation of the Internal Control System and Risk Management System

The “Basic Policy on the Internal Control System” on the preceding page is revised as deemed necessary, such as in response to changes in the environment outside of the Company. As mentioned previously, a decision was made at the Board of Directors’ meeting on May 14, 2015 to adopt an amendment that reflects the revisions made in the Companies Act.

MISUMI Group Inc. evaluated the state of operation of the “Basic Policy on the Internal Control System” for the fiscal year and verified that the Internal Control System is operating appropriately and that there are no significant deficiencies.

Major accomplishments related to the Internal Control System in FY2018 are as follows:

Status of Operation of the Internal Control System

- MISUMI Group Inc. held 15 Board of Directors’ meetings (during FY2018). The Board of Directors’ meetings and Group Executive Officers’ Committee meetings play an important role in the important decision-making as a Group, and are suitably achieving the role of verification as well as supervision and instruction of implementation by the Business Companies, Service Platforms and subsidiaries.
- We regularly conduct a comprehensive risk evaluation related to operational execution, information, finance, human resources management, and legal matters at each important base of MISUMI Group. Based on the results of the evaluation, we clarify the main divisions responsible for significant risks and implement countermeasures.

- We have conducted compliance training at MISUMI Group’s important bases in an attempt to impart thorough knowledge regarding the MISUMI Group Code of Conduct and compliance with laws and regulations.
- We have established an Internal Reporting System for MISUMI Group as a whole, and are operating it appropriately.
- With regard to improvements and cooperation of the Corporate Auditors and the Auditors Committee, we are continuously enriching the audit environment by setting up opportunities to interview members of the Board of Directors, including Outside Directors of the Board, and reinforcing cooperation with MISUMI Group’s management divisions. In addition, operation of the Corporate Auditors’ auditing assistant’s system is stable.

Enactment of the MISUMI Group Code of Conduct

MISUMI Group Inc. enacted the MISUMI Group Code of Conduct as a guideline shared by the entire Group with the aim of achieving its social mission and becoming a trusted corporate entity. This Code of Conduct also includes strict adherence to laws and regulations, and along with a guideline, has been distributed to all employees to

ensure thorough knowledge thereof. Company regulations and rules, such as decision-making rules of Company business, are reviewed as deemed necessary in order to conduct business both appropriately and efficiently, and a system is maintained wherein lines of authority are clarified and a suitable system of checks and balances is in effect.

Enactment of a Basic Policy on Information Security

The “Basic Policy on Information Security,” which states the basic approach to information and security of MISUMI Group, and Confidentiality Rules, which describe the basic rules, were enacted

and distributed to all MISUMI Group companies, along with “Information Security Guidelines,” which set detailed procedures, in an attempt to ensure all employees are thoroughly knowledgeable about these matters.

Status of Execution of Internal and Other Audits

The Internal Auditing Team, which is a division that operates directly under the CEO, began reinforcing internal control to comply with the internal control reporting system of the Financial Instruments and Exchange Act (J-SOX). Also, every year MISUMI Group Inc. and all its subsidiaries are scrutinized for internal audit themes carrying high management risk. In doing so, we are ensuring that risk detection, improvement and preventative measures are in place,

and striving to reduce risk occurrence. Furthermore, a system for early detection of misconduct through the Internal Reporting System has also been established.

MISUMI Group also receives advice and support as required from outside experts such as corporate attorneys, certified public accountants and tax accountants regarding legal matters, compliance and other important management matters.

Auditing of Corporate Auditors and Internal Audits

Two of the three Corporate Auditors of MISUMI Group Inc. are Outside Corporate Auditors, one of whom is a certified public accountant and the other an attorney. By carrying out audits from perspectives of those well-versed in accounting as well as laws and regulations, they greatly enhance the transparency of corporate conduct and the reliability of financial reporting. Each Corporate

Auditor conducts auditing activities in accordance with the policies and implementation plan determined at the Auditors Committee meetings, and attends all important meetings related to management decision-making as permanent members, thus supporting corporate governance.

MISUMI Group Inc. has an Internal Auditing Team that operates

directly under the CEO as the Company’s internal auditing division. The Internal Auditing Team conducts an internal audit of the Executive Division, prepares an Internal Audit Report containing the findings and proposals to improve on them, and submits the report to the CEO, as well as the Corporate Auditors and the division being audited. In the event that the findings include misconduct, a

remediation plan is proposed and implemented, and the Internal Auditing Team audits the results of any improvement.

Corporate Auditors and the Internal Auditing Team share information at regular monthly meetings and in doing so, cooperate closely with the Independent Auditor to improve the effectiveness and efficiency of audits.

Outside Directors and Outside Corporate Auditors

Functions and Roles Taken on by Outside Directors and Outside Corporate Auditors in Corporate Governance

MISUMI Group Inc.’s Board of Directors have the function of supervising management decision-making and operational execution by the Executive Directors and Corporate Officers. The Board of Directors comprise seven Directors, two of whom are Outside Directors, and of the three Corporate Auditors, two are Outside Corporate Auditors. With respect to corporate governance, MISUMI Group Inc. believes that the function of management monitoring by an external and neutral party with an objective viewpoint is important, and has determined that the current system of supervision and checking of management by Outside Directors and independent auditing by Outside Corporate Auditors allows for sufficient monitoring from the outside.

Standards or Policies Related to Autonomy from Submitting Company in the Appointment of an Outside Director or Outside Corporate Auditor

MISUMI Group’s standards for appointment as an Outside Director or Outside Corporate Auditor are the same as those of an independent executive as stipulated by the Tokyo Stock Exchange rules.

MISUMI Group’s reasons for the appointment of respective Outside Directors and Outside Corporate Auditors and their record of attendance at Board of Directors’ meetings in FY2018 are as indicated in the table below. We determine that these individuals can carry out the role of supervising and checking MISUMI Group’s management and carry out the role of auditing fairly and objectively from an independent standpoint on the basis of their expert knowledge and experience.

Supervision or Auditing by Outside Directors and Outside Corporate Auditors

Outside Directors participate in the monthly Board of Directors’ meetings and primarily ask questions and provide advice regarding proposals and deliberations from an objective standpoint independent from the management team that is engaged in operational execution.

Outside Corporate Auditors attend the monthly Board of Directors’ meetings and the Auditors Committee meetings and ask questions and provide advice regarding proposals and deliberations from the standpoint of having expert knowledge and experience.

(As of June 30, 2019)

| Outside Director | Reason for Appointment | Number of Board of Directors’ Meetings Attended in the Fiscal Year Ended March 2019 | |
|---------------------------|--|---|--|
| Takehiko Ogi | Abundant experience and extensive insight as a manager | 14 out of 15 | |
| Yoichi Nakano* | Abundant experience on a global basis in various industries, including finance, consulting and executive search, and broad knowledge of management personnel development | — | |
| Outside Corporate Auditor | Reason for Appointment | Number of Board of Directors’ Meetings Attended in the Fiscal Year Ended March 2019 | Number of Auditors Committee Meetings Attended in the Fiscal Year Ended March 2019 |
| Juichi Nozue | As an attorney, possesses legal expertise and experience | 15 out of 15 | 18 out of 18 |
| Nanako Aono | As a certified public accountant, possesses expertise in financial accounting and extensive insight as a manager and an auditor | 15 out of 15 | 18 out of 18 |

* Appointed by resolution of the General Meeting of Shareholders held on June 13, 2019

Directors



Ryusei Ono
Representative Director,
President and CEO



Tokuya Ikeguchi
Executive Vice President and
Director



Kosuke Nishimoto
Executive Vice President and
Director



Ichiro Otokozawa
CFO and
Executive Director



Toshinari Sato
CIO and
Executive Director



Takehiko Ogi
Outside Director



Yoichi Nakano
Outside Director

Corporate Officers

| | | | |
|-------------------|--|--|---|
| MISUMI Group Inc. | Ryusei Ono Representative Director, President and CEO | Tokuya Ikeguchi Executive Vice President and Director | Kosuke Nishimoto Executive Vice President and Director |
| | Ichiro Otokozawa CFO and Executive Director | Toshinari Sato CIO and Executive Director | Takaaki Wada Senior Corporate Officer |
| | Koichi Tsunematsu Senior Corporate Officer | Takeshi Marui Corporate Officer | Makoto Ariga Corporate Officer |
| | Kazumi Hagihira Corporate Officer | Hiroshi Shiraishi Corporate Officer | |

| | | | |
|---|---|--|--|
| Business Companies and Service Platforms | Tomoki Kanatani Representative Corporate Officer, President, China Business Company | Shigetaka Shimizu Representative Corporate Officer, President, Asia Business Company | Rie Nakagawa Representative Corporate Officer, President, FA Business Company |
| | Mitsunobu Yoshida Representative Corporate Officer, President, 3D2M Business Company | Shigehito Nakamura Representative Corporate Officer, VONA Business Company VONA Electronics Global Business Group | Masakazu Kato Representative Corporate Officer, VONA Business Company VONA Tool Global Business Group |
| | Takako Sasaki Representative Corporate Officer, Human Resource Development Service Platform | Michiaki Okamura Representative Corporate Officer, Logistics Service Platform | Takumi Toya Representative Corporate Officer, Production Service Platform |
| | Takashi Furuhashi Representative Corporate Officer, Acting President, OST Business Company | | |

Corporate Auditors

| | | | |
|----------------|---------------------------------------|---|--|
| Advisor | Hiroshi Miyamoto Corporate Auditor | Juichi Nozue Outside Corporate Auditor | Nanako Aono Outside Corporate Auditor |
|----------------|---------------------------------------|---|--|

Hiroshi Taguchi
Special Advisor and Founder

Senior Chairman



Tadashi Saegusa
Second-Era Founder

Ten-Year Summary of Financial Data (Consolidated)

MISUMI Group Inc. and consolidated subsidiaries Years ended March 31, 2010 – 2019

(Million yen)

| Years ended March 31: | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|
| Net sales | 89,180 | 121,203 | 130,213 | 134,844 | 173,904 | 208,562 | 240,139 | 259,015 | 312,969 | 331,936 |
| Factory Automation (FA) Business ^{5,6} | 51,445 | 74,831 | 80,724 | 84,299 | 98,843 | | | | | |
| Die Components Business ^{5,6} | 23,007 | 26,622 | 27,686 | 37,020 | 56,310 | | | | | |
| Electronics Business ^{5,6} | 8,081 | 11,376 | 12,401 | 12,381 | 13,801 | | | | | |
| Other Business ^{5,6} | 4,353 | 5,798 | 6,415 | 6,747 | 7,654 | | | | | |
| Adjustments ^{5,6} | 2,294 | 2,576 | 2,987 | (5,603) | (2,704) | | | | | |
| FA Business ⁶ | | | | | 82,377 | 99,094 | 109,654 | 84,669 | 105,184 | 109,230 |
| Die Components Business ⁶ | | | | | 56,309 | 64,737 | 69,732 | 69,797 | 76,523 | 76,443 |
| VONA Business ⁶ | | | | | 37,921 | 48,249 | 60,474 | 104,548 | 131,262 | 146,262 |
| Adjustments ⁶ | | | | | (2,703) | (3,517) | 280 | — | — | — |
| Operating income | 8,408 | 15,563 | 16,646 | 16,809 | 18,989 | 23,759 | 25,691 | 27,127 | 34,848 | 31,874 |
| Earnings before amortization | 8,408 | 15,563 | 16,646 | 17,109 | 21,093 | 25,999 | 28,229 | 29,421 | 36,465 | 32,490 |
| Income before income taxes (and minority interests) | 7,778 | 15,409 | 17,022 | 15,890 | 18,964 | 22,943 | 25,004 | 26,071 | 34,516 | 31,815 |
| Net income attributable to owners of parent | 3,886 | 9,007 | 9,414 | 9,881 | 11,679 | 14,291 | 16,907 | 18,387 | 25,601 | 24,034 |
| At year-end: | | | | | | | | | | |
| Total assets ⁹ | 92,941 | 107,552 | 115,721 | 136,303 | 163,202 | 184,784 | 194,186 | 212,041 | 243,492 | 252,393 |
| Total equity ¹ | 75,667 | 83,815 | 90,824 | 103,014 | 115,966 | 132,138 | 141,463 | 154,530 | 185,203 | 203,520 |
| Interest-bearing debt ⁸ | 1,200 | 900 | 1,000 | 1,000 | 900 | — | — | — | — | — |
| CAPEX, depreciation and amortization: | | | | | | | | | | |
| Capital expenditures (CAPEX) | 3,863 | 5,362 | 4,231 | 3,451 | 6,901 | 8,487 | 9,126 | 7,219 | 15,421 | 21,414 |
| Depreciation and amortization | 2,664 | 2,453 | 3,521 | 3,560 | 6,051 | 7,024 | 7,821 | 7,439 | 8,105 | 8,758 |
| Major indicators: | | | | | | | | | | |
| Return on equity ³ (%) | 5.3 | 11.3 | 10.8 | 10.2 | 10.7 | 11.5 | 12.4 | 12.4 | 15.1 | 12.4 |
| Return on assets ³ (%) | 8.7 | 15.4 | 15.2 | 12.6 | 12.7 | 13.2 | 13.2 | 12.8 | 15.2 | 12.8 |
| Current ratio (%) | 463.6 | 398.7 | 408.4 | 349.5 | 397.5 | 429.2 | 445.8 | 430.3 | 362.1 | 444.4 |
| Interest coverage ratio ⁴ (times) | 362.1 | 854.1 | 1,150.6 | 2,095.6 | 1,691.2 | 1,470.3 | 5,179.8 | 4,972.6 | 21,868.1 | 8,853.9 |
| Per share data: | | | | | | | | | | |
| Net income per share ² (yen) | 14.61 | 33.72 | 35.05 | 36.76 | 42.94 | 52.28 | 61.65 | 66.94 | 91.01 | 84.80 |
| Cash dividends per share ² (yen) | 3.33 | 6.73 | 7.73 | 9.15 | 10.72 | 13.05 | 15.42 | 16.71 | 22.60 | 21.20 |
| Equity per share ² (yen) | 284.57 | 312.27 | 339.04 | 379.98 | 425.06 | 482.17 | 515.39 | 560.79 | 653.71 | 717.56 |
| Cash flow per share ² (yen) | 24.12 | 43.72 | 29.06 | 42.63 | 56.76 | 41.26 | 60.89 | 70.80 | 85.86 | 46.00 |
| Stock valuations: | | | | | | | | | | |
| Price/Earnings ratio (PER) (times) | 43.7 | 20.4 | 19.1 | 23.5 | 22.2 | 30.9 | 26.1 | 30.1 | 32.1 | 32.5 |
| Price/Cash flow ratio (PCFR) (times) | 26.5 | 15.7 | 23.1 | 20.3 | 16.8 | 39.2 | 26.5 | 28.4 | 34.0 | 59.8 |
| Price/Book value ratio (PBR) (times) | 2.2 | 2.2 | 2.0 | 2.3 | 2.2 | 3.4 | 3.1 | 3.6 | 4.5 | 3.8 |
| Number of customers (companies): | | | | | | | | | | |
| In Japan (machine-related only) ⁷ | 59,779 | 60,936 | 61,648 | 63,007 | 64,955 | 66,230 | 79,571 | 90,223 | 100,598 | 116,238 |
| Overseas | 52,375 | 61,993 | 67,608 | 91,817 | 100,481 | 108,849 | 133,053 | 152,374 | 161,400 | 185,120 |
| Total number of customer companies | 112,154 | 122,929 | 129,256 | 154,824 | 165,436 | 175,079 | 212,624 | 242,597 | 261,998 | 301,358 |
| Number of employees (persons): | | | | | | | | | | |
| | 3,581 | 4,831 | 5,615 | 7,238 | 8,038 | 8,876 | 9,628 | 10,167 | 11,241 | 12,300 |

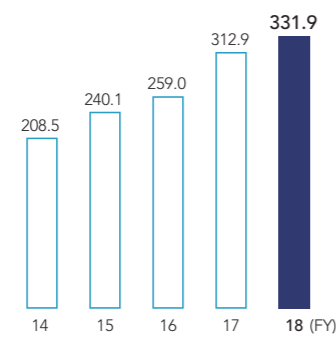
Notes: 1. In accordance with enforcement of the Companies Act on May 1, 2006, Shareholders' Equity is listed instead of Equity.
2. After adjustment for stock split dated July 1, 2015.
3. ROE was calculated on the basis of net income attributable to owners of parent for the relevant period, and ROA was calculated on the basis of income before income taxes (and minority interests) for the relevant period.
4. Interest coverage ratio = Net cash provided by operating activities ÷ Interest payment

5. Figures for fiscal years prior to the year ended March 31, 2014 (FY2013) have been revised retroactively in accordance with changes in disclosure standards by segment.
6. Segments were changed in April 2014.
7. Stock for Diversified Businesses was transferred, so this former segment has been excluded from the report.
8. The convertible bonds with stock acquisition rights issued in October 2013 are not included in interest-bearing debt because they are interest-free.
9. Figure for the year ended March 31, 2018 (FY2017) has been revised retroactively in accordance with Partial Amendments to Accounting Standard for Tax Effect Accounting.

Financial Analysis

Net Sales (Billion yen)

¥331.9 billion
6.1% increase year on year ↗



With continued sales growth in the FA Business and the VONA Business, net sales increased 6.1% year on year (6.5% on a local currency basis) to ¥331.9 billion.

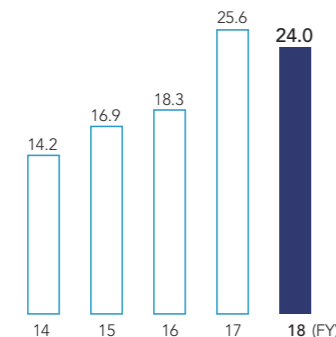
FA Business: Compensated for a slowdown in China and South Korea with sales in Southeast Asia and Europe, and achieved growth in Japan.

Die Components Business: Automobile-related demand decreased in Japan, China and the United States, but market share increased in Asia.

VONA Business: Continued growth in Japan and expansion in Southeast Asia and other regions drove an increase in sales.

Net Income Attributable to Owners of Parent (Billion yen)

¥24.0 billion
6.1% decrease year on year ↘



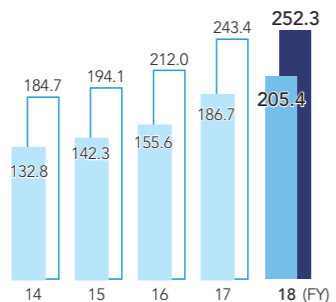
Net income attributable to owners of parent decreased 6.1% year on year to ¥24.0 billion, and the ratio of net income* to net sales was 7.2%, compared to 8.2% in the previous fiscal year.

* Net income attributable to owners of parent

Total Assets and Equity (Billion yen)

Total assets
¥252.3 billion
Equity
¥205.4 billion

■ Total assets
■ Equity

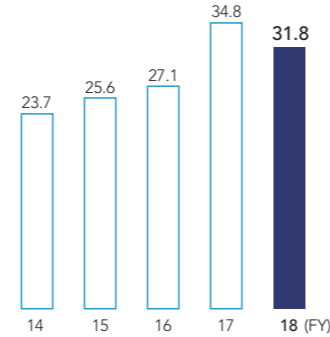


Total assets were ¥252.3 billion, a 3.7% increase from the end of the previous fiscal year.

Equity was ¥205.4 billion, a 10.0% increase from the end of the previous fiscal year. Main factors to which this change is attributable was an increase in shareholders' equity due to an increase in retained earnings and a decrease in accumulated other comprehensive income, including foreign currency translation adjustments.

Operating Income (Billion yen)

¥31.8 billion
8.5% decrease year on year ↘



Operating income decreased 8.5% year on year to ¥31.8 billion.

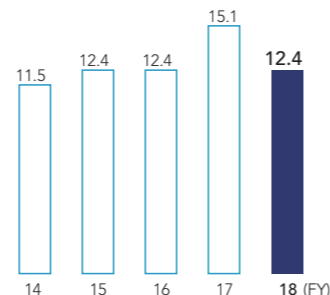
FA Business: Maintained a high level of profitability despite the impact of increased expenses.

Die Components Business: Income increased due to a decrease in amortization of goodwill and other expenses.

VONA Business: Prioritized global expansion in Southeast Asia and other regions.

ROE (%)

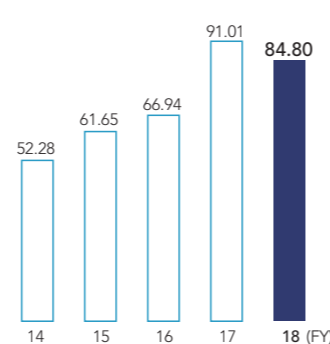
12.4%



Return on equity (ROE) was 12.4%, a decrease of 2.7 percentage points from 15.1% in the previous fiscal year.

Earnings per Share* (Yen)

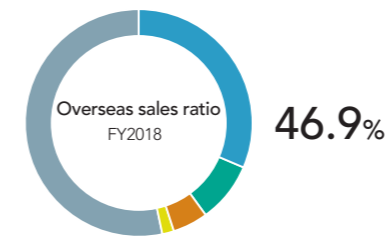
¥84.8



Earnings per share decreased from ¥91.01 in the previous fiscal year to ¥84.80 due to the decrease in net income attributable to owners of parent. Cash dividends for the fiscal year were ¥21.20 per share, for a payout ratio of 25.0% and a dividend on equity ratio of 3.1%.

* After adjusting for stock split as of July 1, 2015.

Net Sales by Region



| Region | FY2017 | FY2018 |
|----------------------|----------------|----------------|
| China and other Asia | ¥99.1 billion | ¥104.6 billion |
| U.S.A. | ¥26.9 billion | ¥28.2 billion |
| Europe | ¥15.4 billion | ¥17.2 billion |
| Others | ¥4.8 billion | ¥5.6 billion |
| Japan | ¥166.4 billion | ¥176.1 billion |

Business and Other Risks

Material risks that may significantly impact the business and financial situation of MISUMI Group are as follows.

Please note that forward-looking statements provided are based on evaluations made by MISUMI Group at the end of FY2018.

Impact to earnings from market trends in specific industries

In the FA Business and Die Components Business, MISUMI Group primarily manufactures and sells products and goods to customers in the automotive and electronics (including liquid crystal panels and semiconductors) industries. Furthermore, in the VONA Business, MISUMI Group sells production auxiliary materials, including third-party brands and original MISUMI branded products related to production equipment to a wide range of customers in the manufacturing industry.

Thus, production and capital investment trends in these industries, as well as in the manufacturing industry in general, may impact the business performance of MISUMI Group.

Expansion of overseas business operations

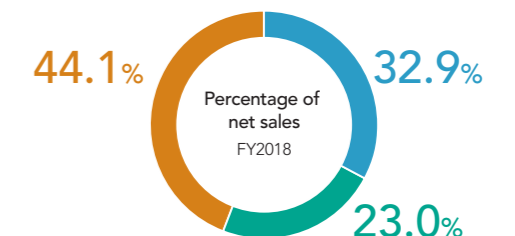
MISUMI Group is actively pursuing business expansion overseas by strengthening the establishment of "Regional Business Companies" in China, Asia, the Americas and Europe. Political and economic changes in these regions may have a significant impact on local business operations. If business conditions do not progress according to plan, delays in the recovery of expenses and up-front investments may adversely affect the business performance and financial position of MISUMI Group.

In addition, given an increase in factors destabilizing overseas business expansion, including U.S.-China trade conflict from FY2018, worsening business performance and revisions to capital expenditures by customers in affected regions may adversely affect the business performance and financial position of MISUMI Group.

Quality control

MISUMI Group manufactures and sells a diverse range of products and goods used in a wide range of fields. As such, in the event of a product defect or regulation violation (including regulations relating to the presence of hazardous constituents as well as restrictions on imports and exports), MISUMI Group may potentially experience economic damages and/or losses of credibility, such as through product recalls, product discontinuations or various expenses and fees.

Net Sales by Segment



| Segment | FY2017 | FY2018 |
|-------------------------|----------------|----------------|
| FA Business | ¥105.1 billion | ¥109.2 billion |
| Die Components Business | ¥76.5 billion | ¥76.4 billion |
| VONA Business | ¥131.2 billion | ¥146.2 billion |

Management of customer information

MISUMI Group handles a considerable amount of customer information as it conducts sales through e-catalogs via the Internet and through paper catalogs. Any information leaks could greatly impair trust in and cause economic losses for MISUMI Group.

Natural disasters

Large earthquakes or other natural disasters could disrupt production or product and merchandise logistics and harm MISUMI Group's performance and financial position.

Impact due to system and Internet failure

MISUMI Group primarily accepts product orders over the Internet using its e-catalogs. A major malfunction of the Internet or MISUMI Group's core system will impede product orders, production and distribution. This in turn is likely to negatively impact MISUMI Group's business performance and financial position.

Foreign exchange rate fluctuations

MISUMI Group conducts transactions using various currencies and based on a number of terms and conditions. Foreign currency denominated transactions and foreign currency claims/outstanding obligations are likely to be impacted by fluctuations in foreign currency rates. MISUMI Group is implementing measures to alleviate foreign exchange rate risk to a certain degree. However, this risk cannot be fully averted.

Human resources

MISUMI Group recognizes the necessity of recruiting, securing and training capable human resources at an appropriate time for its medium-to-long-term growth. However, competition in recruiting and securing capable human resources is intensifying. Failure to proceed as planned in recruiting and securing such capable human resources may adversely affect MISUMI Group's performance and business growth.

Consolidated Balance Sheet

MISUMI Group Inc. and Consolidated Subsidiaries
March 31, 2019

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------|--|
| | 2019 | 2018 | 2019 |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 13) | ¥ 41,753 | ¥ 51,713 | \$ 376,191 |
| Time deposits (Note 13) | 8,931 | 13,790 | 80,463 |
| Receivables: | | | |
| Trade notes (Note 13) | 12,211 | 11,936 | 110,023 |
| Trade accounts (Note 13) | 55,042 | 55,881 | 495,914 |
| Other | 907 | 713 | 8,171 |
| Allowance for doubtful receivables | (206) | (319) | (1,853) |
| Inventories (Note 3) | 51,734 | 41,281 | 466,112 |
| Other | 5,249 | 4,909 | 47,292 |
| Total current assets | 175,621 | 179,904 | 1,582,313 |
| PROPERTY, PLANT AND EQUIPMENT (Note 20): | | | |
| Land | 3,759 | 3,728 | 33,867 |
| Buildings and structures | 19,844 | 18,064 | 178,787 |
| Machinery and vehicles | 30,119 | 26,180 | 271,362 |
| Other | 13,736 | 8,272 | 123,765 |
| Total | 67,458 | 56,244 | 607,781 |
| Accumulated depreciation and impairment loss | (29,821) | (26,530) | (268,678) |
| Net property, plant and equipment | 37,637 | 29,714 | 339,103 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Note 13) | 6 | 6 | 56 |
| Investments in unconsolidated subsidiaries and associated companies | 208 | 211 | 1,871 |
| Software | 22,187 | 17,058 | 199,898 |
| Deferred tax assets (Note 9) | 5,346 | 5,818 | 48,168 |
| Other assets | 11,389 | 10,781 | 102,614 |
| Total investments and other assets | 39,136 | 33,874 | 352,607 |
| TOTAL | ¥252,394 | ¥243,492 | \$2,274,023 |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------|--|
| | 2019 | 2018 | 2019 |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Current portion of convertible bonds (Notes 5 and 13) | | ¥ 106 | |
| Payables: | | | |
| Trade notes and accounts (Note 13) | ¥ 18,219 | 19,524 | \$ 164,146 |
| Accounts payable—other | 10,150 | 14,002 | 91,454 |
| Income taxes payable (Note 9) | 2,775 | 4,495 | 25,000 |
| Provision for bonuses (Note 2.m) | 2,584 | 3,787 | 23,287 |
| Other | 5,792 | 7,770 | 52,184 |
| Total current liabilities | 39,520 | 49,684 | 356,071 |
| LONG-TERM LIABILITIES: | | | |
| Liability for retirement benefits (Note 6) | 5,426 | 4,878 | 48,887 |
| Deferred tax liabilities (Note 9) | 1,318 | 1,510 | 11,870 |
| Other | 705 | 700 | 6,353 |
| Total long-term liabilities | 7,449 | 7,088 | 67,110 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14) | | | |
| EQUITY (Notes 7, 8, 16, 17, 18 and 19): | | | |
| Common stock—authorized, 1,020,000,000 shares in 2019 and 1,020,000,000 shares in 2018 issued, 283,756,497 shares in 2019 and 283,439,597 shares in 2018 | 13,024 | 12,813 | 117,339 |
| Capital surplus | 23,378 | 23,201 | 210,638 |
| Stock acquisition rights | 1,332 | 987 | 12,000 |
| Retained earnings | 166,061 | 148,059 | 1,496,177 |
| Treasury stock—at cost, 129,626 shares in 2019 and 129,536 shares in 2018 | (78) | (78) | (704) |
| Accumulated other comprehensive income: | | | |
| Foreign currency translation adjustments | 1,211 | 1,291 | 10,912 |
| Defined retirement benefit plans | (76) | (83) | (681) |
| Non-controlling interests | 573 | 530 | 5,161 |
| Total equity | 205,425 | 186,720 | 1,850,842 |
| TOTAL | ¥252,394 | ¥243,492 | \$2,274,023 |

Consolidated Statement of Income

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------|----------|------------------------------------|
| | 2019 | 2018 | 2017 | 2019 |
| NET SALES (Note 20)..... | ¥331,936 | ¥312,969 | ¥259,016 | \$2,990,688 |
| COST OF SALES | 189,846 | 178,918 | 151,565 | 1,710,481 |
| Gross profit | 142,090 | 134,051 | 107,451 | 1,280,207 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10).... | 110,215 | 99,202 | 80,324 | 993,023 |
| Operating income (Note 20) | 31,875 | 34,849 | 27,127 | 287,184 |
| OTHER INCOME (EXPENSES): | | | | |
| Interest and dividend income | 277 | 201 | 192 | 2,494 |
| Interest expense | (2) | (1) | (4) | (13) |
| Exchange loss—net | (608) | (644) | (909) | (5,480) |
| Impairment loss (Notes 4 and 20)..... | | (261) | | |
| Contribution for establishing an educational institute | | | (100) | |
| Loss on business restructuring..... | | | (392) | |
| Gain on liquidation of subsidiaries and associates | | 99 | | |
| Other—net | 274 | 274 | 157 | 2,469 |
| Other expenses—net | (59) | (332) | (1,056) | (530) |
| INCOME BEFORE INCOME TAXES | 31,816 | 34,517 | 26,071 | 286,654 |
| INCOME TAXES (Note 9): | | | | |
| Current | 7,642 | 10,664 | 8,602 | 68,849 |
| Deferred..... | 76 | (1,826) | (889) | 683 |
| Total income taxes | 7,718 | 8,838 | 7,713 | 69,532 |
| NET INCOME | 24,098 | 25,679 | 18,358 | 217,122 |
| NET INCOME ATTRIBUTABLE TO: Non-controlling interests | 64 | 77 | (29) | 579 |
| Owners of parent | ¥ 24,034 | ¥ 25,602 | ¥ 18,387 | \$ 216,543 |

| | Yen | | | U.S. Dollars (Note 1) |
|---|---------------|--------|--------|-----------------------|
| | 2019 | 2018 | 2017 | 2019 |
| PER SHARE OF COMMON STOCK (Notes 2.u, 7, 16 and 19): | | | | |
| Net income | ¥84.80 | ¥91.01 | ¥66.94 | \$0.76 |
| Diluted net income | 84.48 | 89.76 | 64.70 | 0.76 |
| Cash dividends applicable to the year | 21.20 | 22.60 | 16.71 | 0.19 |

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|---------|---------|------------------------------------|
| | 2019 | 2018 | 2017 | 2019 |
| NET INCOME | ¥24,098 | ¥25,679 | ¥18,358 | \$217,122 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 15): | | | | |
| Unrealized gain (loss) on available-for-sale securities | | | 6 | |
| Foreign currency translation adjustments | (105) | 446 | (2,226) | (951) |
| Defined retirement benefit plans | 7 | (26) | 15 | 67 |
| Share of other comprehensive income (loss) in associates | (12) | 8 | (11) | (105) |
| Total other comprehensive income (loss)..... | (110) | 428 | (2,216) | (989) |
| COMPREHENSIVE INCOME (Note 15) | ¥23,988 | ¥26,107 | ¥16,142 | \$216,133 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15): | | | | |
| Owners of the parent | ¥23,961 | ¥26,005 | ¥16,206 | \$215,885 |
| Non-controlling interests | 27 | 102 | (64) | 248 |

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Thousands | Millions of Yen | | | | | | | | | |
|--|--|-----------------|-----------------|--------------------------|---------------------------|-------------------|---|--|----------------------------------|--------------|-----------------|
| | | Common Stock | Capital Surplus | Stock Acquisition Rights | Non-Controlling Interests | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | | | Total Equity |
| | Number of Shares of Common Stock Outstanding | | | | | | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | | |
| BALANCE, APRIL 1, 2016 | 274,607 | ¥6,997 | ¥17,385 | ¥ 342 | ¥528 | ¥114,170 | ¥(76) | ¥(6) | ¥3,065 | ¥(72) | ¥142,333 |
| Net income attributable to owners of parent... | | | | | | 18,387 | | | | | 18,387 |
| Cash dividends, ¥15.66 per share | | | | | | (4,300) | | | | | (4,300) |
| Effect resulting from change of accounting period of certain consolidated subsidiaries | | | | | | | (31) | | | | (31) |
| Increase in treasury stock (366 shares) | | | | | | | | | | (1) | (1) |
| Issuance of new shares (Notes 8)..... | 1,082 | 597 | 597 | | | | | | | | 1,194 |
| Net change in the year | | | | | | | ¥ 6 | (2,202) | 15 | | (1,923) |
| BALANCE, MARCH 31, 2017 | 275,689 | 7,594 | 17,982 | 675 | 453 | 128,226 | (77) | | 863 | (57) | 155,659 |
| Net income attributable to owners of parent... | | | | | | 25,602 | | | | | 25,602 |
| Cash dividends, ¥20.62 per share | | | | | | (5,769) | | | | | (5,769) |
| Increase in treasury stock (364 shares) | | | | | | | | | | (1) | (1) |
| Disposal of treasury stock (6 shares) | | | | | | | 0 | | | 0 | 0 |
| Issuance of new shares (Notes 5, 8, 17 and 18).... | 7,751 | 5,219 | 5,219 | | | | | | | | 10,438 |
| Net change in the year | | | | | | | | | 428 | (26) | 791 |
| BALANCE, MARCH 31, 2018 | 283,440 | 12,813 | 23,201 | 987 | 530 | 148,059 | (78) | | 1,291 | (83) | 186,720 |
| Net income attributable to owners of parent... | | | | | | 24,034 | | | | | 24,034 |
| Cash dividends, ¥21.29 per share | | | | | | (6,032) | | | | | (6,032) |
| Change in scope of consolidation | | | | | | | | | | | (34) |
| Increase in treasury stock (90 shares) | | | | | | | | | | (0) | (0) |
| Issuance of new shares (Notes 5, 8, and 18) | 316 | 211 | 211 | | | | | | | | 422 |
| Net change in the year | | | | | | | | | (80) | 7 | 315 |
| BALANCE, MARCH 31, 2019 | 283,756 | ¥13,024 | ¥23,378 | ¥1,332 | ¥573 | ¥166,061 | ¥(78) | | ¥1,211 | ¥(76) | ¥205,425 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | |
|---|------------------------------------|------------------|--------------------------|---------------------------|--------------------|----------------|---|--|----------------------------------|--------------------|-------|
| | Common Stock | Capital Surplus | Stock Acquisition Rights | Non-Controlling Interests | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | | | Total Equity | |
| | | | | | | | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | | |
| BALANCE, APRIL 1, 2018 | \$115,436 | \$209,037 | \$ 8,893 | \$4,773 | \$1,333,986 | \$(702) | | \$11,638 | \$(748) | \$1,682,313 | |
| Net income attributable to owners of parent... | | | | | 216,543 | | | | | 216,543 | |
| Cash dividends, \$0.19 per share | | | | | (54,352) | | | | | (54,352) | |
| Change in scope of consolidation | | | | | | | | | | (302) | |
| Increase in treasury stock (90 shares) | | | | | | | | | | (2) | |
| Issuance of new shares (Notes 5, 8, and 18) | 1,903 | 1,903 | | | | | | | | 3,806 | |
| Net change in the year | | | | | | | | | (726) | 67 | 2,836 |
| BALANCE, MARCH 31, 2019 | \$117,339 | \$210,638 | \$12,000 | \$5,161 | \$1,496,177 | \$(704) | | \$10,912 | \$(681) | \$1,850,842 | |

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------|----------|--|
| | 2019 | 2018 | 2017 | 2019 |
| OPERATING ACTIVITIES: | | | | |
| Income before income taxes | ¥31,816 | ¥34,517 | ¥26,071 | \$286,654 |
| Adjustments for: | | | | |
| Income taxes paid | (9,383) | (8,667) | (9,455) | (84,540) |
| Income taxes refund | 191 | 96 | 713 | 1,725 |
| Depreciation and amortization | 8,841 | 7,187 | 5,902 | 79,655 |
| Amortization of goodwill | | 1,000 | 1,707 | |
| Exchange (gain) loss | (15) | (862) | 633 | (133) |
| Impairment loss | | 261 | | |
| Loss on business restructuring | | | 392 | |
| Gain on liquidation of subsidiaries and associates | | (99) | | |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in receivables | (1,529) | (7,638) | (8,785) | (13,780) |
| (Increase) decrease in inventories | (10,345) | (8,153) | (4,453) | (93,207) |
| Increase (decrease) in payables | (1,699) | 2,333 | 2,851 | (15,308) |
| Increase (decrease) in other current liabilities | (3,552) | 3,563 | 2,991 | (32,001) |
| Other—net | (1,277) | 786 | 941 | (11,503) |
| Total adjustments | (18,768) | (10,193) | (6,563) | (169,092) |
| Net cash provided by operating activities | 13,048 | 24,324 | 19,508 | 117,562 |
| INVESTING ACTIVITIES: | | | | |
| Purchase of fixed assets | (21,414) | (15,421) | (7,220) | (192,937) |
| Proceeds from sales of fixed assets | 46 | 40 | 5 | 416 |
| Refund from time deposits | 32,920 | 26,605 | 30,286 | 296,604 |
| Payment into time deposits | (27,940) | (25,169) | (31,743) | (251,740) |
| Other—net (Note 18) | (567) | (942) | 2,616 | (5,109) |
| Net cash used in investing activities | (16,955) | (14,887) | (6,056) | (152,766) |
| FINANCING ACTIVITIES: | | | | |
| Proceeds from issuance of stock | 51 | 54 | 292 | 458 |
| Dividends paid | (6,032) | (5,769) | (4,300) | (54,352) |
| Other—net | (11) | (11) | (1) | (93) |
| Net cash used in financing activities | (5,992) | (5,726) | (4,009) | (53,987) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (61) | 161 | (25) | (545) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,960) | 3,872 | 9,418 | (89,736) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 51,713 | 47,841 | 39,205 | 465,927 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGES IN CLOSING DATES OF CONSOLIDATED SUBSIDIARIES | | | (782) | |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥41,753 | ¥51,713 | ¥47,841 | \$376,191 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MISUMI Group Inc. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 and 2018 financial statements to conform them to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MISUMI Group Inc. (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 ¥110.99 to \$1, the rate of exchange at March 31, 2019. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2019 include the accounts of the Company and its 45 (47 as of March 31, 2018) 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.

One subsidiary, WUXI PARTS SEIKO PRECISION IND CO., LTD., is not consolidated in 2019 because it would have an immaterial effect on the accompanying consolidated financial statements. Investments in two associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries 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 differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are recorded as goodwill included in investments and other assets and are amortized on a straight-line basis over five 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 eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements — In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.”

PITF No. 18 prescribes that (1) 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, (2) 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 may tentatively be used for the consolidation process, (3) however, the following four items 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 directly recorded in equity; (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 — In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard 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 directly recorded in equity; (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 that are exposed to an 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 — Merchandise and materials are principally stated at cost determined by the moving-average method (balance sheet amounts are written down on the basis of any decreased profitability). Finished goods, work in progress and supplies are principally stated at cost determined by the periodic average method (balance sheet amounts are written down on the basis of any decreased profitability).

f. Investment Securities — Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Allowance for Doubtful Accounts — To provide for credit loss, provisions are made for doubtful accounts based on an estimate of the uncollectible amount calculated using the historical default rate for normal loans or a reasonable estimate based on the financial condition of individual borrowers for doubtful and default loans.

h. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment held by domestic consolidated subsidiaries is computed principally by the declining-balance method. However, buildings (except for facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings as well as structures acquired on and after April 1, 2016 are computed by the straight-line method. The straight-line method is applied to property, plant and equipment held by consolidated foreign subsidiaries.

The range of useful lives is principally as follows:

| | |
|--------------------------|---------------|
| Buildings and structures | 3 to 45 years |
| Machinery and vehicles | 2 to 12 years |

i. Impairment of 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 would be 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 would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Other Assets — Intangible assets and goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 to 15 years for intangible assets and 5 years for goodwill.

k. Research and Development Costs — Research and development costs are charged to income as incurred.

l. Retirement Plan — The Company and consolidated subsidiaries have funded/non-funded defined benefit plans and defined contribution plans for payments to terminated employees.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are charged to income as incurred, whereas they are amortized over ten years for those incurred in certain consolidated subsidiaries.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council (the "BAC") in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, 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 any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefits to periods and relating to the discount rate and expected future salary increases.

m. Provision for Bonuses — The Company and certain consolidated subsidiaries provide provisions for employees' and directors' bonuses based on future projections for the current fiscal year.

n. Asset Retirement Obligations — In March 2008, the ASBJ issued ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Stock Options — On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Share-Based Payment," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

p. Leases — In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993.

The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company has applied the revised accounting standard effective from the year ended March 31, 2009.

q. Derivative Financial Instruments — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign currency forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes. 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 statements of income.

r. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. The Company and certain consolidated subsidiaries in Japan have applied a consolidated tax system.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥3,179 million and deferred tax liabilities of ¥193 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as deferred tax assets of ¥5,818 million under investments and other assets and deferred tax liabilities of ¥1,510 million under long-term liabilities, respectively, in the accompanying consolidated balance sheet.

s. 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 as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

t. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average exchange rate.

u. Per Share Information — Basic net income per share is computed by dividing net income available 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 stock option rights were exercised or convertible bonds were converted.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of year.

v. **Accounting Changes and Error Corrections** — In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

w. **Business Combinations** — In October 2003, the BAC issued a Statement of Opinion, “Accounting for Business Combinations,” and in December 2005, the ASBJ issued ASBJ Statement No. 7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.”

In December 2008, the ASBJ issued a revised ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows:

(1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed.

(2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset.

(3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

The Company acquired all shares in Connell Industrial Tool Corporation, the holding company that wholly owns Dayton Progress Corporation and Anchor Lamina America, Inc. (“Dayton Lamina”) on November 6, 2012 and accounted for the acquisition by the purchase method of accounting. The related goodwill is systematically amortized over 5 years.

x. **Changes in Accounting Estimates** — With regard to the standard for valuation of inventories, for a certain amount or more of merchandise for which a certain period of time has elapsed since the start of handling of stocks for sale and which is deemed unsellable in the future, the consolidated balance sheet amount had been calculated by, in principle, writing down the carrying amount of the inventories to zero.

From the year ended March 31, 2019, since data has been accumulated for a period of time sufficient to evaluate product life cycles and because it has become possible for the Group to understand the actual conditions of the life cycles in more detail with the more advanced inventory control system in and outside Japan, the Group decided to change the period of time for write-down of merchandise inventories in order to more appropriately reflect the decrease in profitability of inventories in the financial statements.

As a result, gross profit, operating income and income before income taxes for the year ended March 31, 2019 increased by ¥1,680 million (\$15,133 thousand).

y. **Unapplied Accounting Standards**

(1) Accounting standards for revenue recognition

In March 2018, the ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition” and the related guidance, ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition.”

(a) Overview

This is a comprehensive standard concerning revenue recognition. Revenue is recognized through the following five steps:

Step 1: Identify the contracts with customers.

Step 2: Identify the performance obligations under the contracts.

Step 3: Determine the transaction prices.

Step 4: Allocate the transaction prices to the performance obligations under the contracts.

Step 5: Recognize revenue when or as each performance obligation is satisfied.

(b) Date to be adopted

The Company plans to adopt the statement and guidance from the beginning of the year ending March 31, 2022.

(c) Effect of applying the above standards

Possible effects on the consolidated financial statements are currently under review.

(2) Leases

IFRS 16 “Leases” and ASU 2016-02 “Leases (Topic 842)”.

(a) Overview

These accounting standards require a lessee to recognize assets and liabilities for all leases in principle.

(b) Date to be adopted

The Company plans to adopt IFRS 16 from the beginning of the year ending March 31, 2020, and ASU 2016-02 from the beginning of the year ending March 31, 2021.

(c) Effect of applying the above standards

With the adoption of IFRS 16, approximately ¥5.2 billion (\$47 million) is to be recorded as right-of-use assets and lease liabilities on the date of adoption. The possible effects of ASU 2016-02 on the consolidated financial statements are currently under review.

3. INVENTORIES

Inventories at March 31, 2019 and 2018 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------|-----------------|---------|---------------------------|
| | 2019 | 2018 | 2019 |
| Merchandise..... | ¥42,624 | ¥31,708 | \$384,037 |
| Finished goods | 172 | 1,500 | 1,547 |
| Materials..... | 4,767 | 4,759 | 42,945 |
| Supplies | 1,798 | 1,542 | 16,204 |
| Work in process | 2,373 | 1,772 | 21,379 |
| Total | ¥51,734 | ¥41,281 | \$466,112 |

4. IMPAIRMENT

For the years ended March 31, 2019 and 2017, no impairment losses were recognized.

For the year ended March 31, 2018, the Group recognized an impairment loss of ¥261 million for the idle assets located in Tokyo. As a result of consideration of future collectability, the carrying amounts of the relevant assets were written down to the recoverable values and the decreased amounts were recorded as an impairment loss of ¥261 million for software. As there is no possibility for sale or future use, the recoverable value is deemed zero.

5. LONG-TERM DEBT

There are no applicable matters as of March 31, 2019.

Long-term debt at March 31, 2018 consisted of the following:

| | Millions of Yen |
|---|-----------------|
| | 2018 |
| Zero-coupon convertible bonds due 2018..... | ¥106 |
| 2018: 1,000,000 U.S. Dollars | |
| Total | 106 |
| Less current portion..... | ¥106 |
| Long-term debt, less current portion..... | |

For the years ended March 31, 2019 and 2018, portions of convertible bonds were converted into 82 thousand shares and 7,491 thousand shares of common stock, respectively.

6. RETIREMENT PLANS

The Company and certain consolidated subsidiaries had participated in the Social Welfare Pension Fund of Nippon Sheet Metal Presswork (the "Fund"), which is a multi-employer plan. However, ordinary dissolution of the Fund was resolved at a meeting of the board members of the Fund on August 4, 2014. On September 29, 2016, the dissolution was approved by the Minister for Health, Labour and Welfare and, as of March 31, 2019, the Fund is in the process of liquidation. No additional expenses are expected to arise from the dissolution of the Fund.

a. Defined Benefit Plan

(1) The changes in defined benefit obligations for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|--------|---------------------------|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year..... | ¥6,485 | ¥5,956 | \$58,428 |
| Current service cost..... | 990 | 898 | 8,919 |
| Interest cost..... | 28 | 25 | 251 |
| Actuarial losses..... | 83 | 42 | 751 |
| Benefits paid..... | (304) | (422) | (2,741) |
| Others..... | (24) | (14) | (214) |
| Balance at end of year..... | ¥7,258 | ¥6,485 | \$65,394 |

(2) The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|--------|---------------------------|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year..... | ¥1,607 | ¥1,446 | \$14,475 |
| Expected return on plan assets..... | 28 | 26 | 252 |
| Actuarial losses..... | (3) | (18) | (28) |
| Contributions from the employer..... | 269 | 253 | 2,430 |
| Benefits paid..... | (87) | (99) | (782) |
| Others..... | 18 | (1) | 160 |
| Balance at end of year..... | ¥1,832 | ¥1,607 | \$16,507 |

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018 was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2019 | 2018 | 2019 |
| Funded defined benefit obligations..... | ¥2,734 | ¥2,046 | \$24,630 |
| Plan assets..... | (1,832) | (1,607) | (16,507) |
| | 902 | 439 | 8,123 |
| Unfunded defined benefit obligations..... | 4,524 | 4,439 | 40,764 |
| Net liability for defined benefit obligations..... | ¥5,426 | ¥4,878 | \$48,887 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|--------|---------------------------|
| | 2019 | 2018 | 2019 |
| Liability for retirement benefits..... | ¥5,426 | ¥4,878 | \$48,887 |
| Net liability for defined benefit obligations..... | ¥5,426 | ¥4,878 | \$48,887 |

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|------|---------------------------|
| | 2019 | 2018 | 2019 |
| Service cost..... | ¥ 990 | ¥898 | \$8,919 |
| Interest cost..... | 28 | 25 | 251 |
| Expected return on plan assets..... | (28) | (26) | (252) |
| Recognized actuarial losses..... | 105 | 16 | 952 |
| Others..... | (2) | (12) | (19) |
| Net periodic benefit costs..... | ¥1,093 | ¥901 | \$9,851 |

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|-----------------|-------|---------------------------|
| | 2019 | 2018 | 2019 |
| Actuarial differences..... | ¥11 | ¥(37) | \$104 |
| Total..... | ¥11 | ¥(37) | \$104 |

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|------|---------------------------|
| | 2019 | 2018 | 2019 |
| Unrecognized actuarial differences..... | ¥114 | ¥125 | \$1,025 |
| Total..... | ¥114 | ¥125 | \$1,025 |

(7) Plan assets as of March 31, 2019 and 2018

(a) Components of plan assets

Plan assets consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------|-----------------|------|---------------------------|
| | 2019 | 2018 | 2019 |
| Cash and cash equivalents..... | 29% | 27% | |
| General accounts..... | 71 | 73 | |
| 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 current and expected assets allocation and long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2019 and 2018 were set forth as follows:

| | 2019 | 2018 |
|---|---------------|---------------|
| Discount rate..... | 0.32% – 0.50% | 0.35% – 0.50% |
| Expected rate of return on plan assets..... | 1.75% | 2.04% |

b. Multi-Employer Plan

For the years ended March 31, 2019 and 2018, there was no required amount of contribution paid to the Social Welfare Pension Fund under the multi-employer plan which is accounted for in the same way as the defined contribution plan.

As of March 31, 2019, the above-mentioned Fund is currently in the process of liquidation, after ordinary dissolution of the Fund was resolved at a meeting of its board members on August 4, 2014, and the dissolution was approved by the Minister for Health, Labour and Welfare on September 29, 2016.

c. Defined Contribution Plan

The amounts required to be contributed to the defined contribution plan are ¥225 million (\$2,027 thousand) and ¥189 million for the years ended March 31, 2019 and 2018, respectively.

7. EQUITY

The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting for companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, 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 Companies Act permits companies to distribute dividends-in-kind (non-cash 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.

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 an earned 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 the earned legal reserve and additional paid-in capital equals 25% of the common stock. The Companies Act also provides that common stock, an earned legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts 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 that 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.

8. STOCK OPTIONS

Information related to the stock options for the year ended March 31, 2019 is as follows:

| Stock Option | Persons Granted | Number of Options Granted | Date of Grant | Exercise Price | Exercise Period |
|-----------------------|-------------------------------|---------------------------|---------------|------------------|--|
| 2010 Stock Option (1) | 6 directors | 1,560,000 shares | 2010.7.2 | ¥609 (\$5.49) | From August 1, 2012 to July 31, 2018 |
| 2010 Stock Option (2) | 38 employees of the Group | 465,000 shares | 2010.7.2 | ¥609 (\$5.49) | From August 1, 2012 to July 31, 2018 |
| 2012 Stock Option (1) | 6 directors | 1,440,000 shares | 2012.7.3 | ¥631 (\$5.69) | From August 1, 2014 to July 31, 2021 |
| 2012 Stock Option (2) | 33 employees of the Group | 375,000 shares | 2012.7.3 | ¥631 (\$5.69) | From August 1, 2014 to July 31, 2021 |
| 2014 Stock Option (1) | 5 directors | 39,000 shares | 2014.11.7 | ¥ 1 (\$0.01) | From November 8, 2014 to November 7, 2044 |
| 2014 Stock Option (2) | 4 directors | 133,800 shares | 2014.11.7 | ¥ 1 (\$0.01) | From November 7, 2017 to November 6, 2024 |
| 2014 Stock Option (3) | 58 employees of the Group | 117,300 shares | 2014.11.7 | ¥ 1 (\$0.01) | From November 7, 2017 to November 6, 2024 |
| 2016 Stock Option (1) | 5 directors | 31,400 shares | 2016.2.25 | ¥ 1 (\$0.01) | From February 26, 2016 to February 25, 2046 |
| 2016 Stock Option (2) | 5 directors | 170,500 shares | 2016.2.25 | ¥ 1 (\$0.01) | From February 25, 2019 to February 24, 2026 |
| 2016 Stock Option (3) | 69 employees of the Group | 135,400 shares | 2016.2.25 | ¥ 1 (\$0.01) | From February 25, 2019 to February 24, 2026 |
| 2016 Stock Option (4) | 5 directors | 28,500 shares | 2016.10.3 | ¥ 1 (\$0.01) | From October 4, 2016 to October 3, 2046 |
| 2016 Stock Option (5) | 5 directors | 181,800 shares | 2016.10.3 | ¥ 1 (\$0.01) | From October 3, 2019 to October 2, 2026 |
| 2016 Stock Option (6) | 84 employees of the Group | 180,000 shares | 2016.10.3 | ¥ 1 (\$0.01) | From October 3, 2019 to October 2, 2026 |
| 2017 Stock Option (1) | 4 directors | 16,700 shares | 2017.10.6 | ¥ 1 (\$0.01) | From October 7, 2017 to October 6, 2047 |
| 2017 Stock Option (2) | 4 directors | 98,600 shares | 2017.10.6 | ¥ 1 (\$0.01) | From October 6, 2020 to October 5, 2027 |
| 2017 Stock Option (3) | 90 employees of the Group | 140,400 shares | 2017.11.6 | ¥ 1 (\$0.01) | From November 6, 2020 to November 5, 2027 |
| 2018 Stock Option (1) | 4 directors | 12,100 shares | 2018.7.6 | ¥ 1 (\$0.01) | From July 7, 2018 to July 6, 2048 |
| 2018 Stock Option (2) | 4 directors | 77,500 shares | 2018.7.6 | ¥ 1 (\$0.01) | From July 6, 2021 to July 5, 2028 |
| 2018 Stock Option (3) | 101 employees of the Group | 168,000 shares | 2018.11.2 | ¥ 1 (\$0.01) | From November 2, 2021 to November 1, 2028 |

(Note) The number of shares is adjusted to reflect a three-for-one stock split executed effective July 1, 2015.

Stock option activity is as follows:

| | 2010 Stock Option (1) | 2010 Stock Option (2) | 2012 Stock Option (1) | 2012 Stock Option (2) | 2014 Stock Option (1) | 2014 Stock Option (2) | 2014 Stock Option (3) | 2016 Stock Option (1) | 2016 Stock Option (2) | (Shares) |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------|
| For the Year Ended March 31, 2018 | | | | | | | | | | |
| Non-vested: | | | | | | | | | | |
| March 31, 2017—outstanding | | | | | | 133,800 | 108,300 | | | 170,500 |
| Granted..... | | | | | | | | | | |
| Canceled..... | | | | | | | | | | |
| Vested..... | | | | | | 133,800 | 108,300 | | | |
| March 31, 2018—outstanding | | | | | | | | | | 170,500 |
| Vested: | | | | | | | | | | |
| March 31, 2017—outstanding | 44,100 | 15,000 | 94,500 | 83,100 | 39,000 | | | | | 31,400 |
| Vested..... | | | | | | 133,800 | 108,300 | | | |
| Exercised | 32,100 | 9,000 | 18,900 | 27,000 | 8,700 | 116,100 | 35,700 | 6,800 | | |
| Canceled..... | | | | | | | | 6,900 | | |
| March 31, 2018—outstanding | 12,000 | 6,000 | 75,600 | 56,100 | 30,300 | 17,700 | 65,700 | 24,600 | | |
| For the Year Ended March 31, 2019 | | | | | | | | | | |
| Non-vested: | | | | | | | | | | |
| March 31, 2018—outstanding | | | | | | | | | | 170,500 |
| Granted..... | | | | | | | | | | |
| Canceled..... | | | | | | | | | | |
| Vested..... | | | | | | | | | | 170,500 |
| March 31, 2019—outstanding | | | | | | | | | | |
| Vested: | | | | | | | | | | |
| March 31, 2018—outstanding | 12,000 | 6,000 | 75,600 | 56,100 | 30,300 | 17,700 | 65,700 | 24,600 | | |
| Vested..... | | | | | | | | | | 170,500 |
| Exercised | 12,000 | 6,000 | 18,900 | 9,000 | 8,400 | | 10,500 | 6,500 | 131,800 | |
| Canceled..... | | | | | | | | | | |
| March 31, 2019—outstanding | | | 56,700 | 47,100 | 21,900 | 17,700 | 55,200 | 18,100 | 38,700 | |
| Yen (U.S. Dollars) | | | | | | | | | | |
| Exercise price..... | ¥609 (\$5.49) | ¥609 (\$5.49) | ¥631 (\$5.69) | ¥631 (\$5.69) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) |
| Fair value price at grant date..... | ¥110 (\$0.99) | ¥110 (\$0.99) | ¥141 (\$1.27) | ¥141 (\$1.27) | ¥1,172 (\$10.56) | ¥1,136 (\$10.24) | ¥1,136 (\$10.24) | ¥1,483 (\$13.36) | ¥1,428 (\$12.87) | |

| | 2016 Stock Option (3) | 2016 Stock Option (4) | 2016 Stock Option (5) | 2016 Stock Option (6) | 2017 Stock Option (1) | 2017 Stock Option (2) | 2017 Stock Option (3) | 2018 Stock Option (1) | 2018 Stock Option (2) | 2018 Stock Option (3) | (Shares) |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------|
| For the Year Ended March 31, 2018 | | | | | | | | | | | |
| Non-vested: | | | | | | | | | | | |
| March 31, 2017—outstanding... | 132,100 | | 181,800 | 176,900 | | | | | | | |
| Granted..... | | | | | 16,700 | 98,600 | 140,400 | | | | |
| Canceled..... | 14,600 | | | 16,600 | | | 3,100 | | | | |
| Vested..... | | | | | 16,700 | | | | | | |
| March 31, 2018—outstanding... | 117,500 | | 181,800 | 160,300 | | 98,600 | 137,300 | | | | |
| Vested: | | | | | | | | | | | |
| March 31, 2017—outstanding... | | 28,500 | | | | | | | | | |
| Vested..... | | | | | 16,700 | | | | | | |
| Exercised | | 5,400 | | | | | | | | | |
| Canceled..... | | | | | | | | | | | |
| March 31, 2018—outstanding... | | 23,100 | | | 16,700 | | | | | | |
| For the Year Ended March 31, 2019 | | | | | | | | | | | |
| Non-vested: | | | | | | | | | | | |
| March 31, 2018—outstanding... | 117,500 | | 181,800 | 160,300 | | 98,600 | 137,300 | | | | |
| Granted..... | | | | | | | | 12,100 | 77,500 | 168,000 | |
| Canceled..... | | | | 27,600 | | | 16,000 | | | 1,700 | |
| Vested..... | 117,500 | | | | | | | 12,100 | | | |
| March 31, 2019—outstanding... | | | 181,800 | 132,700 | | 98,600 | 121,300 | | 77,500 | 166,300 | |
| Vested: | | | | | | | | | | | |
| March 31, 2018—outstanding... | | 23,100 | | | 16,700 | | | | | | |
| Vested..... | 117,500 | | | | | | | 12,100 | | | |
| Exercised | 19,000 | 7,700 | | | 5,200 | | | | | | |
| Canceled..... | 8,600 | | | | | | | | | | |
| March 31, 2019—outstanding... | 89,900 | 15,400 | | | 11,500 | | | 12,100 | | | |
| Yen (U.S. Dollars) | | | | | | | | | | | |
| Exercise price..... | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) | ¥ 1 (\$0.01) |
| Fair value price at grant date..... | ¥1,428 (\$12.87) | ¥1,876 (\$16.90) | ¥1,809 (\$16.30) | ¥1,809 (\$16.30) | ¥2,786 (\$25.10) | ¥2,726 (\$24.56) | ¥3,073 (\$27.69) | ¥3,147 (\$28.35) | ¥3,126 (\$28.16) | ¥2,345 (\$21.13) | |

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The number of shares, exercise price and fair value price at grant date are adjusted to reflect the stock split.

The Assumptions Used to Measure Fair Value of Stock Options Granted for the Year Ended March 31, 2019

Resolved on June 21, 2018 (Granted on July 6, 2018)

| | |
|---|------------------------------------|
| Estimate method: | Black-Scholes option pricing model |
| Volatility of stock price: | 31.62% |
| Estimated remaining outstanding period: | 5.5 years |
| Estimated dividend: | ¥22.60 per share |
| Risk-free interest rate: | (0.10)% |

- Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from January 2013 to July 2018.
2. Estimated remaining outstanding period is a weighted average of the standard amount of stock option compensation corresponding to each position of directors, which are specified in the Stock Option Compensation Rule.
3. Estimated dividend is determined based on the actual dividend paid for the last full year.
4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

Resolved on June 21, 2018 (Granted on July 6, 2018)

| | |
|---|------------------------------------|
| Estimate method: | Black-Scholes option pricing model |
| Volatility of stock price: | 30.05% |
| Estimated remaining outstanding period: | 6.5 years |
| Estimated dividend: | ¥22.60 per share |
| Risk-free interest rate: | (0.08)% |

- Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from January 2012 to July 2018.
2. Estimated remaining outstanding period is the period from the start of estimation to the middle date of the exercise period.
3. Estimated dividend is determined based on the actual dividend paid for the last full year.
4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

Resolved on October 18, 2018 (Granted on November 2, 2018)

Estimate method: Black-Scholes option pricing model
Volatility of stock price: 31.93%
Estimated remaining outstanding period: 6.5 years
Estimated dividend: ¥21.29 per share
Risk-free interest rate: (0.03)%

Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from May 2012 to November 2018.

2. Estimated remaining outstanding period is the period from the start of estimation to the middle date of the exercise period.

3. Estimated dividend is determined based on the actual dividend paid for the last full year.

4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

The Assumptions Used to Measure the Number of Vested Stock Options

The Company uses only actual cancellations due to the difficulty in determining a reasonable assumption for measuring the number of future cancellations.

9. 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 approximately 30.6% for the year ended March 31, 2019 and approximately 30.9% for the year ended March 31, 2018.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2019 | 2018 | 2019 |
| Deferred tax assets: | | | |
| Devaluation of inventories..... | ¥ 929 | ¥1,108 | \$8,368 |
| Accrued enterprise tax..... | 151 | 270 | 1,358 |
| Provision for bonuses..... | 579 | 780 | 5,221 |
| Unrealized income..... | 472 | 356 | 4,257 |
| Liability for retirement benefits..... | 1,737 | 1,455 | 15,655 |
| Depreciation..... | 782 | 749 | 7,045 |
| Tax losses carried forward..... | 787 | 846 | 7,089 |
| Other—net..... | 1,585 | 1,616 | 14,277 |
| Subtotal..... | 7,022 | 7,180 | 63,270 |
| Valuation allowance on tax losses carried forward*..... | (733) | | (6,608) |
| Valuation allowance on total deductible temporary differences..... | (182) | | (1,635) |
| Subtotal..... | (915) | (929) | (8,243) |
| Deferred tax assets..... | 6,107 | 6,251 | 55,027 |
| Deferred tax liabilities: | | | |
| Reserve for advanced depreciation of property, plant and..... | (81) | (86) | (735) |
| Valuation of intangible assets..... | (1,274) | (1,329) | (11,475) |
| Other—net..... | (724) | (528) | (6,519) |
| Deferred tax liabilities..... | (2,079) | (1,943) | (18,729) |
| Net deferred tax assets..... | ¥4,028 | ¥4,308 | \$36,298 |

*Tax losses carried forward and associated deferred tax assets by expiration period:

| | Millions of Yen | | | | | | Total |
|----------------------------------|-------------------------|--------------------------------------|---|--|---|----------------------|-------|
| | Due in One Year or Less | Due after One Year through Two Years | Due after Two Years through Three Years | Due after Three Years through Four Years | Due after Four Years through Five Years | Due after Five Years | |
| Tax losses carried forward* | ¥ 107 | ¥ 165 | ¥ 135 | ¥ 132 | ¥ 31 | ¥ 217 | ¥ 787 |
| Valuation allowance..... | ¥(107) | (111) | ¥(135) | ¥(132) | ¥ (31) | ¥(217) | (733) |
| Deferred tax assets..... | | ¥ 54 | | | | | ¥ 54 |

*Tax losses carried forward are multiplied by the normal effective statutory tax rate.

| | Thousands of U.S. Dollars | | | | | | Total |
|----------------------------------|---------------------------|--------------------------------------|---|--|---|----------------------|----------|
| | Due in One Year or Less | Due after One Year through Two Years | Due after Two Years through Three Years | Due after Three Years through Four Years | Due after Four Years through Five Years | Due after Five Years | |
| Tax losses carried forward* | \$ 965 | \$ 1,481 | \$ 1,220 | \$ 1,190 | \$ 280 | \$ 1,953 | \$ 7,089 |
| Valuation allowance..... | \$(965) | (1,000) | \$(1,220) | \$(1,190) | \$(280) | \$(1,953) | (6,608) |
| Deferred tax assets..... | | \$ 481 | | | | | \$ 481 |

*Tax losses carried forward are multiplied by the normal effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2019 and 2018, is as follows:

| | 2019 | 2018 |
|--|-------|-------|
| Normal effective statutory tax rate..... | 30.6% | 30.9% |
| (Adjustments) | | |
| Directors' bonus expenses not deductible for income tax purposes..... | 0.0 | 0.2 |
| Entertainment and other expenses not deductible for income tax purposes..... | 0.1 | 0.2 |
| Inhabitants tax on per capita basis..... | 0.2 | 0.1 |
| Decrease in valuation allowance..... | (0.4) | (0.7) |
| Amortization of goodwill..... | | 1.0 |
| Difference in applicable tax rates for subsidiaries..... | (3.4) | (3.0) |
| Effect of change in statutory tax rate..... | | (2.1) |
| Tax credit..... | (2.7) | (0.3) |
| Other—net..... | (0.1) | (0.7) |
| Actual effective tax rate..... | 24.3% | 25.6% |

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,614 million (\$14,542 thousand), ¥1,845 million and ¥1,743 million for the years ended March 31, 2019, 2018 and 2017, respectively.

11. COMMITMENTS

The Group has entered into commitment agreements with three banks to raise working capital in a stable and flexible manner. Outstanding balance of unused credit line commitment agreements as of March 31, 2019 is as follows.

| | Millions of Yen | Thousands of U.S. Dollars |
|--------------------------|-----------------|---------------------------|
| | 2019 | 2019 |
| Credit lines..... | ¥15,000 | \$135,147 |
| Credit lines Used..... | | |
| Credit lines Unused..... | ¥15,000 | \$135,147 |

These agreements contain the following financial covenants relating to the financial position and operating results of the Group:

- (1) The amount of net assets at the end of each fiscal year shall not be less than 75% of net assets of the latest financial year,
- (2) The Group shall not record a loss* from ordinary operations for two consecutive years.

The benefit of time may be forfeited for all debts under the contracts, when the Group violates the financial covenant.

*Ordinary income or loss is calculated by subtracting extraordinary income or loss pursuant to Japanese GAAP from income before income taxes.

There are no applicable matters as of March 31, 2018.

12. LEASES

The Group leases certain machinery, computer and telecommunication equipment, office space and other assets.

The minimum rental commitments under non-cancelable operating leases at March 31, 2019 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------|-----------------|----------|---------------------------|
| | 2019 | 2019 | |
| Due within one year | ¥1,478 | \$13,316 | |
| Due after one year | 2,731 | 24,610 | |
| Total | ¥4,209 | \$37,926 | |

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group conducts planning and selling in its parts business, which consists of "FA," "Die Components," and "VONA." The capital investment plan for ongoing business is principally financed by the Group's funds. Temporary excess funds are operated by highly rated financial assets and it is our policy not to enter into derivative transactions for speculative purposes. Derivative transactions are only utilized to hedge foreign currency exchange rate fluctuation risk.

(2) Nature and extent of risks arising from financial instruments

Operating receivables such as trade notes and trade accounts are exposed to credit risk. Operating payables such as trade notes and trade accounts are due within one year. The Group operates its business globally and has receivables and payables denominated in foreign currencies that are exposed to foreign currency exchange rate fluctuation risk. The Group utilizes foreign currency forward contracts to hedge foreign currency exchange rate fluctuation risk of the net amount of receivables and payables denominated in foreign currencies.

(3) Risk management for financial instruments

(a) Credit risk (risk of default by counterparties) management

The Group follows sales management rules and the sales management department monitors customers' credit conditions periodically and manages the due date and balance of each customer. The Group keeps track of any adverse financial conditions of customers from an early stage to mitigate risk from bad debts. The Group enters into derivative transactions only with highly rated financial institutions to mitigate credit risk and the Company determined that there is no material credit risk. The maximum credit risk as of March 31, 2019 is represented by financial assets, which are exposed to credit risk on the balance sheet.

(b) Market risk (risk of foreign currency fluctuations and interest) management

Regarding the operating receivables and operating payables denominated in foreign currencies, the Group principally utilizes foreign currency forward contracts to hedge foreign currency fluctuation risk, which are monitored by each currency. Regarding investment securities, the Group regularly reviews the fair value and issuers' financial conditions and readjusts the Group's portfolio on an ongoing basis. For derivative transactions, the Group mainly deals in foreign currency forward contracts at present. The purpose of derivative transactions is limited to hedging actual demand of receivables and payables denominated in foreign currencies. The Group manages derivative risk by mutual supervision and review within the finance department.

(c) Liquidity risk (risk of default in payment at the due dates) management

The finance department prepares and updates its cash management plan periodically based on reports from each department and calculates the necessary amount on hand. The Group manages liquidity risk by maintaining the amount calculated by the finance department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on market prices and the value fluctuates according to the market. The contract amount regarding derivative transactions described in Note 14. DERIVATIVES does not indicate market risk related to derivative transactions.

(a) Fair value of financial instruments

Carrying amounts on the consolidated balance sheet, fair values and the differences between them for financial instruments as of March 31, 2019 and 2018 are as follows:

| | Millions of Yen | | |
|--|-----------------|------------|------------|
| | 2019 | | |
| | Carrying Amount | Fair Value | Difference |
| Cash and cash equivalents | ¥ 41,753 | ¥ 41,753 | |
| Time deposits | 8,931 | 8,931 | |
| Trade notes receivable | 12,211 | 12,211 | |
| Trade accounts receivable | 55,042 | 55,042 | |
| Trade notes payable and accounts payable | (18,219) | (18,219) | |
| Convertible bonds | | | |
| Derivatives, net | (76) | (76) | |

| | Millions of Yen | | |
|--|-----------------|------------|------------|
| | 2018 | | |
| | Carrying Amount | Fair Value | Difference |
| Cash and cash equivalents | ¥ 51,713 | ¥ 51,713 | |
| Time deposits | 13,790 | 13,790 | |
| Trade notes receivable | 11,936 | 11,936 | |
| Trade accounts receivable | 55,881 | 55,881 | |
| Trade notes payable and accounts payable | (19,524) | (19,524) | |
| Convertible bonds | (106) | (239) | ¥133 |
| Derivatives, net | 226 | 226 | |

| | Thousands of U.S. Dollars | | |
|--|---------------------------|------------|------------|
| | 2019 | | |
| | Carrying Amount | Fair Value | Difference |
| Cash and cash equivalents | \$376,191 | \$376,191 | |
| Time deposits | 80,463 | 80,463 | |
| Trade notes receivable | 110,023 | 110,023 | |
| Trade accounts receivable | 495,914 | 495,914 | |
| Trade notes payable and accounts payable | (164,146) | (164,146) | |
| Convertible bonds | | | |
| Derivatives, net | (682) | (682) | |

Financial instruments for which fair values cannot be reliably determined are excluded from the table above.

Valuation methods of fair values of financial instruments and information on derivatives are as follows:

Cash and cash equivalents, and time deposits

The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

Trade notes receivable and trade accounts receivable

The carrying values of trade notes receivable and trade accounts receivable approximate fair value because of their short maturities.

Trade notes payable and accounts payable

The carrying values of trade notes payable and trade accounts payable approximate fair value because of their short maturities.

Convertible bonds

Fair value is based on the price presented by counterparty financial institutions.

Derivatives

Please refer to Note 14. DERIVATIVES.

(b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2019 and 2018

| | Carrying Amount | | |
|-----------------------|-----------------|------|---------------------------|
| | Millions of Yen | 2018 | Thousands of U.S. Dollars |
| | 2019 | 2018 | 2019 |
| Unlisted stocks | ¥6 | ¥6 | \$56 |

(5) Maturity analysis for financial assets subsequent to March 31, 2019 and 2018

| | Millions of yen | | | |
|---------------------------------|-------------------------|---------------------------------------|--|---------------------|
| | 2019 | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and cash equivalents | ¥ 41,753 | | | |
| Time deposits | 8,931 | | | |
| Trade notes receivable | 12,211 | | | |
| Trade accounts receivable | 55,042 | | | |
| Total | ¥ 117,937 | | | |

| | Millions of yen | | | |
|---------------------------------|----------------------------|---|--|------------------------|
| | 2018 | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and cash equivalents..... | ¥ 51,713 | | | |
| Time deposits..... | 13,790 | | | |
| Trade notes receivable..... | 11,936 | | | |
| Trade accounts receivable | 55,881 | | | |
| Total | ¥ 133,320 | | | |

| | Thousands of U.S. Dollars | | | |
|---------------------------------|----------------------------|---|--|------------------------|
| | 2019 | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and cash equivalents..... | \$ 376,191 | | | |
| Time deposits..... | 80,463 | | | |
| Trade notes receivable..... | 110,023 | | | |
| Trade accounts receivable | 495,914 | | | |
| Total | \$1,062,591 | | | |

(6) Redemption amounts of bonds subsequent to March 31, 2019 and 2018

As of March 31, 2019, there were no bonds outstanding.

| | Millions of yen | | | |
|-------------------------|----------------------------|---|--|------------------------|
| | 2018 | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Convertible bonds | ¥106 | | | |

14. DERIVATIVES

Derivative transactions to which hedge accounting is not applied at March 31, 2019 and 2018 are as follows:

| | Millions of Yen | | | |
|-------------------------------------|--------------------|--|---------------|--------------------------|
| | 2019 | | | |
| | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain /Loss |
| Foreign currency forward contracts: | | | | |
| Buying | ¥ 1,635 | | ¥ (20) | ¥ (20) |
| Selling..... | ¥ 3,072 | | ¥ (35) | ¥ (35) |
| Non-deliverable forward contracts: | | | | |
| Selling..... | ¥ 173 | | ¥ (21) | ¥ (21) |

| | Millions of Yen | | | |
|-------------------------------------|--------------------|--|------------|--------------------------|
| | 2018 | | | |
| | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain /Loss |
| Foreign currency forward contracts: | | | | |
| Buying | ¥ 3,751 | | ¥ (30) | ¥ (30) |
| Selling..... | ¥ 7,648 | | ¥ 256 | ¥ 256 |

| | Thousands of U.S. Dollars | | | |
|-------------------------------------|---------------------------|--|----------------|--------------------------|
| | 2019 | | | |
| | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain /Loss |
| Foreign currency forward contracts: | | | | |
| Buying | \$14,735 | | \$(180) | \$(180) |
| Selling..... | \$27,680 | | \$(316) | \$(316) |
| Non-deliverable forward contracts: | | | | |
| Selling..... | \$ 1,558 | | \$(186) | \$(186) |

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

15. COMPREHENSIVE INCOME

Reclassifications and income from tax effects attributable to other comprehensive income for the years ended March 31, 2019, 2018 and 2017 were as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|------|----------|------------------------------|
| | 2019 | 2018 | 2017 | 2019 |
| Unrealized gain (loss) on available-for-sale securities: | | | | |
| Gains (losses) arising during the year..... | | | ¥ (3) | |
| Reclassification adjustments to profit or loss | | | 15 | |
| Amount before income tax effect..... | | | 12 | |
| Income tax effect..... | | | (6) | |
| Total | | | 6 | |
| Foreign currency translation adjustments: | | | | |
| Adjustments arising during the year..... | ¥(105) | ¥545 | (2,226) | \$(951) |
| Reclassification adjustments to profit or loss | | (99) | | |
| Amount before income tax effect..... | (105) | 446 | (2,226) | (951) |
| Income tax effect..... | | | | |
| Total | (105) | 446 | (2,226) | (951) |
| Defined retirement benefit plans: | | | | |
| Adjustments arising during the year..... | (12) | (62) | (5) | (106) |
| Reclassification adjustments to profit and loss | 23 | 25 | 28 | 210 |
| Amount before income tax effect..... | 11 | (37) | 23 | 104 |
| Income tax effect..... | (4) | 11 | (8) | (37) |
| Total | 7 | (26) | 15 | 67 |
| Share of other comprehensive income (loss) in associates | | | | |
| Adjustments arising during the year..... | (12) | 8 | (11) | (105) |
| Total other comprehensive income (loss) | ¥(110) | ¥428 | ¥(2,216) | \$(989) |

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS"), for the years ended March 31, 2019, 2018 and 2017 is as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|-------------------------|---------------|---------------|
| | Net Income Attributable to Owners of the Parent | Weighted-Average Shares | EPS | |
| Year ended March 31, 2019 | | | | |
| Basic EPS— | | | | |
| Net income available to common shareholders | ¥24,034 | 283,426 | ¥84.80 | \$0.76 |
| Effect of dilutive securities— | | | | |
| Stock options | | 1,086 | | |
| Diluted EPS— | | | | |
| Net income for computation..... | ¥24,034 | 284,512 | ¥84.48 | \$0.76 |
| Year ended March 31, 2018 | | | | |
| Basic EPS— | | | | |
| Net income available to common shareholders | ¥25,602 | 281,294 | ¥91.01 | |
| Effect of dilutive securities— | | | | |
| Stock options | | 967 | | |
| Convertible bonds..... | (78) | 2,083 | | |
| Diluted EPS— | | | | |
| Net income for computation..... | ¥25,524 | 284,344 | ¥89.76 | |
| Year ended March 31, 2017 | | | | |
| Basic EPS— | | | | |
| Net income available to common shareholders | ¥18,387 | 274,692 | ¥66.94 | |
| Effect of dilutive securities— | | | | |
| Stock options | | 870 | | |
| Convertible bonds..... | (32) | 8,157 | | |
| Diluted EPS— | | | | |
| Net income for computation..... | ¥18,355 | 283,719 | ¥64.70 | |

17. RELATED PARTY TRANSACTIONS

There were no related party transactions for the year ended March 31, 2019.

Related party transactions between the Company and related parties for the year ended March 31, 2018 were as follows:

| 2018 | | | | | |
|--------------|-----------------|-------------------------|----------------------------------|---------------------------------|---------------------------|
| Category | Name | Occupation | Ownership (Owned) Percentage (%) | Details of Transaction | Amount Millions of Yen |
| Board member | Tokuya Ikeguchi | Director of the Company | (Owned) Direct 0.05 | Exercise of stock option (Note) | ¥20 |

(Note) Decision policy on terms and conditions
Exercise of stock option is based on the contracts when vested.

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2019, 2018 and 2017, the difference between exchange receipts and payments from loans to foreign subsidiaries of ¥59 million (\$529 thousand), ¥(501) million, and ¥2,915 million, respectively, are included in "Other—net" of INVESTING ACTIVITIES.

Significant non-cash transactions resulting from exercise of stock acquisition rights attached to convertible bonds for the years ended March 31, 2019 and 2018 are as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|-----------------|---------------------------|
| | 2019 | 2019 |
| Increase in capital from exercise of stock acquisition rights..... | ¥ 56 | \$ 505 |
| Increase in earned legal reserve from exercise of stock acquisition rights..... | 56 | 505 |
| Decrease in convertible bonds from exercise of stock acquisition rights..... | ¥112 | \$1,010 |

19. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2019 was approved at the shareholders meeting held on June 13, 2019:

| | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Year-end cash dividends, ¥10.99 (\$0.10) per share | ¥3,117 | \$28,084 |

20. SEGMENT INFORMATION

(1) Description of reportable segments

Reportable segments are parts of the Group whose financial data can be obtained separately. The Board of Directors reviews the financial data periodically to evaluate earnings and determine how to allocate business resources.

The Group consists of MISUMI Group Inc., 45 consolidated subsidiaries, one non-consolidated subsidiary and two associates, and conducts business in the following three areas: "FA Business," "Die Components Business" and "VONA Business."

"FA Business" develops and provides standard components that help streamline production and save labor costs in a production system such as factory automation as well as auto locating modules for high-precision production equipment. Various optics research and experimental equipment and components for production equipment, which change due to digitalization of electronic devices, are also developed and offered.

"Die Components Business" serves the automotive, electronics, and electrical machinery industries by developing and supplying standardized die components for metal presses and plastic injection molding applications and precision die components.

"VONA Business" provides third-party brands alongside original MISUMI-branded products mainly through online sales. It provides indirect materials or MRO (consumables) as well as production equipment.

(2) Method of measurement for the amounts of sales and profit (loss) for each reportable segment

The accounting policies of the reportable segments are the same as those described in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Income by reportable segment is based on operating income.

(3) Net sales and Segment profit by reportable segment

| | Millions of Yen | | | | | |
|---|-------------------------|----------------|-----------------|-----------------|-------------|-----------------|
| | 2019 | | | | | |
| | Reportable Segments | | | | Adjustments | Consolidated |
| FA Business | Die Components Business | VONA Business | Total | | | |
| Net sales: | | | | | | |
| Sales to customers..... | ¥109,231 | ¥76,443 | ¥146,262 | ¥331,936 | | ¥331,936 |
| Total | 109,231 | 76,443 | 146,262 | 331,936 | | 331,936 |
| Segment profit..... | 18,836 | 6,110 | 6,929 | 31,875 | | 31,875 |
| Segment profit before amortization of goodwill* ... | ¥ 18,836 | ¥ 6,725 | ¥ 6,929 | ¥ 32,490 | | ¥ 32,490 |

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

| | Millions of Yen | | | | | |
|---|-------------------------|---------------|----------|----------|-------------|--------------|
| | 2018 | | | | | |
| | Reportable Segments | | | | Adjustments | Consolidated |
| FA Business | Die Components Business | VONA Business | Total | | | |
| Net sales: | | | | | | |
| Sales to customers..... | ¥105,184 | ¥76,523 | ¥131,262 | ¥312,969 | | ¥312,969 |
| Total | 105,184 | 76,523 | 131,262 | 312,969 | | 312,969 |
| Segment profit..... | 20,172 | 5,870 | 9,010 | 35,052 | ¥(203) | 34,849 |
| Segment profit before amortization of goodwill* ... | ¥ 20,172 | ¥ 7,487 | ¥ 9,010 | ¥ 36,669 | ¥(203) | ¥ 36,466 |

*Amortization of goodwill and other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

| Millions of Yen | | | | | | |
|---|-------------------------|---------------|----------|-------------|--------------|----------|
| 2017 | | | | | | |
| Reportable Segments | | | | | | |
| FA Business | Die Components Business | VONA Business | Total | Adjustments | Consolidated | |
| Net sales: | | | | | | |
| Sales to customers..... | ¥84,669 | ¥69,798 | ¥104,549 | ¥259,016 | | ¥259,016 |
| Total | 84,669 | 69,798 | 104,549 | 259,016 | | 259,016 |
| Segment profit..... | 14,418 | 3,097 | 9,950 | 27,465 | ¥(338) | 27,127 |
| Segment profit before amortization of goodwill* ... | ¥14,418 | ¥ 5,392 | ¥ 9,950 | ¥ 29,760 | ¥(338) | ¥ 29,422 |

*Amortization of goodwill and other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

| Thousands of U.S. Dollars | | | | | | |
|---|-------------------------|------------------|--------------------|--------------------|--------------|--------------------|
| 2019 | | | | | | |
| Reportable Segments | | | | | | |
| FA Business | Die Components Business | VONA Business | Total | Adjustments | Consolidated | |
| Net sales: | | | | | | |
| Sales to customers..... | \$984,151 | \$688,738 | \$1,317,799 | \$2,990,688 | | \$2,990,688 |
| Total | 984,151 | 688,738 | 1,317,799 | 2,990,688 | | 2,990,688 |
| Segment profit..... | 169,705 | 55,049 | 62,430 | 287,184 | | 287,184 |
| Segment profit before amortization of goodwill* ... | \$169,705 | \$ 60,594 | \$ 62,430 | \$ 292,729 | | \$ 292,729 |

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.

(4) Details of adjustments

| Operating income | | | | |
|---|----------------|---------|---------|---------------------------|
| Millions of Yen | | | | Thousands of U.S. Dollars |
| | 2019 | 2018 | 2017 | 2019 |
| Total of reportable segments..... | ¥31,875 | ¥35,052 | ¥27,465 | \$287,184 |
| Other..... | | (203) | (338) | |
| Operating income in consolidated statement of income..... | ¥31,875 | ¥34,849 | ¥27,127 | \$287,184 |

(5) Information by region

| Millions of Yen | | | | | | | |
|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|----------------|------------------|
| 2019 | | | | | | | |
| | Japan | China | Asia | America | Europe | Others | Total |
| Net Sales..... | ¥ 176,127 | ¥ 56,838 | ¥ 47,849 | ¥ 28,236 | ¥ 17,256 | ¥ 5,630 | ¥ 331,936 |

| Millions of Yen | | | | | | | |
|-----------------|-----------|----------|----------|----------|----------|---------|-----------|
| 2018 | | | | | | | |
| | Japan | China | Asia | America | Europe | Others | Total |
| Net Sales..... | ¥ 166,440 | ¥ 56,872 | ¥ 42,316 | ¥ 26,986 | ¥ 15,490 | ¥ 4,865 | ¥ 312,969 |

| Thousands of U.S. Dollars | | | | | | | |
|---------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| 2019 | | | | | | | |
| | Japan | China | Asia | America | Europe | Others | Total |
| Net Sales..... | \$1,586,877 | \$512,096 | \$431,112 | \$254,403 | \$155,472 | \$ 50,728 | \$2,990,688 |

| Millions of Yen | | | | | | |
|------------------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|
| 2019 | | | | | | |
| | Japan | China | Vietnam | America | Others | Total |
| Property, plant and equipment..... | ¥ 14,368 | ¥ 7,890 | ¥ 8,440 | ¥ 3,263 | ¥ 3,676 | ¥ 37,637 |

| Millions of Yen | | | | | | |
|------------------------------------|----------|---------|---------|---------|---------|----------|
| 2018 | | | | | | |
| | Japan | China | Vietnam | America | Others | Total |
| Property, plant and equipment..... | ¥ 11,262 | ¥ 7,482 | ¥ 6,253 | ¥ 2,605 | ¥ 2,112 | ¥ 29,714 |

| Thousands of U.S. Dollars | | | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| 2019 | | | | | | |
| | Japan | China | Vietnam | America | Others | Total |
| Property, plant and equipment..... | \$129,453 | \$ 71,086 | \$ 76,045 | \$ 29,403 | \$ 33,116 | \$ 339,103 |

(6) Impairment losses by reportable segment

There are no applicable matters for the years ended March 31, 2019 and 2017.

For the year ended March 31, 2018, impairment loss was not allocated to reportable segments. The amount of impairment loss was ¥261 million.

(7) Goodwill by reportable segment

There are no applicable matters for the year ended March 31, 2019.

| Millions of Yen | | |
|--|-------------------------|--------|
| 2018 | | |
| | Reportable Segment | Total |
| | Die Components Business | |
| Amortization for the year ended March 31, 2018 | ¥1,000 | ¥1,000 |
| Balance as of March 31, 2018..... | | |

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of MISUMI Group Inc.:

We have audited the accompanying consolidated balance sheet of MISUMI Group Inc. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MISUMI Group Inc. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 13, 2019

Company Profile and Stock Information

(As of March 31, 2019)

Company Overview

| | | | |
|--------------|---|--------------------------------------|---|
| Trade name | MISUMI Group Inc. | Stock listing | First Section of the Tokyo Stock Exchange (Code: 9962) |
| Established | February 23, 1963 | Fiscal year | From April 1 through March 31 of the following calendar year |
| Headquarters | Iidabashi First Building, 5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8583, Japan | Annual general shareholders' meeting | June |
| Common stock | 13,023 million yen | Description of business | Development of Group management strategies, administration, and all functions related to Group management |
| | | Website | https://www.misumi.co.jp/english/ |

Stock Information

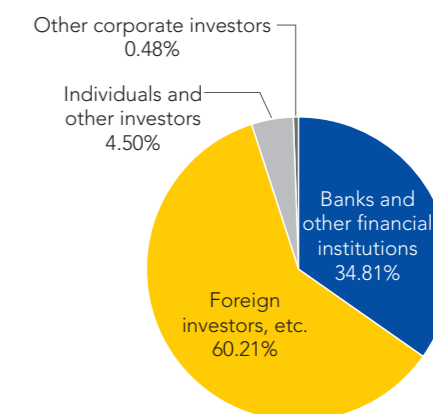
| | |
|-----------------------------------|----------------------|
| Total number of authorized shares | 1,020,000,000 shares |
| Total number of issued shares | 283,756,497 shares |
| Number of shareholders | 6,073 |

Major Shareholders

| Name | Number of shares held (thousands) | Percentage of shares outstanding (%) |
|--|-----------------------------------|--------------------------------------|
| Japan Trustee Services Bank, Ltd. | 46,854 | 16.51 |
| The Master Trust Bank of Japan, Ltd. | 26,767 | 9.43 |
| SSBTC CLIENT OMNIBUS ACCOUNT | 14,224 | 5.01 |
| Trust & Custody Services Bank, Ltd. (as trustee for Mizuho Bank Ltd. Retirement Benefit Trusts Account re-entrusted by Mizuho Trust and Banking Co., Ltd.) | 10,678 | 3.76 |
| JP MORGAN CHASE BANK 380055 | 8,296 | 2.92 |
| RBC IST 15 PCT LENDING ACCOUNT | 6,776 | 2.39 |
| BBH FOR MATTHEWS ASIA DIVIDEND FUND | 5,869 | 2.07 |
| THE BANK OF NEW YORK MELLON 140044 | 5,803 | 2.05 |
| STATE STREET BANK AND TRUST COMPANY 505223 | 5,195 | 1.83 |
| THE BANK OF NEW YORK MELLON 140051 | 4,978 | 1.75 |

Note: Percentages of shares outstanding are rounded to the second decimal place.

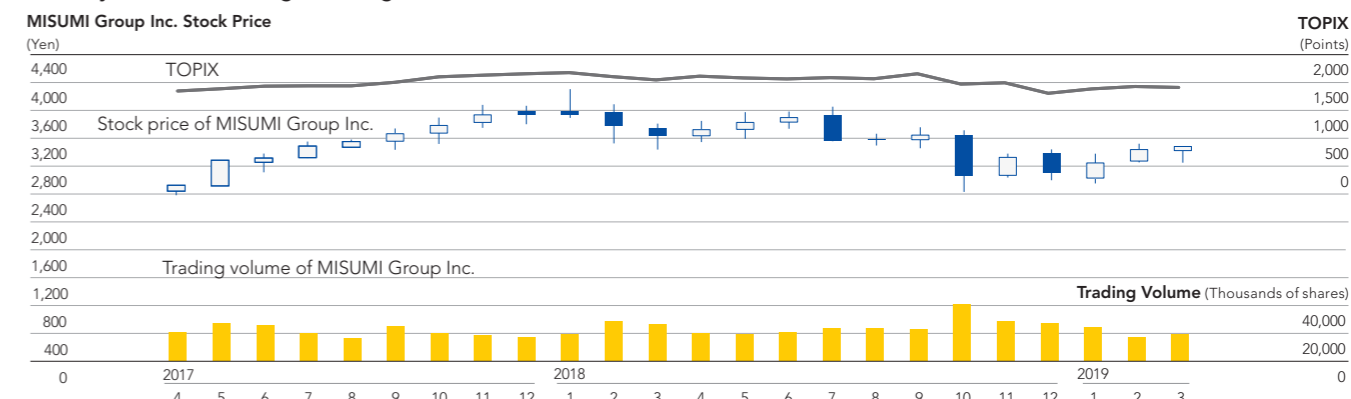
Composition of Shareholders



Stock Splits

| Date | Before | After |
|---------------|--------|-------|
| May 1994 | 1 | 1.2 |
| May 1995 | 1 | 1.1 |
| May 1996 | 1 | 1.1 |
| November 1997 | 1 | 1.1 |
| May 2000 | 1 | 1.1 |
| August 2001 | 1 | 1.1 |
| May 2004 | 1 | 1.5 |
| April 2006 | 1 | 2.0 |
| July 2015 | 1 | 3.0 |

Monthly Stock Price Range/Trading Volume



Please direct any inquiries to: MISUMI Group Inc. Corporate Relations Department | Tel: +81-3-5805-7037 | E-mail: cc@misumi.co.jp