



**Sodick**

**Sodick Co., Ltd.**

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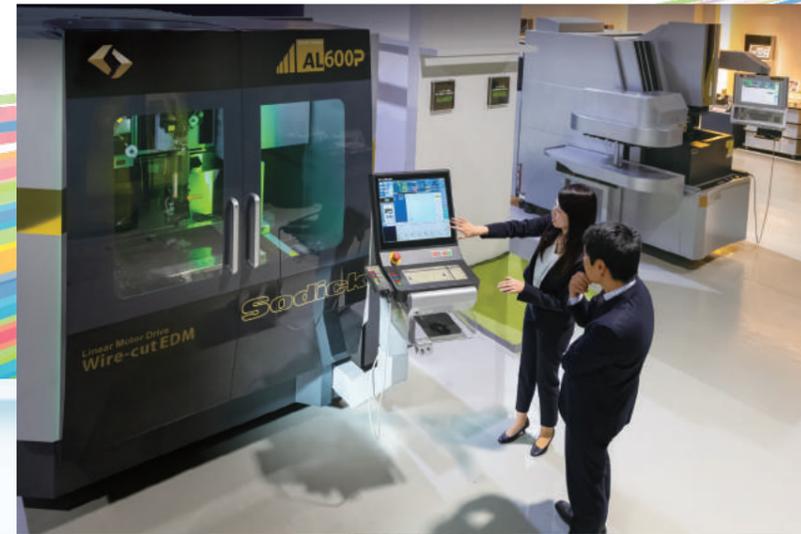
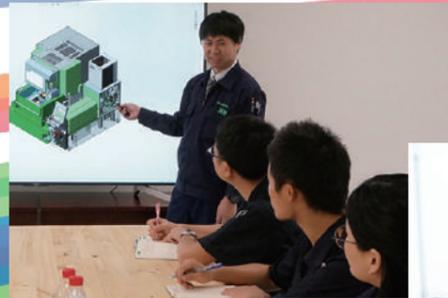
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# Integrated Report 2019

## We create it if it does not exist

“We create it if it does not exist”—this is Sodick’s development philosophy. Since our founding in 1976, Sodick has consistently listened to its customers and contributed to manufacturing while overcoming various challenges.

This development philosophy is still reflected in our business today, and we continue to boldly set ourselves the challenge of developing unique technologies and products in new fields.



**Company Motto**

“Create”  
“Implement”  
and  
“Overcome Difficulties”

**“We create it if it does not exist”**

Sodick is a pioneer in the field of numerical control (NC) electrical discharge machines (EDMs). Since our founding, we have dramatically enhanced processing precision through research into electrical discharge control and the development of NC units, thereby contributing to manufacturing worldwide.

Our company motto is “Create, Implement, and Overcome Difficulties,” and our company name Sodick also derives from combining the phonetics of the Japanese words for “Create” (sōzo), “Implement” (jikkō) and “Overcome Difficulties” (kūro kokufuku). It encapsulates our deeply held philosophy of “creating” new things, turning these into reality through “implementation,” and through a process of “overcoming difficulties,” contributing to our customers’ manufacturing operations. Our mission is to create machinery that our customers love to use. By consistently putting our motto into practice, we further enhance our own technologies and develop them for application in new product groups, thereby contributing to society via manufacturing.

**Our New S-WING Logo**

Our new logo “S-WING” features wings spreading to both sides, centered on the letter “S” for “Sodick” in the middle. The wings symbolize our multifaceted development for future generations, and are representative of how Sodick has spread to reach every corner of the world.

In establishing this new logo, our thinking was that new wings would be needed to ensure even greater growth and further strides forward for the Company as we look ahead to the future of manufacturing in 10 or 50 years’ time, while at the same time passing on our strengths to the next generation.



**Editorial Policy**

The Sodick Group discloses information in accordance with the needs of our stakeholders. This report offers operating and financial information, while also providing an annual report in a manner designed to supplement the non-financial information needed for an understanding of the Company. We also provide up-to-date information on our website.

**Report Period**

This report covers performance for the fiscal year ended December 2019. Some of the content included herein dates from immediately before or after the period in question.

**Report Scope**

Sodick Co., Ltd. and its consolidated subsidiaries.

**Changes to Our Accounting Period**

From FY2017, we changed our accounting period so that instead of ending on March 31, it now ends on December 31. Consequently, the fiscal year ended December 2017 was a transitional period of changeover to the new accounting period, making it an irregular settlement period: the applicable period for consolidation was nine months (April 1 – December 31, 2017) in the case of Sodick, its consolidated subsidiaries and equity-method affiliates whose accounts are settled in March; and 12 months (January 1 – December 31, 2017) for consolidated subsidiaries whose accounts are settled in December. The consolidated subsidiaries that settle their accounts in December comprise seven consolidated subsidiaries in China.

**Precautions concerning Forecasts**

The current plans, strategies, etc. of Sodick and the Sodick Group described in this report that are not based on historical fact are merely future forecasts, and contain elements of risk and uncertainty. Please be aware that actual performance may differ significantly from these forecasts for a variety of reasons.

There are a number of important factors that could potentially affect our performance. These include the economic climate surrounding the business fields of Sodick and the Sodick Group in Japan, the Americas, Europe, Asia, Greater China, and other regions; downward pressure on prices due to changes in demand for Sodick’s products and services and intensifying competition; our ability to continue to provide products and services that are well-received by customers in markets where competition is intense; fluctuating exchange rates; and an increase in global pandemics. Factors that could potentially affect our performance are not limited to those mentioned here.

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# Pursuing the development of precision metal molds and machining equipment as a foundation for manufacturing

**1976**  
**Founding**

**1976**  
**Development of EDMs**

Developed the world's first NC die-sinker EDM with a microcomputer

**1981**  
Developed an NC wire-cut EDM

**1989**  
**First foray into the industrial machinery business**

Developed and began selling injection molding machines using our proprietary V-LINE® System

**1989**  
Started in-house production of ceramics

**1998**  
World's first EDM equipped with a linear motor

**1997**  
Developed a machining center

**2005**  
Developed world's first nano-machining center employing a unique vibration control mechanism

**2006**  
Released an original recycling-compatible electrode wire

**2007**  
**First foray into the food processing machinery business**

Developed a noodle-making machine

**2007**  
Developed a high-speed milling center driven by linear motor

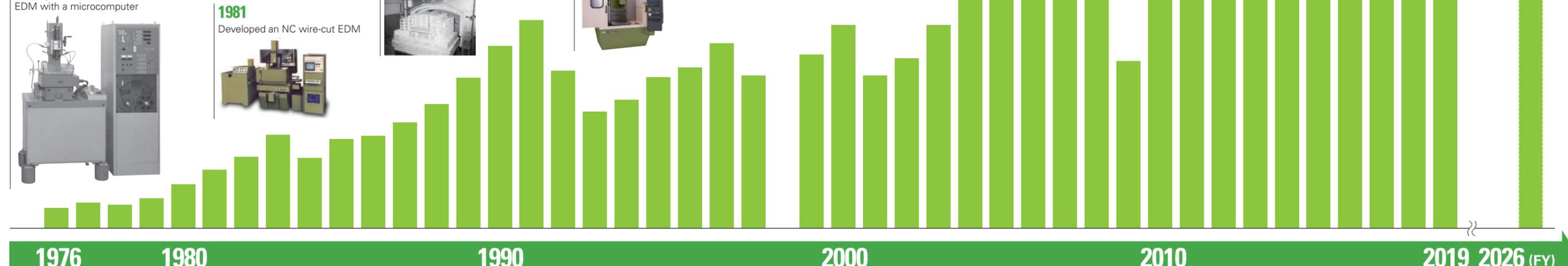
**2010**  
Entered the LED sector

**2014**  
**Developed a metal 3D printer**

**2016**  
Developed world's first aluminum alloy injection molding machine

**2017**  
Developed a packed cooked rice production system

**2018**  
**Kaga multi-factory completed**



**From 1976 Genesis – Breakthrough**

**Founding of Sodick. World's first NC die-sinker EDM developed and structure for mass-production established**

Sodick was founded in August 1976. When our founder Toshihiko Furukawa left a machine tool manufacturer and established Sodick, initially there were just 24 employees, but their approach of doing whatever it took to solve their customers' challenges drummed up business and allowed them to get started off on the right foot. In December 1976, Sodick developed and delivered the world's first NC die-sinker EDM equipped with a microcomputer, and in March of the following year, released the GPC series of power units for NC die-sinker EDMs. In 1980, Sodick constructed its own factory in Fukui, Japan, developing and releasing one EDM after another and outpacing its rivals. Just ten years after its founding, Sodick became the first EDM manufacturer to list on the Second Section of the Tokyo Stock Exchange.

**From 1988 Overseas Expansion**

**Promoting globalization of development, production and sales in five regions worldwide, beginning with Thailand**

To address sharp yen appreciation following the Plaza Accord and rising demand overseas, in 1988, Sodick established its first overseas factory, based in Thailand. This now operates as our main factory and forms the central core of the group. In China, Sodick established a software company in 1991 through joint investments with Shanghai Jiao Tong University and Shanghai City, and in 1994, we established a factory in Suzhou. In 2006, we established a factory in Xiamen, further expanding our production structure, and we have also established sales centers in Singapore, Shanghai, Taiwan, and Hong Kong. In the West, we have deployed sales centers to serve as footholds for exhibiting at international trade fairs, and we have expanded our sales channels.

**Era of Product Expansion**

**Ongoing development of injection molding machines and metal 3D printers to support future manufacturing**

In Japan, we began to take on new product challenges. Drawing on the features of EDMs, which are comprised of a broad range of technologies including electrical, magnetic, chemical, precision measurement technology, and software, Sodick developed ceramics and linear motors in-house. We also started developing and selling consumable goods. In 1989, Sodick advanced into the field of injection molding machines, embodying our philosophy of "resolving customer issues and contributing to manufacturing." Since the 2000s, we have continued to develop and release a string of products including nano-machines, NC devices equipped with 3D CAD-CAM functionality, electron beam machines, nano-EDMs, and more that put original in-house technologies such as our linear motors, ceramics, and numerical control to practical use. In recent years, we have made forays into the food processing machinery industry and metal 3D printer field, and were listed on the First Section of the Tokyo Stock Exchange in 2015. In 2018, we completed construction of a multi-factory in the Kaga Office.

**To 2026 Promoting a Sustainability Strategy**

**Formulating Sodick's long-term management plan "Next Stage 2026 ~Toward Further Growth~"**

In 2019, Sodick drew up a long-term management plan, marking 50 years since our founding: "Next Stage 2026 ~Toward Further Growth ~." With this plan, we are aiming for medium-to-long-term sustainable growth in a way that addresses the changes in global society which impact our business. Its goal is to overcome the capital and labor-related business challenges facing machine tool manufacturers, where previously the future outlook has been assessed over a relatively short timeframe. Based on quantitative targets of 125 billion yen in sales and 17 billion yen in operating income by FY2026, we have established policies targeting portfolio reform and stronger governance, capital policy and working style reform, and organizational reform, and we are promoting business activities with the aim of achieving these targets.

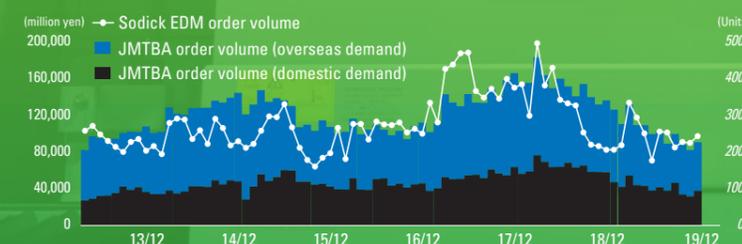


Sodick's Strengths 1 | Superiority of core business

## A quest for high-precision processing Further boosting market share with our industry-leading EDMs as the earnings driver



Trend in Sodick EDM order volume and JMTBA machine tool order volume



Amid a trend toward increased precision and miniaturization in manufacturing, and the development of smaller, more lightweight and tougher products, Sodick's high-performance EDMs have seen rising demand over a long period.

### Aiming for ever greater precision in an untiring spirit of development

Sodick's origins lie in the pioneering spirit of our founder Toshihiko Furukawa, who invented products including nonconsumable electrode circuits. By dramatically enhancing mold machining precision, he alerted the industry to the benefits of EDMs. Sodick inherited this corporate DNA and developed the world's first NC die-sinker EDM equipped with a microcomputer. As a pioneer of NC EDMs, Sodick has also developed core materials in-house, such as ceramics and linear motors, and has now established its position as the EDM manufacturer with the leading global market share. In recent years, there has been growing interest in Sodick's products, which make it possible to produce molds of even greater precision. Such molds are performing an essential role in the shift to electric vehicles and support for CASE (Connected, Autonomous, Shared & Service, and Electric), as well as in the semiconductors and electronic components used in the era of IoT and 5G.



### Ability to generate added value and cut costs through in-house production and customization

Ever since its founding, Sodick has put its business philosophy into practice, based on the concept: "We create it if it does not exist." For example, we have produced the hardware for EDMs in-house, such as linear motors that enable high-speed, high-precision movement with low energy consumption, ceramic-made high-rigidity mechanical structural components, and motion controllers. We have also carried out in-house production of the software for NC units – the key to ultra-high-precision and ultra-high-quality machining with high level responsiveness. For injection molding machines, we have developed proprietary technologies including a direct pressure mold clamping system called the V-LINE® System that enables stable injection volume, and a hybrid system that combines hydraulics with electric motors. By promoting product differentiation, enhancing cost performance and customizability, we are further raising customer satisfaction.



### Sodick's presence and competitive edge in "manufacturing powerhouse" China

In China, Sodick has built a product development, production and sales structure tailored to local requirements, establishing a sales base in Shanghai in 1991, a manufacturing plant in Suzhou in 1994, a development base in Shanghai in 2003, and a manufacturing plant in Xiamen in 2006. By forging a presence in the Chinese market ahead of our competitors, we were able to establish Sodick's brand value, so that Sodick became synonymous with high-precision EDMs. China's mold and die industry has seen remarkable growth since the 2000s, and Sodick has secured a share of the market exceeding 40%. The number of technicians who are skilled in utilizing Sodick products has also increased in line with the large volume of Sodick machines in operation. We have developed a regional network of sales, service and maintenance offices in Taiwan, Hong Kong and Shanghai. And alongside this, we are capturing demand in the Chinese market for high-precision equipment, which is being driven by increased sophistication in manufacturing and rising automation requirements. We are indeed at the threshold of a new growth phases.

### Helping to save labor and enhance efficiency in manufacturing through process automation

At Sodick, we are utilizing our proprietary technologies to develop systems capable of automating the various electrical discharge processes. The use, for example, of robots that automatically change electrodes and software that automatically inputs the machining coordinates results in a wide range of benefits, such as greater production efficiency through the saving of labor and improved quality stability.





Sodick's Strengths 2 | Total Manufacturing Solution

EDMs as a primary source of earnings —

## Helping customers to generate greater value with products that provide total manufacturing support

### Outstanding stability with V-LINE®

Injection molding machines are used across a wide range of fields, including automotive, IT, and medical equipment. In recent years, demand has grown particularly in the high-end market where ultra-high-precision machining is required. To meet these requirements, Sodick's proprietary V-LINE® injection molding machines ensure that a measured, uniform resin volume is injected into the mold. This enables favorable yields and stable molding without variance, and Sodick's products have been widely praised for their use in difficult-to-mold applications, including smartphone lenses and connectors, and components in automotive mechanisms.



### Expanded lineup of injection molding machines to support light metals and new materials

Since developing the industry's first magnesium alloy injection molding machine in 2002, Sodick has gone on to develop a wide range of injection molding machines that support new materials such as carbon-fiber and glass-fiber reinforced plastics, aluminum, as well as silicon. The ALM450, the world's first high-quality aluminum alloy injection molding machine, employs Sodick's unique V-LINE® Direct Casting system. It has established a revolutionary manufacturing method that makes it possible to replace materials with aluminum alloy, resolving the issues faced by conventional die-cast manufacturing. Its unique mechanism enables injection into the mold without the entrainment of air, facilitating even higher quality molding of automotive parts as well as smartphones and other components.



### Core products



Die-sinker EDM



Injection molding machine units



Metal 3D printers



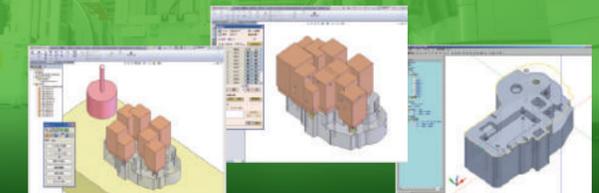
Wire-cut EDM



Noodle-making machine



Sterile-packed cooked rice production line



CAD-CAM

### Metal molds and component machining using metal 3D printers

Metal 3D printers have gained attention for their ability to realize shorter metal mold manufacturing lead times, cut production costs, and reduce the molding cycle. Sodick released a metal 3D printer in 2014, and since then we have expanded our lineup to include models that support large molded objects, and entry models that significantly improve the molding speed. In future, we aim to further enhance ease of maintenance while also setting our sights on the component machining field, and will be focused on expanding sales.



### Building an integrated support system

Sodick provides information and after-sales services through service centers both in Japan and overseas, so that customers can use our products with confidence. As well as offering consultation at the time of purchase, we are also building an integrated support system in order to enhance efficiency at the site of operation, including holding regular seminars for customers.

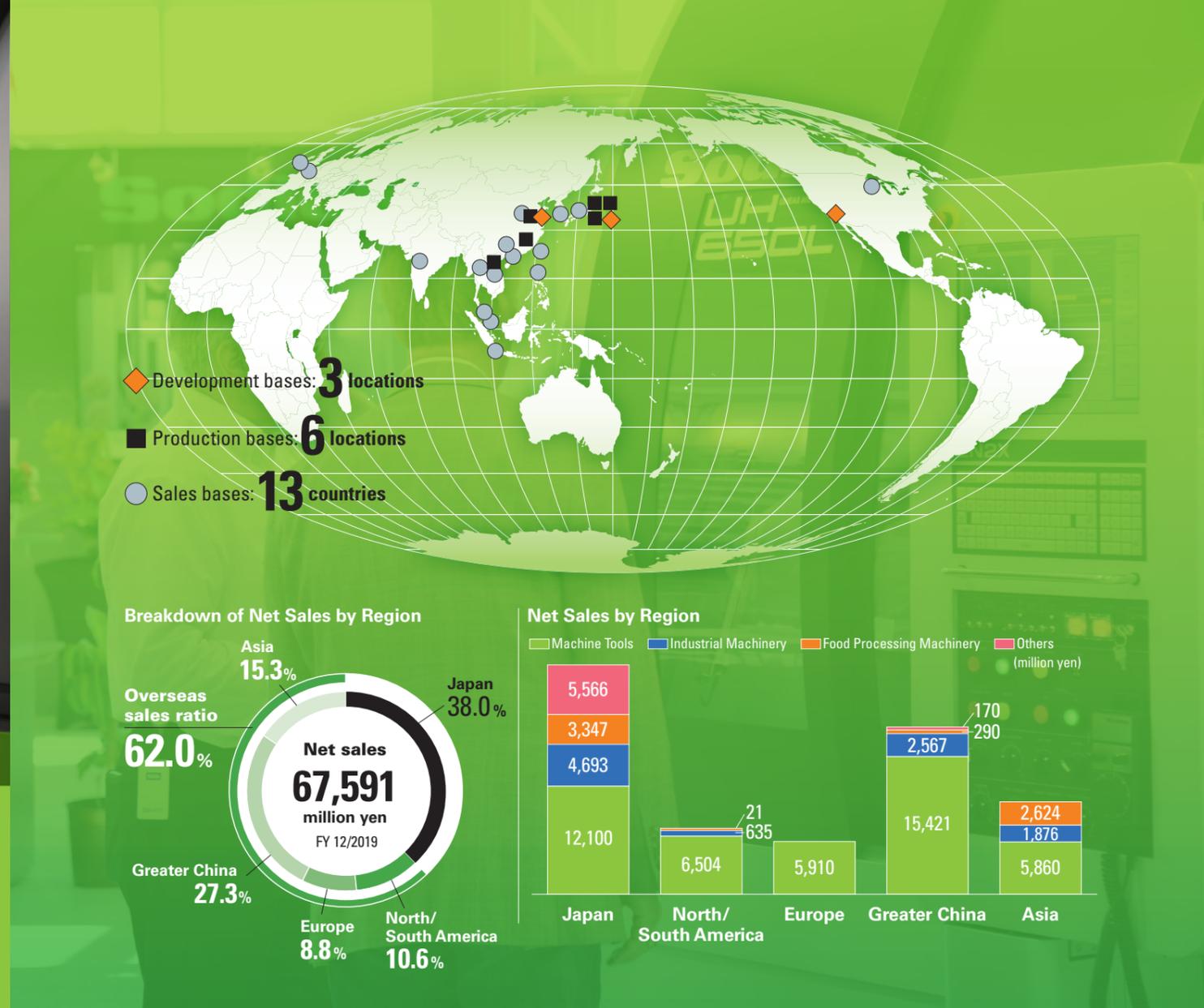




Sodick's Strengths 3 | Global reach

Expansion of worldwide customer base —

## Building a global development, production and sales structure that optimizes forex and market fluctuations



### Building a global development system in pursuit of originality and innovation

Ever since our founding, Sodick's philosophy has consistently been to contribute to our customers' manufacturing operations. We are engaged in research and development on a daily basis in pursuit of the highest levels of machining precision and processing speed, and extension of the various functions and features desired by our customers. We have built a tripolar global R&D structure, centered on Japan, China and North America. For our Head Office and Kaga Office, we have drawn up a roadmap encompassing their roles as R&D bases 10 years into the future.

In Silicon Valley, we are employing the unique cutting-edge technologies that only this location can offer to develop key components utilizing IoT platforms and state-of-the-art control technologies, while in Shanghai, we are developing software with a human interface focus.

### Thailand Plants are the global product supply center

Sodick is building a global production structure to meet local requirements in overseas markets, while minimizing the impact of exchange rate fluctuations. Over 90% of our EDMs are manufactured in Thailand and China. At the heart of this structure is our first Thailand plant, built in 1990, which exports products around the world. The Thailand plant handles the entire range of processes from EDM design through to manufacturing the core components such as linear motors, PCBs and ceramic products, and related testing. It also started manufacturing injection molding machines in 2013. In 2018, with our sights set on long-term growth and demand expansion, we upgraded our production structure, including the addition of a second plant.



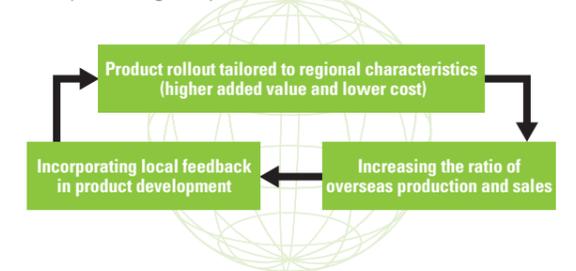
### Expansion of sales bases

Sodick conducts sales and support activities in five geographic areas: Japan, North and South America, Europe, China and Asia. Since 2018, we have worked to strengthen our sales structure in North America, Europe, Greater China and Asia by continuing to upgrade our sales bases. The Singapore Techno Centre undertakes mold production using metal 3D printers, and also provides consulting, sales support and maintenance. In Europe and the US, where there is a significant automotive and aerospace industry, we have established new technical centers in the United States and the United Kingdom with the aim of enhancing Sodick's brand image in Europe and the US and increasing our market share. In Shanghai, we established a sales company in the food processing machinery segment. Rising demand in China and the ASEAN countries for Japanese food is also resulting in growth for the company.



### Globalization as our fundamental growth strategy

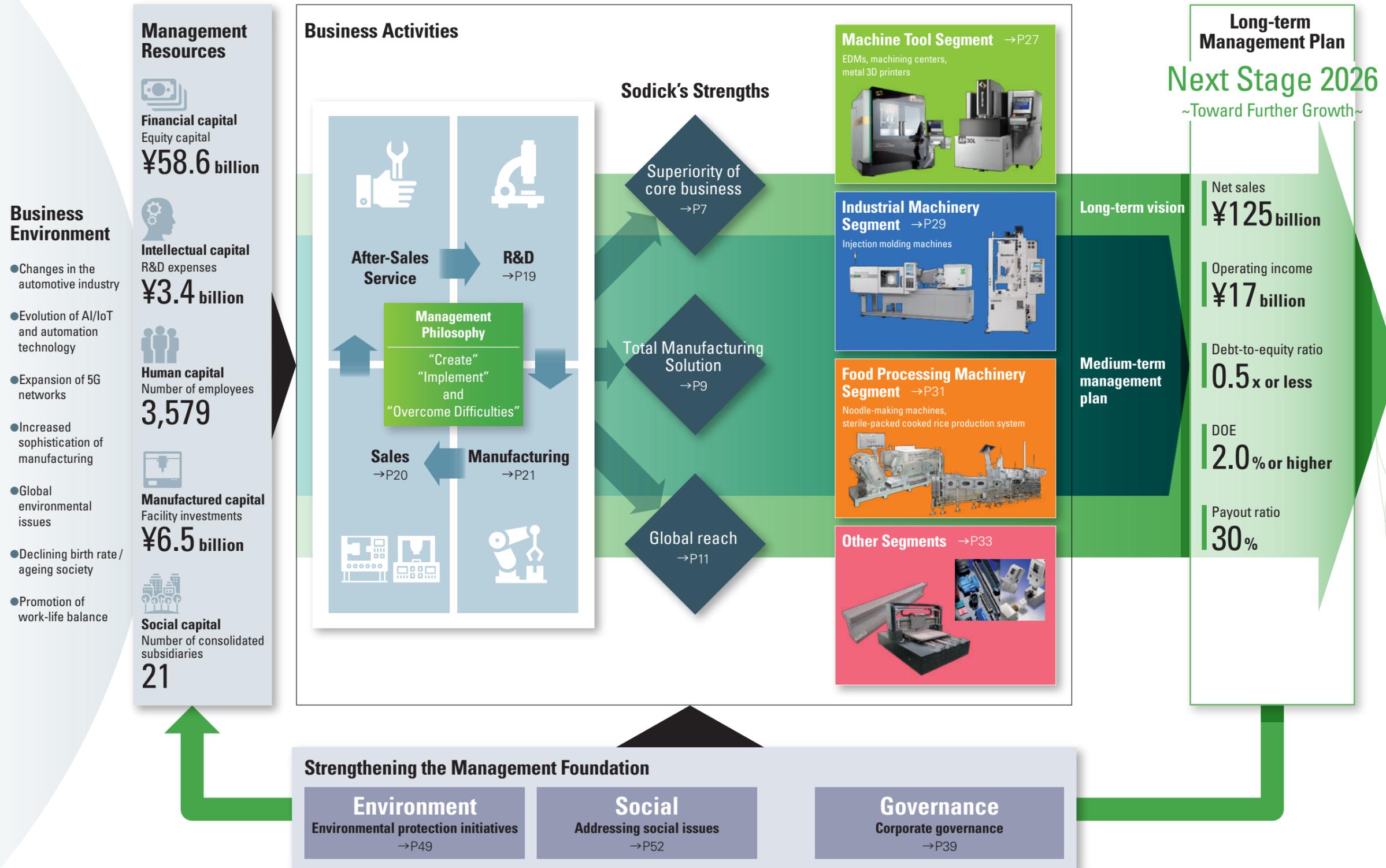
In order to achieve our management plan for net sales of 125 billion yen and operating income of 17 billion yen in the fiscal year ending December 2026, we will continue to develop products tailored to the characteristics of each region, based on a proper understanding of their respective economic conditions and customer requirements, and further expand our operations globally.



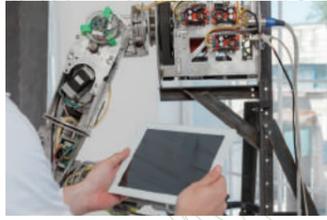
# Sodick's Value Creation Process

**We aim to enhance corporate value, drawing on the strengths we have developed.**

Based on our company motto "Create," "Implement," and "Overcome Difficulties," we consistently listen to our customers and find solutions for their various manufacturing challenges. Drawing on the strengths we have developed in that process, we aim to achieve sustainable growth by providing total support for global manufacturing while continuing to contribute to society, thereby enhancing our corporate value.



**Helping to create a sustainable society through manufacturing**





**We are dedicated to our founding spirit to “Create” , “Implement” and “Overcome Difficulties” using our technologies and manufacturing techniques to support a sustainable society and a prosperous future.**

**Kenichi Furukawa**  
President and Representative Director

**Review of the first year of the long-term management plan**

In February 2019, Sodick launched the long-term management plan “Next Stage 2026 ~Toward Further Growth~,” which will take us to the 50th anniversary of the Company’s founding.

The first year of this ambitious plan was extremely challenging. In the December 2019 fiscal year, the prolonged trade friction between China and the United States produced markedly reduced activity in the Chinese market, which accounts for roughly 30% of our sales. Automobile sales in China—the world’s largest automobile market—fell sharply, and electronic component and smartphone sales also plummeted. China’s economic conditions had repercussions throughout global supply chains, and many companies suspended capital investment plans. Corporate revenue dwindled as companies reduced their factory operating rates amid falling orders. At the same, fixed costs escalated as the active investments to increase production capacity in recent years led to higher depreciation costs. These factors all combined to create powerful headwinds to profit performance.

In the second half of 2018, we recognized that a decline trend was materializing and at the start of fiscal 2019 we projected that our unit sales for the year would contract by about 20% from the previous year. But the conditions turned out to be even worse than we anticipated, and our unit sales ended up declining by closer to 40% for the year. As a result, our performance for the December 2019 fiscal year included declines of nearly 20% year on year in net sales and over 60% in operating income, ordinary income, and profit.

I expect the business environment to continue to be relatively unstable in the year ahead. It is also difficult to estimate the impact on the global society from COVID-19, which began spreading worldwide in February 2020.

**Proactively investing in long-term growth even during the current severe conditions**

At the same time, I see several areas of promise. The demand for 5G-related base stations, terminals, and other devices that started to pick up in summer 2019 offers opportunities for us to leverage our strength in precision processing products for new business growth. We also expect stricter environmental regulations and advances in developing electric automobiles to increase demand for lightweight, high-precision plastic automotive parts.

While the business conditions are fraught with uncertainty, my mission in any environment is to steadily expand our business and advance toward the Next Stage 2026 targets of 125 billion yen in sales and 17 billion yen in operating income by fiscal 2026. These targets may seem ambitious given our recent performance. Nevertheless, despite the adverse conditions, we can achieve them if all employees unite to fulfill the motto that has driven Sodick’s growth from the beginning—to “create” and “implement” new value for the world and “overcome difficulties” one at a time. I am approaching the changing environment as a growth opportunity and will seek to make quick management decisions based on careful assessment of business risk.

We are committed to generating business growth for the long term, and our dedication to this commitment is evident in the 6.5 billion yen in capital investment we conducted even while orders were falling. When the business conditions recover again, as they surely will, we will be ready with newly constructed technical centers in Singapore and the United Kingdom, a new sales company for the food processing machinery segment in Shanghai, and enhanced production capacity for the die molding and ceramics businesses. We are also continuing to invest in our core businesses of EDMs and injection molding machines as well as in next-generation equipment, such as metal 3D printers.

**December 2019 fiscal year results** (million yen)

	FY December 2018		FY December 2019	
	Results	Income margin	Results	Income margin
Net sales	82,716	-	67,591	-
Operating income	9,888	12.0%	3,422	5.1%
Ordinary income	9,619	11.6%	3,558	5.3%
Profit	6,462	7.8%	2,002	3.0%

**December 2020 fiscal year forecasts** (million yen)

	FY December 2020	
	Plan	Income margin
Net sales	67,800	-
Operating income	3,800	5.6%
Ordinary income	3,800	5.6%
Profit	3,100	4.6%

Note: Plans do not currently take into account the impact of COVID-19.

# President's Message

## The key to our long-term strategies is using manufacturing technology to resolve customer and social issues

### Increasingly sophisticated manufacturing technologies is raising demand for high-end machines

Manufacturing will require components that are increasingly higher precision, miniaturized, smaller, lighter, and stronger; and the machine tools that make those parts will have to provide even greater precision. The EDM market is already a mature market, but the demand for higher-precision manufacturing capabilities is creating an increasingly rapid shift in the market from low-end to high-end machine tools. The demand base for machine tools is also widening, and we anticipate growing demand similar to that occurring in countries like India and Mexico where industrial growth is gaining momentum. Sodick will use its highly sophisticated technological capabilities to offer higher-precision capabilities and further enhance our customer support to meet the manufacturing needs of a broader base of customers.

### Molding is becoming increasingly complex and demanding

Sodick began making injection molding machines to meet customer needs for difficult-to-make molds. The skills we acquired while meeting those needs led to the development of our V-LINE® System and our proprietary technologies. In addition to the molds themselves, manufacturers are increasingly demanding machine tools capable of handling lighter materials and that improve the environmental performance of manufacturing processes. Magnesium and aluminum are gaining much attention as lightweight materials for molded parts. We already offer machines capable of processing magnesium, and we are progressing from the testing stage to the mass production stage for aluminum molding machine. Aluminum parts are in high demand from the automobile and other industries, and we see potential to create a market for aluminum molding equipment as replacements for die-cast machines.

We are also designing equipment capable of handling environmental friendly materials and have developed a molding machine for biodegradable plastics. We plan to continue developing machines for various applications.

### Helping everyone enjoy "convenient and delicious" food

Japan is currently the primary market for the food processing machinery segment, which offers noodle-making machines and sterile-packed cooked rice production systems primarily for the convenience store, supermarket, and restaurant industries. However, our global sales are steadily rising, particularly in China and Asia, due to growing demand for higher food quality and increased food safety and security as well as for food manufacturing automation and labor-saving equipment. We established a sales company in Shanghai in 2019 to boost the sales growth in China and greater Asia and plan to begin noodle-making machines production at the Amoy Plant in Xiamen in 2020.

Food manufacturers combine various types of machines in their plants as they seek to produce tasty and high quality food. Most of the companies that make food processing machinery are small. We are the only maker of food processing machinery able to meet the total machinery needs of the food manufacturers. We are leveraging this advantage by proposing plant equipment systems using our proprietary technology that scientifically examines food flavors. We are further combining this with the competence we have cultivated in other businesses to engineer and propose solutions across the entire food production line.



society, and governance (ESG) initiatives to strengthen R&D, human resource development, environmental performance, and governance with a view to the medium and long term. At the same time, there is great interest among companies and societies about the United Nations' 17 Sustainable Development Goals (SDGs) which will be blended into corporate growth strategies. Sodick has always emphasized environmentally sound operations and human resource development, and we fully understand the importance of further strengthening the ESG aspects of our growth strategies for the future.

Environmental performance has always been a focus for us. Our products do more than mechanizing and automating work. Our automated production systems and metal 3D printers consolidate and automate multiple processes, thereby saving energy and resources as well as improving safety in the production stages, which is part of the social responsibility of our customers. As I stated earlier, one of our current focuses is helping customers answer the call to eliminate plastic content by developing molding machines capable of handling biodegradable plastics.

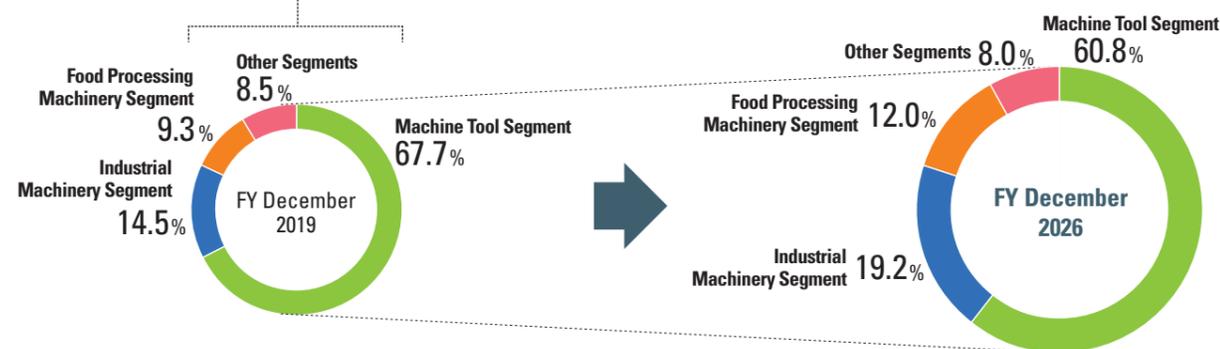
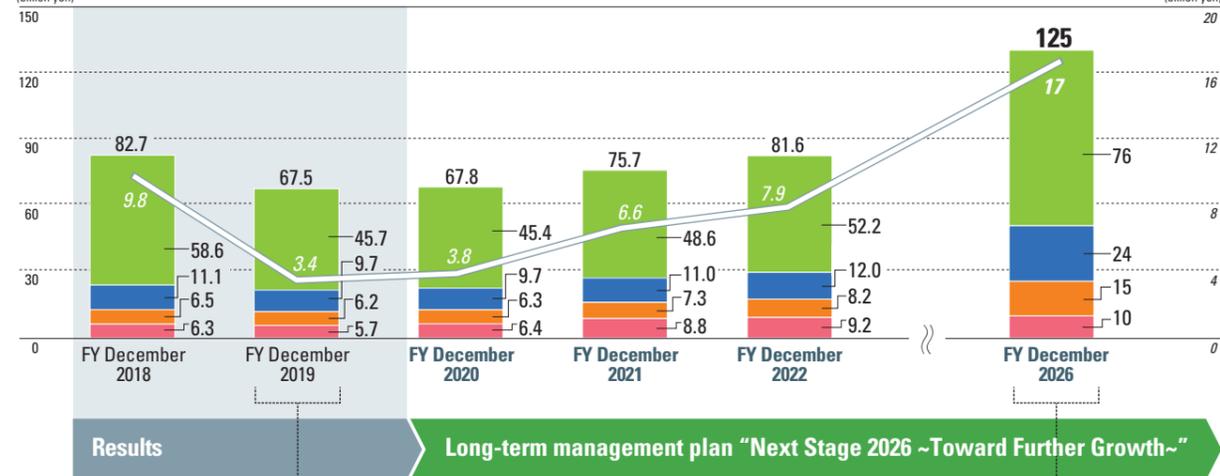
We are also prioritizing creating worksites that support a diverse workforce. A healthy work environment and fully developed personnel systems are essential to attracting and retaining talented employees. In fiscal 2019, we took a series of steps to enhance our corporate systems, including revising the salary structure to better recognize a person's capabilities, updating our employee training programs for the digital transformation (DX) era, renovating the employee cafeteria, and arranging our IT system to accommodate telework and facilitate shortened work hours so we can offer a variety of workstyle options. These systems will continue to be improved through employee surveys, and we will continue seeking ways to enhance employee engagement.

In these uncertain times, as a company manager I will continue to listen carefully to our various stakeholders while making the important decisions that will lead to the sustainable growth of our Company.

I greatly appreciate your continued support.

## Medium-term management plan results and targets

Please see pages 25-26 for details about the plan's progress, strategies, and objectives.



### The potential of metal 3D printer technology

The potential of metal 3D printers is drawing increasing interest, and some companies are already eagerly using them to produce prototype parts. At this point, however, sales of the printers are being inhibited by their still-high prices, the still-early stage of the technology, and export restrictions. Nevertheless, metal 3D printers promise to significantly streamline metal mold manufacturing processes and shorten the molding cycle, and they are destined to become essential to manufacturing process in the medium and long term for their ability to increase productivity and improve labor saving. While promoting their advantages for mass production processes, we will continue advancing R&D in speeding up the metal 3D printer molding process and increasing the variety of usable metal powders. We intend to be perfectly positioned with leading products when demand for metal 3D printers in mass production systems begins to accelerate.

Our strengths are in the technologies we have cultivated and the products we have created, which enable us to provide total support for all manufacturing processes upstream and downstream, from product design to metal cast and product molding. We will continue to develop optimal solutions that resolve customer production issues and fulfill their requests across the complete production process.

### Strengthening ESG initiatives that will appear in future finance

While advancing the growth strategy and aligning earnings to a growth trajectory, management is incorporating environment,

## Messages from Our Directors

### R&D strategy

**Sodick develops efficient manufacturing systems for products meeting the growing needs for large- and micro-machined products.**



**Yuji Kaneko**  
Chairman and Representative Director

#### A clear developmental roadmap

Sodick applies its R&D network linking operations in Japan, China, and North America to develop products and systems with the world's highest processing accuracy and speeds that meet the full range of functions needed by our customers. Every year, our executive managers from the United States, China, and the advanced research centers in Japan gather at our headquarters for a Joint Technical Meeting and lay out a 10-year roadmap for the Company. In addition, a Technical Meeting is held each month to monitor our progress. Our on-the-ground presence in Silicon Valley in the United States enables us to stay on top of the latest technologies and develop next-generation motion controllers with state-of-the-art IoT and AI control technologies. In Shanghai, China we are focusing our R&D activities on developing software incorporating human interface technology.

New products introduced in fiscal 2019 include the AG200L, a large die-sinker EDM equipped with an easy-visibility operating screen and multiple assist functions enabling high-speed processing and improved operating efficiency, and our latest V-LINE® System model the VT50, a vertical-type single-action injection molding machine that boosts productivity in the precision molding field, where demand is growing for autonomous driving, sensors, and 5G communication. We also enhanced the IoT platform S-HARMNY with remote numerical control (NC) program and monitoring functions. In addition, we brought the metal 3D printer business of subsidiary OPM Laboratory into the fold of Sodick Co., Ltd. and devised an efficient R&D structure for metal 3D printers with the aim of developing the business into an earnings driver for the Company in the future.

#### Investing in R&D for the medium and long term

The prolonged US-China trade friction and COVID-19 pandemic have cast a large shadow over our earnings prospects. In these times, we believe it is essential to adhere to our roadmap and continue steadily investing in R&D to ensure we fulfill the medium- and long-term vision for the Company. We plan to spend 3.4 billion yen on R&D in the December 2020 fiscal year, approximately the same level as in the previous year.

To fulfill our vision, we will continue researching solutions related to the electrification of automobiles and to realize CASE (Connected, Autonomous, Shared & Service, and Electric) vehicles, including ways to achieve the fine processing needed to improve electrical efficiency and communication quality and to create the large molds needed to produce combined single-piece bumper and body parts. We will also step up development of high value-added products for the aerospace and other industries. We will also concentrate on developing new elemental technologies for the mechanism elements that will open the door to new potential for motion controllers and the next-generation of computer numerical controlled (CNC) machines. In injection molding machines for light metals, such as aluminum and magnesium that are increasingly being used to lighten vehicles, we are stepping up the development of a specialized coating that will eliminate mold erosion, which often affects the quality of mass-produced parts.

We are also integrating the SDGs to our business management to align our business growth by addressing social issues. We have been working on creating an injection molding machine for our V-LINE® System capable of stable forming biodegradable plastic and are successfully creating molds made of bio-based materials. We expect demand for these machines to steadily grow and are working with our marketing department to promote their use.

#### Development centers and their main development themes

Development centers	Locations	Main R&D themes
Advanced Research Center	Yokohama and Kaga, Japan	Overall group R&D
Shanghai Sodick Software Co., Ltd.	Shanghai, China	Software development
Sodick America Corporation	San Jose, United States	Motion controller development

#### Annual R&D spending



### Global sales strategy

**We are strengthening our sales functions worldwide to offer compact and high-precision equipment for the era of IoT and 5G.**



**Keisuke Takagi**  
Vice President and Representative Director,  
Sales Managing Division

#### A year of reassessing our business risks

Sodick has had a global mindset from early in its business development and actively markets its products and support services in the five regions of Japan, the Americas, Europe, China, and Asia. Overseas sales have grown to over 60% of our total sales, and sales in China, which is our biggest market for molds, are growing each year as industries pursue more sophisticated manufacturing. In fiscal 2018, China accounted for over 60% of the total sales of our core line of EDMs on a unit basis.

Overall sales slowed in the fiscal year to December 2019 and EDM orders from China slipped to less roughly half of total orders. The sluggish market conditions were due to the prolonged trade friction between the United States and China and China's slower economic growth, which affected the global economy and led many companies to postpone capital investment plans. We anticipate the severe business conditions to continue in 2020, as corporate capital expenditure has stalled worldwide due to the COVID-19 pandemic.

#### Achieving balanced growth

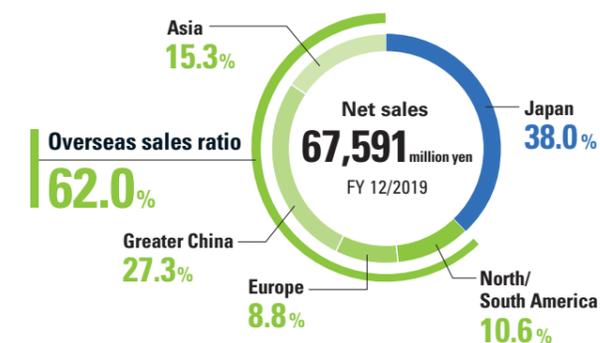
Sales to China and sales of our core products have been the main drivers of our earnings growth in recent years, but the recent developments have reminded us of the risk presented by over-relying on these two areas. We are accordingly seeking to develop marketing and sales strategies carefully tailored to each product, customer, and market. Although the outlook for global demand for machining equipment is uncertain, the pursuit of connected, autonomous, shared & service, and electric (CASE) and

mobility as a service (MaaS) technologies presents a once-in-a-century transformation in the automotive industry and the steady stream of new IoT and 5G-enabled equipment and terminals offers new opportunities in other industries. Our strengths in miniaturized and high-precision products are essential to both of these trends, and we believe they have potential to support significant growth for the Company in the medium and long term.

We have been preparing for this scenario in the past several years by putting in place a worldwide network of regional sales offices. In the United States in 2018 and in the United Kingdom in 2019, we established technical centers with fully equipped showrooms and after-sales service functions. To promote adoption of the latest manufacturing techniques, in 2019, we also set up a technical center in Singapore offering complete consulting services, contracted processing, and sales and maintenance support to customers using metal 3D printers to make molds. In addition, we established a sales company in Shanghai to promote our food processing machinery business, which is our third-largest earnings driver.

We are cultivating close relations with customers in each of our business regions and by actively sharing and communicating information about our products, technologies, and after-sales support services, we are able to quickly respond to changes in each market and generate continuing business growth.

#### Breakdown of Net Sales by Region



#### Sales sites



● : Sales sites established or expanded in the fiscal year to December 2019

## Messages from Our Directors

### Global production strategy

**We continue strengthening our global manufacturing structure to flexibly respond to the changing markets for both advanced and original in-house technologies.**



**Hideki Tsukamoto**  
Senior Executive Managing Director, Machine Tools Division and Production Management Division

#### Reduced plant utilization rates

Sodick's business spans the five regions of Japan, the Americas, Europe, China, and Asia, and overseas sales represent 60% of our total sales. These global production operations are supplied by our plants in Japan, Thailand, and Suzhou and Xiamen in China that enable us to flexibly meet the needs in each market.

In 2019, we were compelled to lower the utilization rates and reduce the output of all plants owing to the persisting trade friction between the United States and China from the previous year and a worldwide decline in demand for smartphones and automobiles. At the same time, higher fixed costs due to depreciation from our capital investments in recent years and high prices for parts at our core Thailand Plant also worked to erode profits. In addition, due to the spread of COVID-19, at one point we suspended operations at our two plants in China in February 2020 and were operating only our plants in Thailand and Japan.

#### Using our strengths to fortify our systems

In these conditions, we will continue advancing measures to improve our profitability by lowering costs and reviewing our supply sources. In the challenging business conditions, our high ratio of in-house production minimized the impact of the Chinese factory shutdown and the Kaga multi-factory, which started operation in 2018, helped us to continue producing various products. This organizational resilience is one of our strengths, and we will continue seeking to make it even stronger. In the precision die and mold business, we are constructing automated production lines and cell production lines incorporating our metal 3D printers and specialized MR30 molding machines. In the ceramics business, last year, we built kiln equipment capable of accommodating long products. In addition to these in-house technologies, we are also actively adapting our manufacturing technologies, such as the automation and labor-saving technologies at our Kaga multi-factory, for our overseas factories and incorporating the latest 5G, IoT, and AI technologies. We are seeking to formulate production systems with the ability to flexibly and efficiently respond to changes in market conditions.

We are also taking steps to improve production efficiency and reduce costs. In China, we are forming plans to manufacture injection molding machines and set up a sales company to meet growing demand and support business expansion for the food processing machinery segment in China and the Asia region. We are also considering options to increase our local production ratio in the region.

We will continue to bring together our vast range of in-house cultivated manufacturing technologies, expertise, and groundbreaking digital technologies to create a production structure that is highly resilient to changes in the market conditions.

#### Production sites



### Financial strategy

**We will use our strong financial position to aggressively invest in growth, increase corporate value, and provide a stable dividend.**



**Hirofumi Maejima**  
Executive Managing Director, Corporate Division

#### Strengthening our financial position and investing for long-term growth

In the December 2019 fiscal year, we continued to make capital investments, including establishing technical centers in the United Kingdom and Singapore and expanding ceramic production capacity in Japan. These investments caused only a slight increase in fixed assets from the previous fiscal year, but the substantial declines in trade receivables and inventory assets led to total assets contracting by approximately 4.4 billion yen from the end of the previous fiscal year.

We continue to steadily pay down interest-bearing debt, and net interest-bearing debt decreased by approximately 1.2 billion yen from the end of the previous fiscal year. In terms of equity capital, our financial position remained solid as the debt-to-equity ratio improved to 0.69x and the equity ratio rose to 51.2%, bringing it near the industry average.

While fortifying our financial structure that provides the foundation for our business, we are also carefully managing cash flow to step up our investments for business growth. Operating cash flow for the December 2019 fiscal year decreased by approximately 1.0 billion yen from the previous year. In addition, cash flow from investment activities also declined following the completion of the multi-factory in 2018, and free cash flow increased by roughly 1.7 billion yen from the previous fiscal year.

#### Investing in our businesses for long-term growth

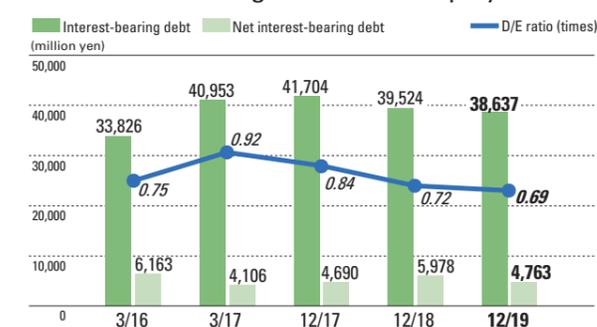
The machine tool industry still has room to grow in several geographic regions and the rapid sophistication of manufacturing technology also promises to generate demand worldwide. We are approaching this outlook by continuing to make investments for growth while also fortifying our position against business risks. In the December 2020 fiscal year, we plan to invest approximately 4.5 billion yen to expand production capacity at the Amoy Plant in Xiamen, China and Kaga Office in Japan and to automate and improve the efficiency of the precision die and mold business. We have also earmarked roughly 3.4 billion yen for R&D to develop metal 3D printers, precision machining centers, light metal injection molding machines, food processing machinery, and related elemental technologies into full-fledged businesses alongside the EDM business.

We will continue actively investing for business growth while maintaining a balanced and strong financial position.

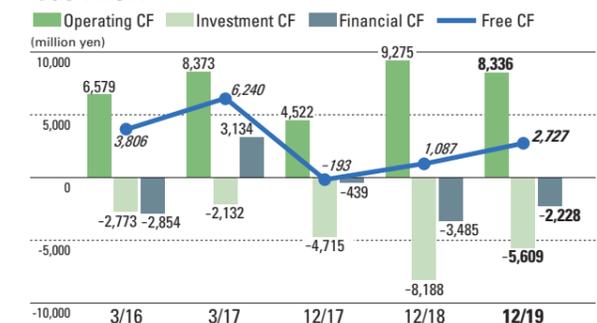
To date, our financial policy has been to utilize our financial resources while maintaining ROE at 8% or higher, and we consider that level to be the absolute minimum as we conduct our strategic and growth investments. We will continue to construct a foundation for stable growth so we can achieve our target ROE of 10–12%.

Our plan for returning profits to shareholders is to allocate capital while maintaining a sufficient balance of growth investment and, while considering our earnings performance, to maintain dividend on equity ratio of 2% or higher as we incrementally raise the payout ratio to 30%.

#### Interest-bearing debt/ Net interest-bearing debt/Debt-to-equity ratio

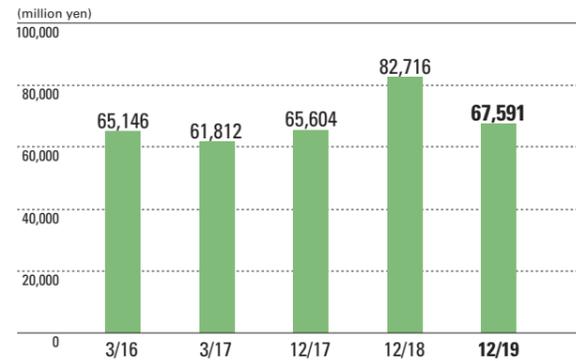


#### Cash flow

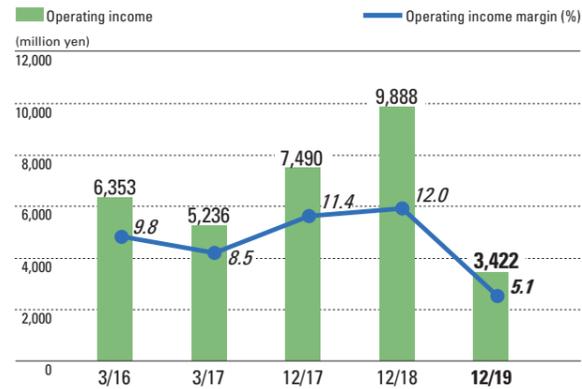


# Financial Highlights

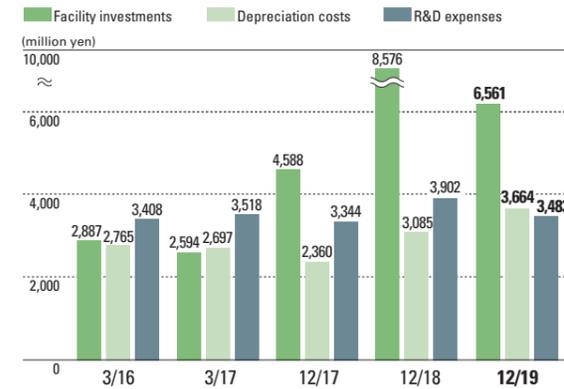
## Net sales



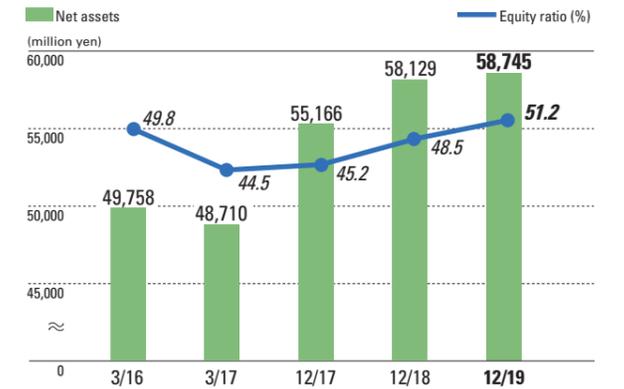
## Operating income/Operating income margin



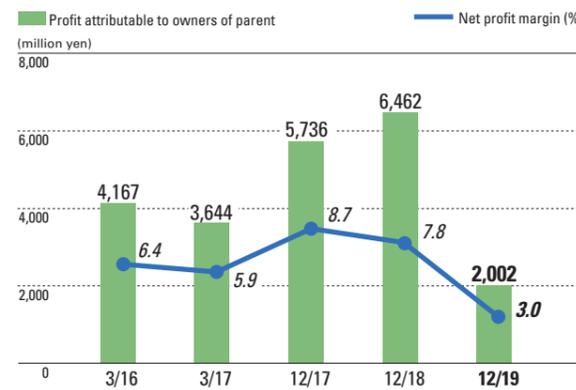
## Facility investments/ Depreciation costs/R&D expenses



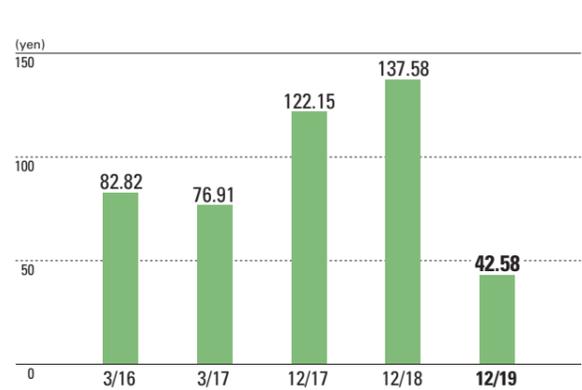
## Net assets/Equity ratio



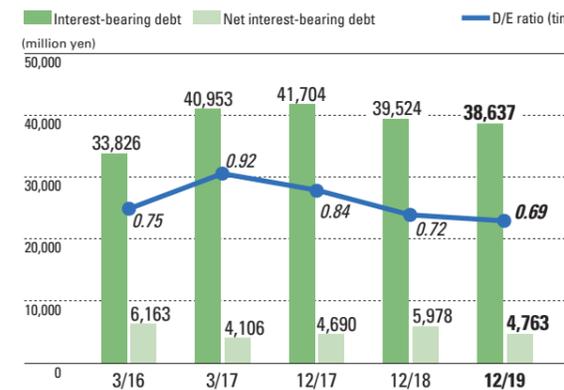
## Profit attributable to owners of parent/ Net profit margin



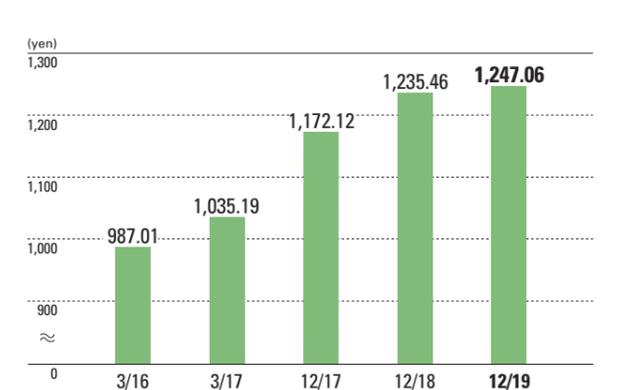
## Earnings per share



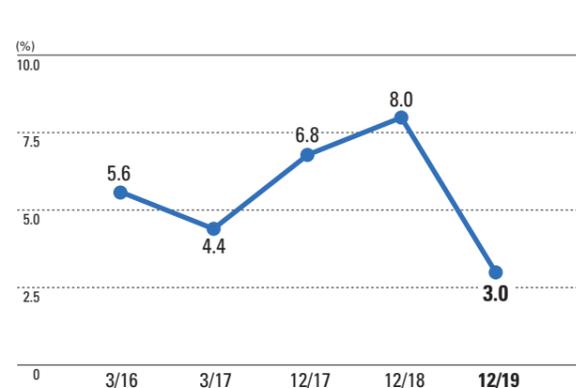
## Interest-bearing debt/ Net interest-bearing debt/Debt-to-equity ratio



## Net assets per share



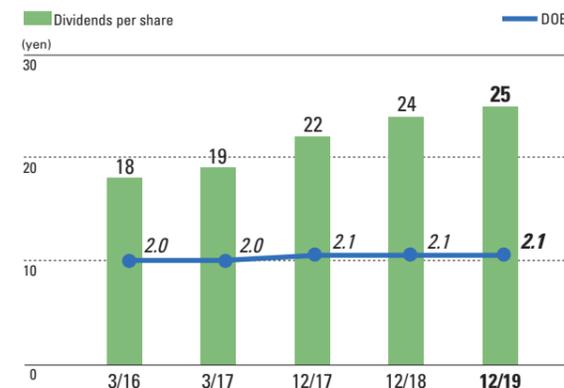
## Return on assets (ROA)



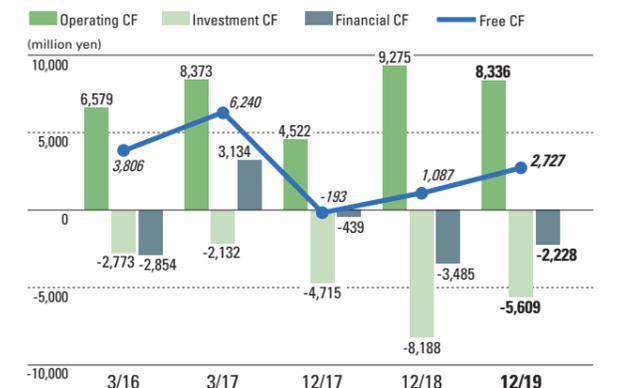
## Return on equity (ROE)



## Dividends per share/ DOE (dividend on equity)



## Cash flow



\* Due to the fiscal year-end change, FY12/17 consolidated financial results comprise 9 months (from April to December 2017) of results for companies whose fiscal year ends on March 31, and 12 months (from January to December 2017) of results for those whose fiscal year ends on December 31, resulting in irregular settlement of accounts.

# Overview of Medium-Term Management Plan Based on Long-Term Vision

## Business Environment | Growth Strategy

Machine Tool Segment	Outline of strategy	Focus products / Sales strategy	R&D	Production structure											
<p>Changes in the automotive and aerospace industries (autonomous driving vehicles, EV/electrification, lighter-weight components, entry of competitors from other sectors, employment of new materials, etc.)</p> <p>Expansion of communications network (5G, big data, highly functional smartphones, etc.)</p> <p>Growth in demand for high-precision processing equipment</p> <p>Rise in labor-saving and automation requirements</p>	<ul style="list-style-type: none"> <li>Establish absolute No. 1 position in EDMs</li> <li>Expand market share in all regions</li> <li>Optimize sales, service and production structures</li> </ul>	<table border="1"> <tr> <td>Wire-cut EDMs</td> <td> <ul style="list-style-type: none"> <li>Enhance marketing systems in emerging markets (India, Mexico, etc.)</li> </ul> </td> <td rowspan="5"> <ul style="list-style-type: none"> <li>Upgrade sales bases in the US, UK, Shanghai, Singapore</li> </ul> </td> </tr> <tr> <td>Die-sinker EDMs</td> <td> <ul style="list-style-type: none"> <li>Increase share in the West (automotive and aviation industries)</li> </ul> </td> </tr> <tr> <td>Small-hole drilling EDMs</td> <td> <ul style="list-style-type: none"> <li>Expand lineup of large-scale equipment</li> </ul> </td> </tr> <tr> <td>Precision machining centers</td> <td> <ul style="list-style-type: none"> <li>Strengthen precision machining center lineup and sales structure</li> </ul> </td> </tr> <tr> <td>Metal 3D printers</td> <td> <ul style="list-style-type: none"> <li>Expand metal 3D printer lineup, accelerate sales</li> </ul> </td> </tr> </table>	Wire-cut EDMs	<ul style="list-style-type: none"> <li>Enhance marketing systems in emerging markets (India, Mexico, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Upgrade sales bases in the US, UK, Shanghai, Singapore</li> </ul>	Die-sinker EDMs	<ul style="list-style-type: none"> <li>Increase share in the West (automotive and aviation industries)</li> </ul>	Small-hole drilling EDMs	<ul style="list-style-type: none"> <li>Expand lineup of large-scale equipment</li> </ul>	Precision machining centers	<ul style="list-style-type: none"> <li>Strengthen precision machining center lineup and sales structure</li> </ul>	Metal 3D printers	<ul style="list-style-type: none"> <li>Expand metal 3D printer lineup, accelerate sales</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen Group-wide technology and product development through concerted efforts among the Head Office, US and China bases</li> <li>Continue R&amp;D aiming for enhanced performance, quality, operability</li> <li>Strengthen remote diagnosis and maintenance using IoT/AI</li> <li>Continue R&amp;D aiming for expanded applications, processing expertise, metal powders</li> <li>Internalize production of core technologies</li> </ul>	<ul style="list-style-type: none"> <li>Continue initiatives to improve production efficiency at Kaga multi-factory</li> <li>Enhance production efficiency using IoT/AI</li> <li>Roll out cell production system to overseas plants, with Kaga multi-factory as the "mother factory"</li> <li>Cut costs by internalizing production of elemental technology</li> <li>Build a sales and production structure that is not dependent on the Chinese market</li> </ul>
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<p>Increasing popularity of Japanese food overseas</p> <p>Increased demand for high-quality cooked noodles</p> <p>Increased consumption of packed rice in daily life</p> <p>Expansion of the ready-made meal market</p> <p>Rise in labor-saving and automation requirements</p> <p>Further improve hygiene management/safety</p>	<ul style="list-style-type: none"> <li>Expand overseas sales</li> <li>Cultivate new product lines following on from noodle-making machines and packed cooked rice production systems</li> <li>Strengthen sales, production and development structure</li> </ul>	<table border="1"> <tr> <td>Noodle-making machines</td> <td rowspan="3"> <ul style="list-style-type: none"> <li>Strengthen sales in Japan and overseas, focused on the Asia region</li> <li>Develop demand for high value-added products in China and Asia</li> <li>Secure new and replacement orders from major food manufacturers</li> </ul> </td> <td rowspan="3"> <ul style="list-style-type: none"> <li>Establish a sales company in Shanghai and strengthen sales activities</li> </ul> </td> </tr> <tr> <td>Packed cooked rice production systems</td> </tr> <tr> <td>Others</td> <td> <ul style="list-style-type: none"> <li>Develop and increase sales of products for ready-made meals market</li> <li>Expand sales of automated, labor-saving equipment</li> </ul> </td> </tr> </table>	Noodle-making machines	<ul style="list-style-type: none"> <li>Strengthen sales in Japan and overseas, focused on the Asia region</li> <li>Develop demand for high value-added products in China and Asia</li> <li>Secure new and replacement orders from major food manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>Establish a sales company in Shanghai and strengthen sales activities</li> </ul>	Packed cooked rice production systems	Others	<ul style="list-style-type: none"> <li>Develop and increase sales of products for ready-made meals market</li> <li>Expand sales of automated, labor-saving equipment</li> </ul>	<ul style="list-style-type: none"> <li>Automate manufacturing facilities and standardize products to reduce cost</li> <li>Gather scientific data regarding food properties, and reinforce development of high-quality products by expanding application to new fields</li> <li>Strengthen remote diagnosis and maintenance using IoT/AI</li> </ul>	<ul style="list-style-type: none"> <li>Build a structure for local production and local sales (strengthen production in China)</li> <li>Shorten delivery lead times by expanding the Kaga Plant</li> <li>Bolster production capacity at overseas factories, establish systems for supply to Chinese and Asian markets</li> </ul>					
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<p>Continuous demand in automotive and semiconductor industries</p> <p>Continuous demand from semiconductor manufacturing equipment manufacturers</p>	<ul style="list-style-type: none"> <li>Increase profitability of Precision dies and mold operations</li> <li>Increase production and sales of ceramics parts</li> <li>Increase productivity through introduction of automated systems</li> </ul>	<table border="1"> <tr> <td>Precision dies and mold operations</td> <td> <ul style="list-style-type: none"> <li>Capture demand for next-generation vehicle components</li> <li>Strengthen automated production systems using metal 3D printers and their dedicated injection molding machines</li> </ul> </td> </tr> <tr> <td>Ceramics</td> <td> <ul style="list-style-type: none"> <li>Increase sale of ceramics parts for the semiconductor production equipment sector</li> <li>Expand sales channels into high value-added fields</li> </ul> </td> </tr> </table>	Precision dies and mold operations	<ul style="list-style-type: none"> <li>Capture demand for next-generation vehicle components</li> <li>Strengthen automated production systems using metal 3D printers and their dedicated injection molding machines</li> </ul>	Ceramics	<ul style="list-style-type: none"> <li>Increase sale of ceramics parts for the semiconductor production equipment sector</li> <li>Expand sales channels into high value-added fields</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen mold processing technology in metal 3D printers</li> <li>Strengthen R&amp;D of automated production systems using metal 3D printers and their dedicated injection molding machines</li> <li>Strengthen R&amp;D aiming for enhanced quality and precision</li> </ul>	<ul style="list-style-type: none"> <li>Bolster production capacity at the Miyazaki Plant</li> <li>Increase production efficiency through introduction of automated production systems</li> <li>Bolster production capacity at the Kaga ceramics production plant</li> </ul>							
Precision dies and mold operations	<ul style="list-style-type: none"> <li>Capture demand for next-generation vehicle components</li> <li>Strengthen automated production systems using metal 3D printers and their dedicated injection molding machines</li> </ul>														
Ceramics	<ul style="list-style-type: none"> <li>Increase sale of ceramics parts for the semiconductor production equipment sector</li> <li>Expand sales channels into high value-added fields</li> </ul>														

## Overview of Each Segment

# Machine Tool Segment

Sodick offers a wide lineup of products including EDMs, which have a leading share of the global market, precision machining centers, and metal 3D printers. Our products are highly regarded in a variety of fields, including auto-related industries and electronics-related industries such as smartphones and digital cameras.

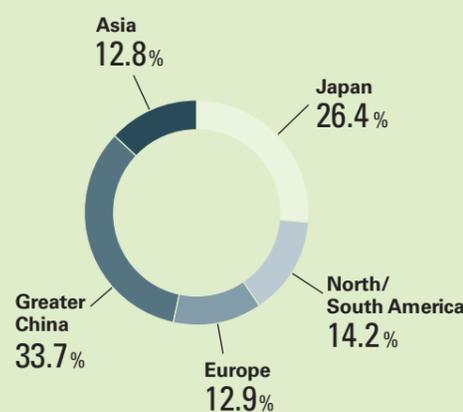


### Composition ratio of net sales

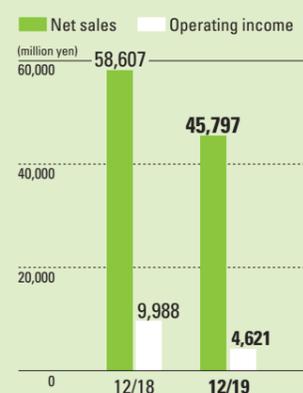


Net sales  
**45,797** million yen  
Segment income  
**4,621** million yen

### Composition ratio of net sales by region



### Net sales / Operating income



### Main applications

Die manufacturing, component machining

### Main customers

Automobiles, IT, smartphones, electrical and electronic parts, aerospace, medical equipment, etc.

### Core products

Die-sinker EDMs, Wire-cut EDMs, Small-hole drilling EDMs, Metal 3D printers, Precision machining centers, CAD-CAM, Electron beam

### Business environment

- Changes in the automotive and aerospace industries (autonomous driving vehicles, EV/electrification, lighter-weight components, entry of competitors from other sectors, employment of new materials, etc.)
- Expansion of communications network (5G, big data, highly functional smartphones, etc.)
- Growth in demand for high-precision processing equipment
- Rise in labor-saving and automation requirements

### Strengths

- A presence in the key EDM markets
- A leading global share of the high-end machine market
- Internal production of core technologies
- High-precision machining with the use of linear motors
- Dominant brand recognition in the mold market
- Hybrid metal 3D printers combining molding and cutting
- 3 overseas plants and business sites in 13 countries

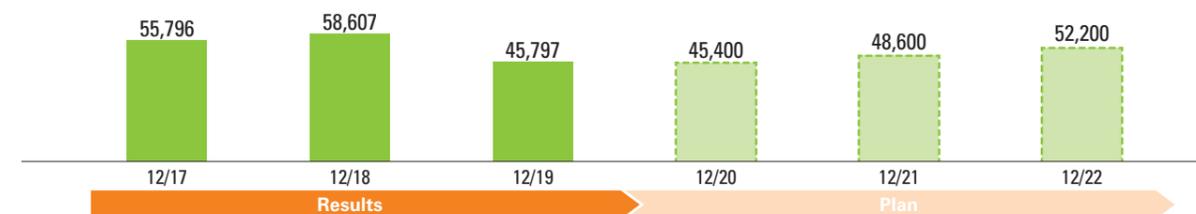
## Overview of year ended December 2019

Demand remained solid in the North American aerospace and medical equipment-related industries. However, the impact of prolonged US-China trade friction on China—Sodick's biggest market—and other countries around the world resulted in more companies postponing capital expenditure in a wide range of sectors, including automotive, smartphones and electronic components. This led to a significant reduction in EDM sales volumes. Segment profits also registered a steep year-on-year decline due to a drop in factory utilization rates associated with the lower sales volumes and an increase in fixed costs. In research and development, Sodick developed the "AG200L" die-sinker EDM, which supports machining of large-sized and more complex molds, where demand has been growing in recent years especially in auto-related industries. In marketing activities, Sodick participated in numerous exhibitions worldwide, including CIMT 2019 (China International Machine Tool Show), EMO 2019 (European machine tool trade show), and MECT 2019 (Mechatronics Technology Japan exhibition), enhancing the visibility of the Sodick brand and expanding sales. We also established the Singapore Techno Centre to support cutting-edge manufacturing in the ASEAN region, bolstering our sales structure.

## Outlook and strategy for year ending December 2020

The machine tool segment is well positioned to benefit from latent demand for high-precision machinery resulting from increased sophistication in manufacturing, especially in the automotive, IT, and electronic components sectors, primarily in China. However, the ongoing US-China trade friction is expected to drag on the global economy, and we anticipate weak results for the segment. In addition, the recent spread of COVID-19 worldwide is affecting production and business activities, and there are also concerns about disruption to supply chains. This has led to increased uncertainty about the market outlook. Given these conditions, Sodick will focus on cost reductions, greater production efficiency and business streamlining. At the same time, we will work to expand sales of our products with a particular focus on demand for high-precision equipment, including the longer-term diffusion of CASE (Connected, Autonomous, Shared & Service, and Electric) in the automotive industry, next-generation 5G, and automation and productivity enhancements.

### Machine Tool Segment Net Sales Performance & Plan (million yen)



Note: Plans do not currently take into account the impact of COVID-19.

## TOPIC

### Developing products supporting both larger scale and miniaturization

In September 2019, Sodick released the "AG200L" high-speed, high-performance die-sinker EDM, which improves machining performance in the manufacturing of large-sized molds for automobile components. Equipped with a specially designed electrical discharge power unit and unique discharge control technology, this EDM enables high-speed and high-precision machining. It has won praise for supporting manufacturing with its revolutionary performance, and won a Manufacturing Award at the 62nd (2019) Best 10 New Product Awards (Sponsor: Nikkan Kogyo Shimbun). In October 2019, Sodick released the "AP350L (oil)," a new super-high-precision wire-cut EDM with oil machining specification, which enables high-speed machining. As well as facilitating prolonged automatic operation, it enhances machining reproducibility, stability and maintenance compared with

conventional products. It is also equipped with the Sodick-IoT "S-Viewer," which enables centralized remote control of the operating status of the NC unit and helps to improve machine utilization rates.



AG200L

AP350L(oil)

## Overview of Each Segment

# Industrial Machinery Segment

In the industrial machinery segment, Sodick manufactures and sells injection molding machines that are environmentally sound and make effective use of plastics and other resources. Plastic components are found in many everyday consumer products due to their light weight and multi-functionality, including electrical and electronic products, automobiles and healthcare equipment.

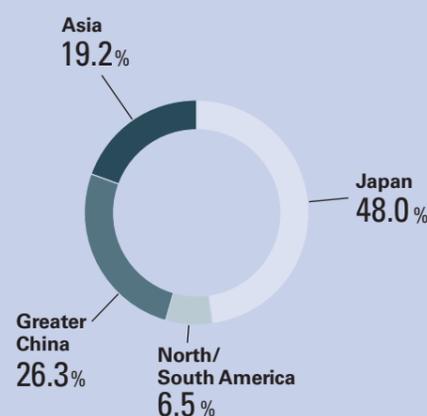


### Composition ratio of net sales

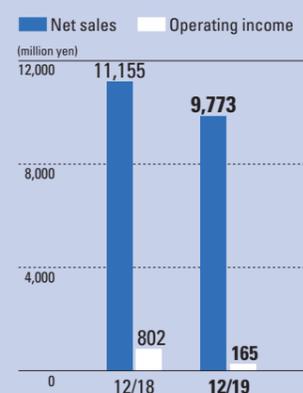


Net sales  
**9,773** million yen  
Segment income  
**165** million yen

### Composition ratio of net sales by region



### Net sales / Operating income



### Main applications

Manufacturing of plastic components and other difficult-to-machine materials, special materials, light metal, etc.

### Main customers

Automobiles, IT, smartphones, electronic parts, medical equipment, etc.

### Core products

Horizontal injection molding machines,  
Vertical injection molding machines,  
Light metal injection molding machines

### Business environment

- Changes in the automotive industry (shift to lighter components, electrification, entry of competitors from other sectors, employment of new materials, etc.)
- Expansion of communications network (5G, big data, highly functional smartphones, etc.)
- Growth in demand for high-precision processing equipment
- Addressing environmental regulations (e.g. biodegradable plastics)
- Rise in labor-saving and automation requirements

### Strengths

- Stable, high-precision molding performance with V-LINE®
- Sales network for EDMs
- Ability to adapt to specialty machinery
- Molding of difficult-to-machine materials (silicone/PEEK materials, biodegradable plastic)

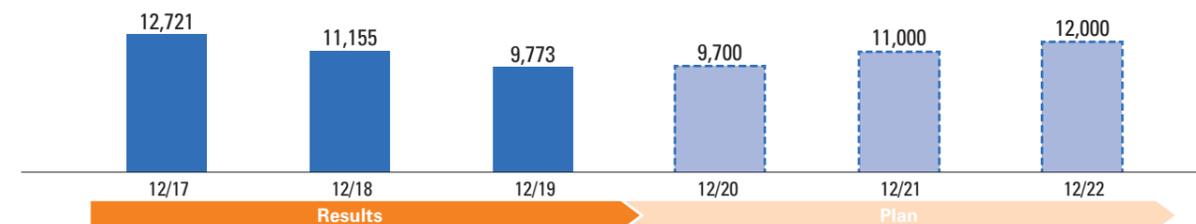
## Overview of year ended December 2019

As well as companies in Japan and around the world postponing capital expenditure due to US-China trade friction, demand related to the mainstay smartphone and electronic components business was flat, both in Japan, China and other regions of Asia, and sales volumes decreased. On the other hand, we have seen demand in domestic auto-related industries, and demand has also started to emerge in relation to optical lens molding and next-generation 5G communications infrastructure development. Segment profits fell significantly year-on-year owing to factors including increased R&D expenses and one-off costs associated with participation in exhibitions. In research and development, Sodick developed the "VT50" 490 kN (50 ton) vertical single-acting type injection molding machine, which further enhances productivity using V-LINE®'s stable precision molding technology. This model contributes to improvement in productivity in the precision molding field, including narrow-pitch and low-profile precision connectors where demand is growing in fields such as autonomous driving, sensing, and 5G communications.

## Outlook and strategy for year ending December 2020

Like the machine tool segment, the industrial machinery segment is well positioned to benefit from latent demand for high-precision machinery resulting from increased sophistication in manufacturing, especially in China—Sodick's largest market—in sectors including IT, electronic components, and automotive. However, capital expenditure demand is expected to remain weak due to factors including a slowdown in the global economy resulting from prolonged US-China trade friction, and the spread of COVID-19. Under these circumstances, Sodick is aiming for an overseas sales ratio of at least 70%, and will implement a variety of measures over the medium- to long-term. In product development, Sodick has developed light metal injection molding machines and we are working toward mass production. In marketing activities, we are strengthening our sales structure in growth markets including Europe and India, expanding sales of the automated production system "ICF-V," and providing solutions services such as preventive maintenance and status management using IoT and AI. And in production activities, we are focused on increasing the ratio of overseas production and implementing cost-cutting measures including the use of standardized components.

### Industrial Machinery Segment Net Sales Performance & Plan (million yen)



Note: Plans do not currently take into account the impact of COVID-19.

## TOPIC

### Sodick takes part in European K-Show for the first time

In October 2019, Sodick exhibited at the KTrade Fair held at Düsseldorf Messe in Germany, the world's leading trade fair for the plastics and rubber industry. It was the first time for us to participate in a European exhibition with molding machines. This event is held once every three years, and showcases the latest technologies under development. It was an important opportunity to research market trends. We exhibited the "GL30-LP" high-response injection molding machine and appealed to visitors with the machine's superior precision molding of fine components. We plan to continue actively participating in such exhibitions in order to expand sales of molding machines in Europe.

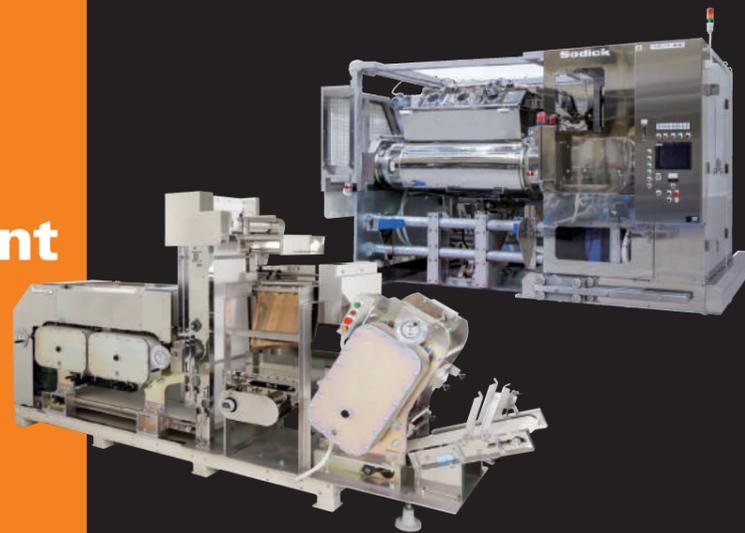


Sodick's booth at the trade fair

## Overview of Each Segment

# Food Processing Machinery Segment

The food processing machinery segment supplies customers with the optimal food processing equipment from among its lineup of over 600 models, including noodle-making machines, noodle boiling plants, and sterile-packed cooked rice production systems, for the production of udon, soba and ramen noodles sold by convenience stores and supermarkets, among others. We also contribute to the creation of a safe and secure, healthy and delicious food culture.

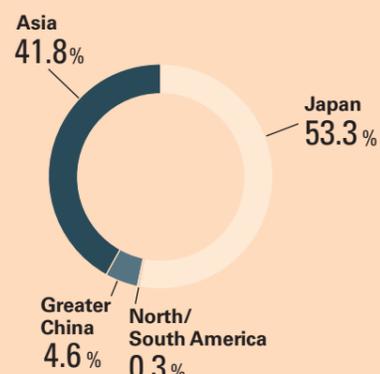


Composition ratio of net sales

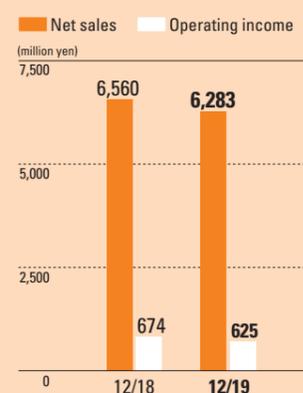


Net sales  
**6,283** million yen  
Segment income  
**625** million yen

Composition ratio of net sales by region



Net sales / Operating income



### Main applications

Uncooked noodles (udon, soba, Chinese noodles, etc.), frozen noodles, long shelf-life noodles, sterile-packed cooked rice, confectionery, Japanese-style deli dishes

### Main customers

Leading food manufacturers, restaurant chains, frozen food manufacturers, etc.

### Core products

Noodle making machine, Automatic noodle boiling / steaming / sterilizing systems, Sterile-packed cooked rice production systems, Equipment for preparing Japanese-style deli dishes

### Business environment

- Increasing popularity of Japanese food overseas
- Increased demand for high-quality cooked noodles
- Increased consumption of packed rice in daily life
- Expansion of the ready-made meal market
- Rise in automation and labor-saving requirements
- Further improvement of hygiene management/safety

### Strengths

- Dominant market share in the noodle-making machine market
- Providing a full lineup of noodle-making machines and sterile-packed cooked rice equipment
- Technological synergies between equipment development and software development, etc.

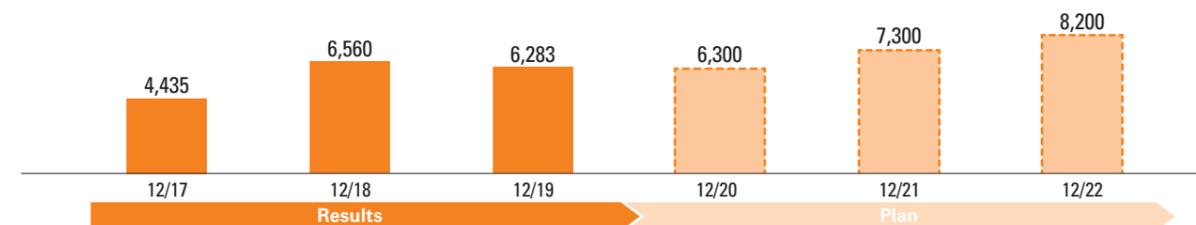
## Overview of year ended December 2019

The food processing machinery segment develops, manufactures and sells a variety of equipment including noodle-making machines, noodle production plants and sterile-packed cooked rice production systems, and provides maintenance services for these. There remained strong demand for high-quality production equipment for pre-cooked noodles, and demand for sterile-packed cooked rice production systems increased both in Japan and overseas. Demand for automated systems also grew as a means of enhancing hygiene and saving labor, but against a backdrop of companies postponing capital expenditure due to a slowdown in the global economy, there was a slight year-on-year fall in sales during the period. In research and development, Sodick developed new product technologies to meet the needs of the market, including a granule powder cooling system, which provides temperature control and quality stabilization for food materials. In marketing activities, Sodick exhibited at the international food machinery trade show "FOOMA JAPAN 2019," and appealed to visitors with products for use in new fields, such as the granule powder cooling system, and peeling/decorating equipment for grain, raw vegetables, root vegetables, fruit, etc.

## Outlook and strategy for year ending December 2020

As well as demand in Japan and overseas for high-quality noodle production systems, we anticipate demand for packed cooked rice production systems and automated equipment. Particularly in China, where we envisage future growth in demand, in July 2019 we established the sales company Sodick Tom Food-Machines (Shanghai) Co., Ltd. in Shanghai. We intend to strengthen our engineering capability, marketing power and operational/services structure in order to win market share for automatic noodle boiling systems, which are one of Sodick's strengths. At the Amoy Plant in Xiamen, meanwhile, we plan to commence production of certain types of food processing machinery.

Food Processing Machinery Segment Net Sales Performance & Plan (million yen)



Note: Plans do not currently take into account the impact of COVID-19.

## TOPIC

### Participation in food machinery trade show "FOOMA JAPAN 2019"

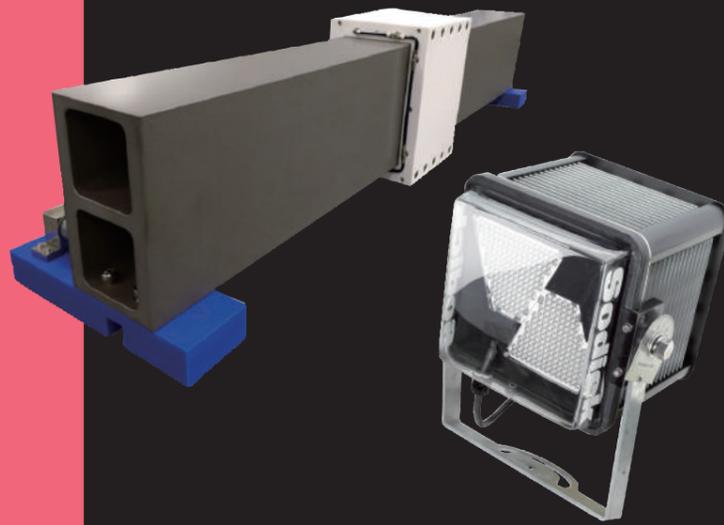
Sodick exhibited at the international food machinery trade show "FOOMA JAPAN 2019," held at Tokyo Big Sight. Amid rising interest in food safety and security, both in Japan and around the world, we exhibited our lineup of state-of-the-art food processing machinery, including noodle-making machines. As well as domestic customers, the trade show welcomed many visitors from China and other Asian countries, where future growth is anticipated, providing us with an opportunity to showcase our products. The new granule powder cooling system, which we exhibited here for the first time, can cool raw materials quickly and evenly, and enables integrated automatic operation with existing production systems. As well as the noodle-making and cooked rice sectors, we are expanding into new sectors including bread and confectionery production.



## Overview of Each Segment

# Other Segments

Sodick supplies numerous products that utilize our proprietary in-house technology, including motion controllers, LEDs and ceramics.



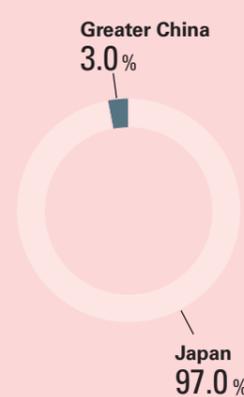
Composition ratio of net sales



Net sales  
**5,737** million yen

Segment income  
**311** million yen

Composition ratio of net sales by region



Net sales / Operating income



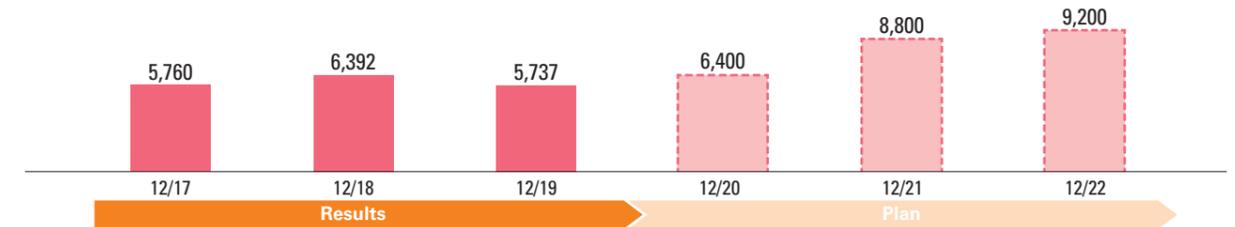
### Overview of year ended December 2019

Other segments comprise the precision die and molding business, including built-to-order precision connectors for automotive parts; and elemental technology business consisting of the sale of products such as linear motors and ceramic products, which have been created during the process of internalizing production. The precision die and molding business is seeing a recovery in automotive-related demand, but sales in the elemental technology business were weak due to a slowdown in ceramics demand from semiconductor production equipment manufacturers. In addition, a recovery in profitability was not achieved due partly to up-front R&D investments aimed at strengthening production capacity for longer term business expansion and addressing automation requirements.

### Outlook and strategy for year ending December 2020

In the precision die and molding business, we anticipate a recovery in demand from automotive-related areas, and in external sales of ceramics, a recovery in demand from semiconductor-related areas. Targeting business expansion over the longer term, in the precision die and molding business we will be working to bolster our capacity to manufacture production equipment to address automation and saving labor requirements.

Other Segments Net Sales Performance & Plan (million yen)



Note: Plans do not currently take into account the impact of COVID-19.

### Main applications

Design and production of dies,  
Production of plastic molded parts,  
Development, production, and sale of products that use linear motors, the control devices for these, ceramic products, and LED lighting, etc.

### Business environment

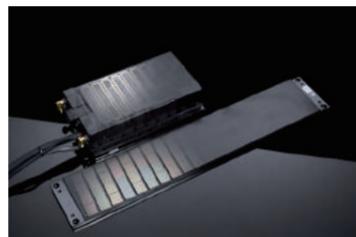
- Continuous demand in automotive and semiconductor industries
- Continuous demand from semiconductor manufacturing equipment manufacturers
- Reform of the automotive industry (lighter-weight components, electrification, etc.)

### Core products

Ceramics



Linear motors



LED



### TOPIC

#### Successful production of 5.5 m ceramics product, among the longest in the world

In recent years, precision machinery and equipment, exemplified by ultraprecision (nano) machining equipment and LCD panel manufacturing equipment, has seen a switch to ceramic structures, as conventional metal structures cannot meet customers' precision requirements. In 2019, Sodick F.T's Kaga Plant succeeded in manufacturing a 5.5 m-long ceramics product, much longer than the 4 m length that was previously possible, making it among the longest in the world. Sodick aims to continue expanding sales by incorporating innovative technologies that fulfill the demands of the times, and internalize production so as to differentiate ourselves from our competitors. This will enable us to better respond to increased demand for products used in manufacturing equipment, and to strengthen our capacity to supply larger-sized products.



Ceramics kiln at the Kaga Plant

## Board Members

## Directors



**Yuji Kaneko**  
Chairman and Representative Director



**Kenichi Furukawa**  
President and Representative Director



**Keisuke Takagi**  
Vice President and Representative Director  
Sales Managing Division



**Hideki Tsukamoto**  
Senior Executive Managing Director  
Machine Tools Division and  
Production Management Division



**Hirofumi Maejima**  
Executive Managing Director  
Corporate Division



**Ching-Hwa Huang**  
Director  
Sales Managing Division / South China Area



**Katsuhisa Furuta**  
External Director



**Ichiro Inasaki**  
External Director



**Kazunao Kudo**  
External Director



**Kenzo Nonami**  
External Director

## Auditors



**Akio Hosaka**  
Audit & Supervisory Board Member



**Yuichi Watanuki**  
Audit & Supervisory Board Member



**Masahiro Shimojo**  
External Audit & Supervisory Board Member



**Takashi Nagashima**  
External Audit & Supervisory Board Member



**Tomio Okuyama**  
External Audit & Supervisory Board Member

## Message from External Directors

### I will continue to identify ways to utilize Sodick's extensive expertise to further develop our technologies for the future.



**Katsuhisa Furuta**  
External Director

I have served as an external director for Sodick for four years. My professional experience is in control systems engineering, such as mechanical control and robot control, and in administrating operations at a university; I actually have no previous corporate experience before joining the Company. Since becoming an external director, I have learned so much about Sodick's business and technology as well as its general management through the extensive preparatory materials provided for the Board meetings, numerous tours of the Company's factories in Japan and overseas, e-learning courses on governance, and several workshops. The many opportunities I have had at the meetings of the Board of Directors to receive the reports from the directors in charge of business execution and to hear the status and audit reports about the internal controls for the corporate group and all its subsidiaries have greatly deepened my understanding of the Company. These experiences allow me to make informed recommendations to the

Board of Directors about the stakeholder view of corporate soundness and transparency and provide meaningful input to the Board's discussions.

My current duties include serving on the Advisory Committee on Personnel and the Advisory Committee on Compensation. The Board's current makeup includes a wonderful mix of diverse individuals, and I intend to encourage them to formulate a clear succession plan. The Advisory Committee on Compensation discusses and determines compensation levels for directors based factors including their business execution performance, management content, and contribution to the business. Last year, the Company fell short of its profit targets, and the compensation amounts were lowered for representative directors and directors in charge of business execution.

As I fulfill my duties as an external director, I intend to continue actively providing recommendations informed by my technological expertise. The remarkable development of information and communications technology has created an era in which companies that are unable to keep pace with the major social and technological changes can quickly become redundant. I believe the metal 3D printers that Sodick is developing into a core business offer much promise, and I have been encouraging the Company to be very proactive about boosting their attractiveness to a whole range of potential customers. My urging led the Company to set up the online Sodick Additive website with videos showing the printers' capabilities. I believe the site will help widen recognition of the features of the latest metal 3D printer "LPM325" to an audience of engineers beyond the Company's current followers. This is just one example of Sodick's numerous excellent technologies and products. I will recommend that more opportunities be created for informal discussions with the technical engineers so I can provide deeper discussions with the Board of Directors about ways to apply the Company's technologies, information communication methods, ideas for new applications, and suggestions for new management plans.

#### Brief Personal History

- 1970 Assistant Professor of Tokyo Institute of Technology School of Engineering
- 1982 Professor of Tokyo Institute of Technology School of Engineering
- 1997 Visiting Professor of University of California, Berkeley in the U.S.
- 1998 Honorary Doctorate of Helsinki Institute of Technology (currently Aalto University) in Finland
- 2000 Professor Emeritus of Tokyo Institute of Technology
- 2000 Professor of Tokyo Denki University School of Science and Engineering
- 2004 Director of Tokyo Denki University
- 2007 Professor of Tokyo Denki University School of Science and Technology for Future Life
- 2008 President of Tokyo Denki University
- 2014 Counselor of Tokyo Denki University
- 2016 Educational Affairs Adviser of Tokyo Denki University
- 2016 External Director of Sodick Co., Ltd. (current post)

### I am committed to executing sound governance centered on sustainability.



**Kenzo Nonami**  
External Director

I am the founder of Autonomous Control Systems Laboratory (ACSL), a maker of unmanned aerial vehicles, commonly known as drones. When we launched in 2013, we were a university-backed venture company and listed on TSE Mothers in 2018. I served as the chairman of ACSL until 2019. While at the ACSL, in April 2016 we brought in external directors from Rakuten and University of Tokyo Edge Capital due to the increase in third-party allotments. At the time, an external director was a representative of a major shareholder brought in to watch over a start-up company and with the clear purpose of helping increase capital gains when a young company listed on the stock market. Unlike a director assigned by a venture capital firm, I consider it important to provide general management advice, and I am constantly thinking about my role and how to fulfill this mission. I have switched sides from bringing in an external director to being an external director myself at Sodick.

I believe Sodick has given me the responsibility of providing guidance from my experience in venture capital and as a standard external director, which gives me the opportunity to apply my insights from the point of view of an external director.

As we all know, external directors play an important role in strengthening corporate governance. We participate in meetings of a company's highest decision-making body, the Board of Directors, and offer advice to management that is objective, professional, and based on experience. Independence is essential for an external director so we can represent shareholders to ensure proper legal compliance, corporate social responsibility, and risk management and make certain that management aligns with their interests and is acting to increase corporate value. At the same time, the question arises as to how suitable an external director's advice can be since they are not directly involved in the company's business. At ACSL, having that objective perspective helped the Board of Directors hear sound advice and overcome the risk that could occur when a person or company has been in an industry so long that their vision becomes too shortsighted, or when the norm in the industry veers away from the common sense in society. I believe that is where external directors are invaluable.

Sodick's founder Toshihiko Furukawa overcame many difficulties to build the world's leading company in EDM, and the Company continues expanding its business with injection molding machines, machining centers, linear motors, metal 3D printers, and food processing machinery. As the business grows, my mission is to tap into the passion of the Company's founder and to find ways to imbue that spirit into the company's management structure and link it to employee motivation. I will continue to do my utmost to provide governance for a healthy growth process aimed at realizing a sustainable company and society.

#### Brief Personal History

- 1979 Doctor of Engineering of Tokyo Metropolitan University
- 1985 Research Engineer of National Aeronautics and Space Administration (NASA)
- 1988 Senior Research Engineer of National Aeronautics and Space Administration (NASA)
- 1988 Assistant Professor of Chiba University
- 1994 Professor of Chiba University
- 2008 Director and Vice-President of Chiba University (Research)
- 2012 Chairman of Mini Surveyor Consortium (currently Japan Drone Consortium) (current post)
- 2013 Representative Director and CEO of Autonomous Control Systems Laboratory Ltd.
- 2014 Professor Emeritus of Chiba University (current post)
- 2018 Chairman of the Board of Autonomous Control Systems Laboratory Ltd.
- 2019 Chairman of the Board of Advanced Robotics Foundation (current post)
- 2020 External Director of Sodick Co., Ltd. (current post)

# Corporate Governance

## Basic Approach

Sodick's business philosophy is to contribute to the development of society by supplying outstanding products and supporting our customers' manufacturing operations, based on our guiding spirit of "Create," "Implement," and "Overcome Difficulties."

We believe that the most important element in this is to conduct business in a consistently transparent and readily comprehensible

manner, for all of our stakeholders including our shareholders and investors, customers, and employees.

Sodick strives to make efficient use of its management resources, strengthen risk management and compliance, and maximize corporate value for all of our shareholders and investors.

## Corporate Governance Structure and Features

Sodick believes that an audit system incorporating External Audit & Supervisory Board Members is an effective form of management supervision and serves to enhance the efficacy of corporate governance. Sodick therefore adopts the "Company with an Audit & Supervisory Board" system. The Board of Directors includes four internal directors with extensive knowledge of the fast-changing industry and Sodick internal affairs, who also serve as executive officers, as well as six non-executive directors (two representative directors, four external directors). This system ensures that the executive directors supervise the execution of business in an effective manner while providing wide-ranging advice.

Sodick has adopted an executive officer system to realize corporate management that is both responsive and highly efficient. The Board of Directors entrusts the execution of business to executive officers based on the management organization and segregation of duties.

To supplement the functions of the Board of Directors, Sodick has established Advisory Committees on Personnel and Compensation whose members may include External Directors on an optional basis. This has increased the transparency of decision-making and ensures that directors' remuneration is appropriate.

## Strengthening Management Supervisory Functions

Four of Sodick's 10 directors are external directors. They apply their objective perspectives and wealth of knowledge and experience to management, thereby strengthening the corporate governance structure. Furthermore, three of the five Audit & Supervisory Board Members are external auditors, increasing the objectiveness and fairness of management supervision.

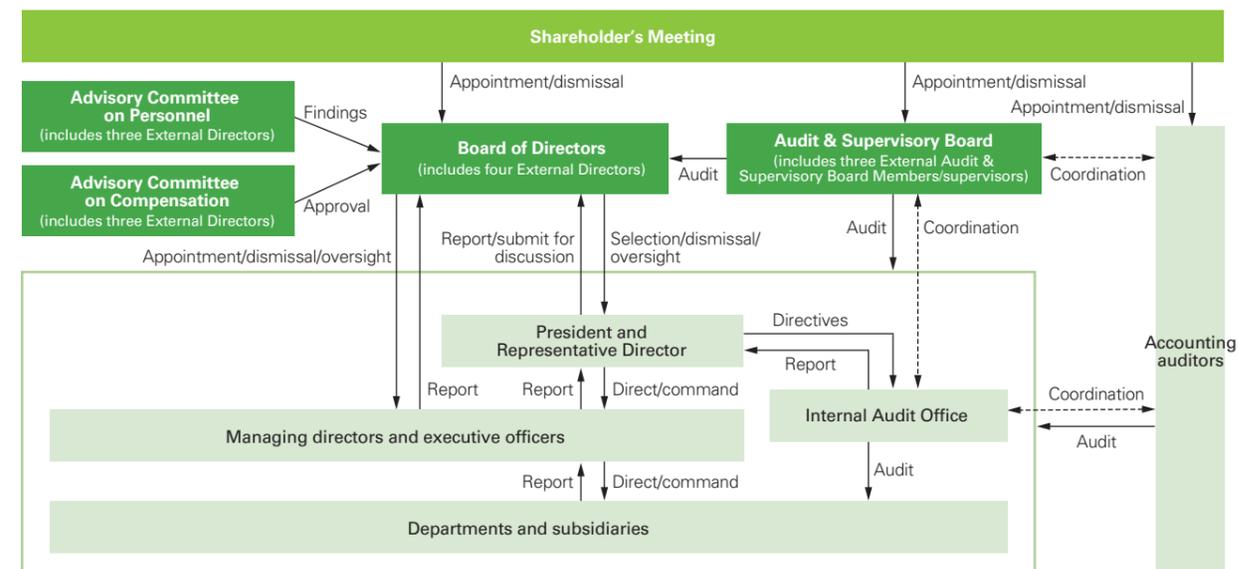
Prior to meetings of the Board of Directors, the external

directors and external auditors issue written reports to the Board incorporating any necessary information and items to be determined or investigated by the Board. The external Audit & Supervisory Board Members also convene regular monthly meetings of the Audit & Supervisory Board, which are attended by all auditors, where they exchange a wide range of information and opinions.

## History of Initiatives to Strengthen Corporate Governance

2012	-Introduction of executive officer system
2014	-Election of one external director
2015	-Compliance with the Corporate Governance Code -Addition of one external director (total of 2 persons) -Establishment of Advisory Committees on Personnel and Compensation
2016	-Evaluation of the effectiveness of the Board of Directors carried out -Addition of one external director (total of 3 persons)
2018	-Compliance with the revised Corporate Governance Code -Addition of one external director (total of 4 persons)
2019	-Election of a female director
2020	-Reviewed number of members in Advisory Committee on Personnel and Advisory Committee on Compensation (two internal directors and three external directors)

Diagram of Sodick Corporate Governance Structure (as of end-March 2020)



### Board of Directors

- Performs a supervisory function over decision-making on important issues and management in general as stipulated in the Board of Directors Regulations, including setting basic policy on management and appointing executive officers.
- Regular meetings of the Board of Directors take place once per month, and when necessary the Board also convenes extraordinary meetings.
- The Board is comprised of 10 directors who supervise management and make important management decisions. They include three internal directors who are not serving as executive officers, three directors who are also serving as executive officers, and four external directors.
- The provision of opinions, advice, and cross-checking by external directors serves to improve and revitalize the transparency and credibility of the Board of Directors while also strengthening its management supervision functions.
- Business meetings, joint technical meetings, quality control meetings, and business report meetings may be held to broaden and deepen understanding of the company and manage it effectively. Directors attend these meetings in order to ensure that decisions on basic and important items related to the execution of business are taken flexibly.

### Audit & Supervisory Board

- The Audit & Supervisory Board is comprised of five Audit & Supervisory Board Members, three of whom are external auditors.
- The function of the Audit & Supervisory Board is to supervise management from an external perspective. It determines policies on auditing and the assignment of duties, and receives reports on the implementation and results of audit from the auditors. In addition, it receives reports from directors and

accounting auditors on the state of execution of their duties, and requests explanations thereof as necessary.

### Advisory Committee on Personnel

This committee formulates appointment criteria and policies regarding personnel matters involving directors, Audit & Supervisory Board Members, and executive officers; selects candidates for those positions, and determines the standards for dismissal.

The Advisory Committee on Personnel is comprised of five directors, three of whom are external directors.

Members	President Furukawa (Chair)*
	Chairman Kaneko
	External Director Furuta
	External Director Inasaki
	External Director Kudo

### Advisory Committee on Compensation

This committee formulates policy on compensation for directors and executive officers, and deliberates over compensation standards, appraisals, and the monetary amounts of compensation.

The Advisory Committee on Compensation is comprised of five directors, three of whom are external directors.

Members	President Furukawa (Chair)*
	Chairman Kaneko
	External Director Furuta
	External Director Inasaki
	External Director Kudo

\* President Furukawa is the Chair of both the Advisory Committee on Personnel and the Advisory Committee on Compensation, but objectivity and fairness are ensured by the fact that the majority of directors are external directors.

# Corporate Governance

## Composition of Board of Directors and Audit & Supervisory Board

Sodick believes that in order for the Board of Directors to perform its role and duties effectively, it needs to comprise members with sufficient knowledge and experience of business management in their respective fields, whether they come from inside or external the company. We select candidate directors and Audit & Supervisory Board Members based on the type of knowledge and experience we consider to be important from a corporate management perspective.

Based on this approach, the directors and auditors we have appointed as of end-March 2020 are as shown in the table.



## Corporate Governance Structure (as of end-March 2020)

Organizational Plan	Company with an Audit & Supervisory Board
Directors	10 Directors* <sup>1</sup> (of which 4 are external directors) Chair of Board of Directors: President
Audit & Supervisory Board Members	5 Audit & Supervisory Board Members* <sup>2</sup> (of which 3 are external auditors)
Term of Appointment for Directors per the Articles of Incorporation	2 years
Company with Executive Officer System	Yes
Optional Advisory Committees of Board of Directors	Advisory Committee on Personnel Advisory Committee on Compensation
Accounting Auditors	Grant Thornton Taiyo LLC
Corporate Governance Report <sup>3</sup>	<a href="https://www.sodick.co.jp/en/ir/governance.html">https://www.sodick.co.jp/en/ir/governance.html</a> (only available in Japanese)

\*1 The Articles of Incorporation state that the number of directors shall be not more than 15.

\*2 The Articles of Incorporation state that the number of Audit & Supervisory Board Members shall be not more than 5.

\*3 For information about compliance with the Corporate Governance Code, please refer to our website.

## Overview of Directors (as of end-March 2020)

Director	Status & Committees	Attendance (fiscal year ended Dec. 2019)	Fields that are particularly expected of directors/auditors*							
			Board of Directors meetings	Audit & Supervisory Board meetings	Law and Risk Management	Finance and Accounting	Corporate Management	Manufacturing/Technology/R&D	Global	Marketing/Sales
Yuji Kaneko	Chairman and Representative Director ▲Advisory Committee on Personnel ★Advisory Committee on Compensation	13/13 times					●	●	●	
Kenichi Furukawa	President and Representative Director ▲Advisory Committee on Personnel ★Advisory Committee on Compensation	13/13 times			●	●	●		●	●
Keisuke Takagi	Vice President and Representative Director Sales Managing Division	13/13 times					●		●	●
Hideki Tsukamoto	Senior Executive Managing Director Machine Tools Division and Production Management Division	13/13 times					●	●	●	
Hirofumi Maejima	Executive Managing Director Corporate Division	13/13 times			●	●			●	
Ching-Hwa Huang	Director Sales Managing Division / South China Area	10/10 times (Note 1)					●		●	●
Katsuhisa Furuta	Director ■ External ◆ Independent ▲ Advisory Committee on Personnel ★ Advisory Committee on Compensation	13/13 times						●	●	
Ichiro Inasaki	Director ■ External ◆ Independent ▲ Advisory Committee on Personnel ★ Advisory Committee on Compensation	12/13 times						●	●	
Kazunao Kudo	Director ■ External ◆ Independent ▲ Advisory Committee on Personnel ★ Advisory Committee on Compensation	12/13 times					●	●	●	
Kenzo Nonami	Director ■ External ◆ Independent	(Note 2)					●	●	●	

## Audit & Supervisory Board Member

Audit & Supervisory Board Member	Status & Committees	Attendance (fiscal year ended Dec. 2019)	Attendance (fiscal year ended Dec. 2019)	Fields that are particularly expected of directors/auditors*					
		Board of Directors meetings	Audit & Supervisory Board meetings	Law and Risk Management	Finance and Accounting	Corporate Management	Manufacturing/Technology/R&D	Global	Marketing/Sales
Akio Hosaka	Audit & Supervisory Board Member	13/13 times	13/13 times			●	●	●	●
Yuichi Watanuki	Audit & Supervisory Board Member	13/13 times	13/13 times			●	●	●	●
Masahiro Shimojo	Audit & Supervisory Board Member ■ External ◆ Independent	10/10 times (Note 1)	10/10 times (Note 1)	●	●			●	
Takashi Nagashima	Audit & Supervisory Board Member ■ External ◆ Independent	13/13 times	13/13 times	●	●	●			●
Tomio Okuyama	Audit & Supervisory Board Member ■ External	13/13 times	13/13 times	●	●			●	

Note: Details of the criteria for the independence of external officers are listed on our website.  
<https://www.sodick.co.jp/en/ir/governance.html>

\*The above table does not encompass all of the expertise possessed by the directors.

Note 1: Director Ching-Hwa Huang and External Audit & Supervisory Board Member Masahiro Shimojo were elected at the Ordinary General Meeting of Shareholders held on March 28, 2019, and 10 Board meetings / Audit & Supervisory Board meetings have been held since they assumed their posts.

Note 2: External Director Kenzo Nonami was elected at the Ordinary General Meeting of Shareholders held on March 27, 2020; no activity applicable in the fiscal year ended December 2019.

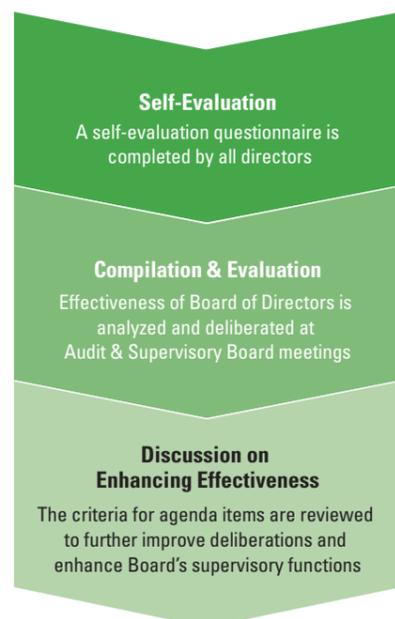
### Evaluating the Effectiveness of the Board of Directors

Every fiscal year, all directors perform a self-evaluation regarding the extent to which they have fulfilled their professional duties. This is carried out to verify that Sodick's Board of Directors is performing its professional duties in accordance with our guidelines, in order to

boost the effectiveness of corporate governance.

The Audit & Supervisory Board Members analyze and evaluate the overall effectiveness of the Board of Directors based on each director's self-evaluation, and disclose the result.

#### Method of Analysis and Evaluation



#### Main Content of Questionnaire

Role and duties of Board of Directors  
Composition of Board of Directors  
Supervision by Board of Directors  
Support structure for Board directors  
Matters concerning external directors

#### Fiscal Year ended Dec. 2019 Evaluation Results

The evaluation found that the Board of Directors was functioning properly in regard to its overall effectiveness, including the status of operation, status of deliberation, and management and supervisory functions.

#### Fiscal Year ending Dec. 2020 Management Policy

To further improve deliberations and enhance the Board's supervisory functions, we will review the way it operates, including the criteria for agenda items.

	Results for year ended December 2019	Issues for year ending December 2020
Overall effectiveness	<ul style="list-style-type: none"> <li>● Sharing of dialogue with investors</li> <li>● Review of criteria for agenda items</li> </ul>	<ul style="list-style-type: none"> <li>● Shortening business reports</li> <li>● Enhancing discussions concerning risk assessment</li> <li>● Enhancing discussions concerning capital cost</li> </ul>
External officer	<ul style="list-style-type: none"> <li>● Giving a prior presentation of agenda items to external directors and external auditors</li> </ul>	<ul style="list-style-type: none"> <li>● Enhancing training content, including ensuring external officers have an awareness of legislation</li> <li>● Earlier provision of materials to external officers</li> <li>● Increasing frequency of opinion exchange between external directors and the Audit &amp; Supervisory Board</li> </ul>

### Training for the Board of Directors and Audit & Supervisory Board

Sodick implements the following in order to ensure that its directors and Audit & Supervisory Board Members are able to perform their functions and roles appropriately.

- (1) Newly appointed directors and auditors take part in training provided by the Japan Audit & Supervisory Board Members Association.
- (2) Independent external directors and independent external auditors are kept informed about Sodick's business activities and visit key business sites, etc., and are also updated on our business strategies where appropriate.
- (3) Other directors, auditors, and executive officers also acquire the knowledge needed to enhance corporate value, and learn

about the approaches taken to this, through methods such as e-learning provided by the Tokyo Stock Exchange.

Opportunities are provided for executive officers and others to participate in management, such as through business report meetings, in order to cultivate successor personnel. In addition, we implement initiatives aimed at developing human resources at the executive management level, including training for executive managers covering areas such as drawing up long-term business strategies. However, as there is scope for further discussion concerning successor planning and training, the training system and the content of this, the Board of Directors will continue to hold discussions on this area.

### Officer Compensation

#### Basic Policy on Officer Compensation

- Compensation for officers is based on a compensation system that reflects job position and results while ensuring linkage to company performance, taking into consideration the management issues of sustainable growth and medium- to long-term corporate value enhancement.
- Compensation for external directors and auditors is based on a compensation system that is not affected by company performance, thereby ensuring independence from management.

#### Structure of Officer Compensation

- Compensation for directors comprises basic compensation and performance-related compensation.
- Basic compensation is made up of role-related compensation, management/operations compensation and a sum based on personal contribution to performance.
  - Performance-related compensation comprises the following elements: as an incentive for contribution to short-term performance, an amount of monetary compensation calculated by multiplying basic compensation by a performance evaluation coefficient configured according to profit attributable to owners of the parent; and as an incentive for contribution to medium- to long-term corporate value enhancement, a monetary compensation receivable is provided according to the director's role (excluding external directors), and stock compensation with restriction on transfer is supplied by way of an allocation of treasury shares according to the amount of this receivable.

and the suitability of the amount of basic compensation / performance-related compensation of each director.

#### Policy for Determining Supply Ratio

Performance-related compensation of directors is supplied to each individual according to their respective results and performance, on the basis of the expected results for each job position and applicable duties. Therefore, the higher the position and the more important the contribution to performance of the applicable duties, the higher the allocation of performance-related compensation. A high level of results and performance is expected.

- Short-term performance-related compensation is calculated by applying a pre-determined performance-related coefficient to basic compensation, if the profit attributable to owners of parent within the consolidated income plans drawn up each year exceeds a certain amount. Compensation for external directors and auditors is supplied only as role-related compensation from within basic compensation, which is not affected by company performance.
- Medium- to long-term performance-related compensation is determined by proportional distribution in line with the basic amount for each director's position and duties (excluding external directors), after determining the total sum of the monetary compensation receivable provided as shares based on 3-year average performance. Compensation for external directors is a fixed amount, and no performance-related compensation is provided.

#### Method of Determining Officer Compensation

The amount of compensation for each director is deliberated and decided at an Advisory Committee on Compensation, made up of three external directors and two internal directors appointed by the Board of Directors. The Advisory Committee on Compensation develops the compensation system for directors and considers revisions, and deliberates on the evaluation results

#### KPIs (Key Performance Indicators)

The following KPIs are used to calculate performance-related compensation: for short-term performance-related compensation, profit attributable to owners of the parent; and for medium- to long-term performance-related compensation, 3-year average EBITDA.

#### Details for Officer Compensation (Fiscal Year ended December 2019)

Officer category	Total compensation	Fixed compensation (millions of yen)		Medium- to long-term performance-related compensation (millions of yen)	No. of eligible officers
		Basic compensation	Short-term performance-related compensation	Medium- to long-term performance-related compensation (stock compensation with transfer restriction)	
Director (excluding External Directors)	248	213	33	1	8
Audit & Supervisory Board Member (excluding External Auditors)	31	31	—	—	2
External Officer	47	47	—	—	8
Total	327	292	33	1	18

# Corporate Governance

## Internal Governance

Based on the Companies Act, Sodick enacted its Basic Policy on Internal Governance Systems at the Board of Directors meeting on May 17, 2006, in order to ensure propriety in our operations. It was subsequently revised at the Board of Directors meeting on

April 17, 2015. This internal governance system strives to build more optimal and efficient structures through continuous reassessment and improvement.

### Items in Sodick's "Basic Policy on Establishment of Systems to Ensure Propriety in Operations"

#### Sodick's basic philosophy and management philosophy are the mainstay of corporate operations.

- A system to ensure that the performance of professional duties by directors and employees is in compliance with legislation and the Articles of Incorporation
- A system concerning the retention and management of information associated with the performance of professional duties by directors
- Regulations and other systems related to crisis management of losses
- A system to ensure efficient performance of professional duties by directors
- A structure to ensure propriety in operations within the Sodick Group
- Matters concerning employees for assisting the professional duties of Audit & Supervisory Board Members
- A system of reporting to Sodick's Audit & Supervisory Board Members and a system to ensure that persons who have made a report are not disadvantaged due to making such report
- A policy on the processing of any costs or liabilities that arise in the performance of professional duties by Audit & Supervisory Board Members
- A system to ensure efficient implementation of audits by Audit & Supervisory Board Members
- Basic Approach to Elimination of Anti-Social Forces and Implementation Status

## Compliance

Sodick evaluates the effectiveness of its internal governance systems through its Internal Audit Office. The results of these evaluations are reported to the Directors and Audit & Supervisory Board Members. The Company has also established a Compliance Helpline (whistleblower system), the purpose of which is to quickly discover and rectify compliance violations or potential instances thereof.

Sodick has established compliance regulations as well as the

Sodick Group Action Guidelines for Corporate Ethics and Standards for Corporate Behavior (Compliance Guidelines). These form a code of conduct, the purpose of which is to encourage group officers and employees to act in ways that conform to laws, the Articles of Incorporation, and social codes. To ensure that they are thoroughly adhered to, the Company provides training and education on them to its officers and employees.

## Risk Management Structure

Sodick has established basic rules for risk management. The Company works to determine, analyze, evaluate, and take appropriate measures to avoid the risks present in each department. To prepare for the occurrence or potential occurrence of unforeseen situations that would have a major impact on management, the Company has also established a

Risk Management Committee and set up the necessary preemptive response policies.

The Risk Management Committee engages with monitoring and overseeing the company-wide risk management situation, and reports the results of risk assessment to the Directors and Audit & Supervisory Board Members.

## Communication with Shareholders and Investors

Sodick regards all of its shareholders and investors as important stakeholders, and places importance on constructive dialogue to improve corporate value. Our Investor Relations Department handles this dialogue with shareholders. When shareholders make individual requests, we consider having directors or other personnel respond to them within reasonable limits, taking into

consideration factors such as the purpose of the meeting and the importance of the topic. The opinions we receive from our shareholders and investors are reported to the Board of Directors and Business Report Committee as necessary, and are utilized for the future management of the Company.

<b>General Meeting of Shareholders</b> No. of attendees <b>52</b> Ratio of exercise of voting rights <b>75.5%</b>	<b>Financial Results Briefing for analysts and institutional investors</b> No. of times held <b>Once each year</b> No. of attendees <b>79</b> <small>Note: The results presentation for the year ended December 2019 was canceled in light of the spread of COVID-19.</small>	<b>No. of IR meetings</b> FY2019 <b>125</b>	<b>Overseas IR</b> HK, SGP <b>2 countries</b>
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### IR Initiatives

<b>Shareholders and investors</b>	- The Company makes every effort to provide information swiftly to all of our shareholders and investors, based on the principles of transparency, fairness, and continuity, and promotes IR activities conducive to further enhancing corporate value. The Investor Relations Department is responsible for dialogue with our shareholders and investors. To respond to queries from shareholders in a rational and effective manner, it coordinates with the relevant departments, including Accounting and Financial Affairs, Legal Affairs, and Compliance for the promotion of IR activities. - Regarding the measures we take in relation to controls over insider information, Sodick has formulated a Disclosure Policy that is published on our website. ▶ <a href="https://www.sodick.co.jp/ir/disclosure.html">https://www.sodick.co.jp/ir/disclosure.html</a> (only available in Japanese)
<b>For analysts and institutional investors</b>	- Financial results briefings for analysts and institutional investors are held twice each year to provide an opportunity for dialogue separate from the individual meetings. - Sodick issues an integrated report and carries out other activities in order to promote a constructive dialogue.
<b>For our individual investors</b>	- A business report is issued twice each year. This is primarily for individual shareholders and features topics related to Sodick's business results and operations. - For our individual investors, a dedicated page has been created at the Company's website. Information is published here about Sodick's business activities, performance, management policy, etc. - The annual shareholders' meeting is a valuable and important opportunity for dialogue with our shareholders, and efforts are made to set aside adequate question-and-answer time and to conduct tours of our showrooms after the meeting.

### Sodick's IR site wins awards

Our IR website was awarded the best website in the "FY2019 All Japanese Listed Companies' Website Ranking" carried out by Nikko Investor Relations Co., Ltd. Sodick was also awarded Silver prize in the "Gomez IR Site Ranking 2019," an objective evaluation and comparison of IR websites carried out by Morningstar Japan K.K. We will continue working to deepen understanding of Sodick among our shareholders and investors by further enhancing the corporate information we provide, including via our IR information site.



## ESG Initiatives

# ESG Initiatives

### Basic Approach to CSR

Sodick Group's business philosophy is to contribute to the sustainable advancement of society by supplying outstanding products and supporting our customers' manufacturing operations. In order to achieve this, we strive to implement wide-ranging CSR activities, rooted in the practice of sincere business activities in line with the Sodick Group Action Guidelines for Corporate Ethics and Standards

for Corporate Behavior (Compliance Guidelines). As well as complying with laws and social norms, we believe that the most important element in this is to conduct business in a consistently transparent and readily comprehensible manner, for all of our stakeholders including our shareholders and investors, customers, and employees.

### Structure for Promotion of CSR

Sodick has established a CSR Promotion Committee, which is chaired by the President and Representative Director. The CSR Promotion Committee is led by the management division at Head Office. It systematically promotes CSR activities by setting CSR-related targets focused on important themes such as compliance, contribution to society, fostering human resources, quality control, and the environment, and by implementing the PDCA cycle. Its aim is to promote CSR activities in a systematic manner through the combined efforts of the entire company.

implemented specific measures to enhance areas including information disclosure and dialogue with our stakeholders, responding to the existing challenges for CSR activities. On this basis, it has examined specific measures to further enhance these areas in the future.

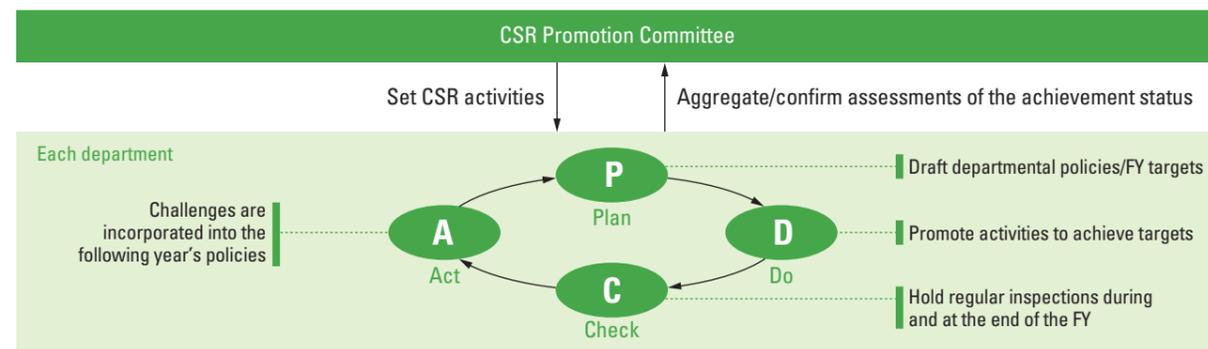
Moving forward, the Committee will continue to plan review sessions with the aim of revitalizing and enhancing CSR activities, while also working to keep all employees informed of this and promoting initiatives for disseminating such activities internally.

In the fiscal year ended December 2019, the Committee

### CSR Structural Chart



### CSR Promotion Image



### List of ESG Issues and Initiatives

Item	Main Initiatives	Activities Performed	Related SDGs
Environmental (→P49)	- Contributing to the environment through our products	- Promoting development of environmentally-friendly products - Developing biodegradable plastic molding technology	  
	- Reducing the environmental impact of our business activities	- CO <sub>2</sub> reduction initiatives - Solar power installation - Thailand plant wins an award in the Thailand Energy Awards 2019	
	- Green procurement	- Promoting green procurement	
Social (→P52)	- Promoting diversity	- Encouraging women in the workforce (taking maternity/parental leave and being reinstated afterwards) - Optimizing global human resources - Hiring disabled workers - Hiring senior citizens	 
	- Creating a comfortable workplace environment	- Promoting health management - Renewal of Head Office dining hall and cafeteria - Promoting a working hours reduction scheme - Comprehensive benefits packages - Promoting club activities	
	- Nurturing human resources	- HR training systems (from new hires to young employees) - Accepting foreign national technical interns - Implementing manager training	
	- Social and cultural activities	- Activities to preserve Katanokamoike wetland registered under the Ramsar Convention on Wetlands - Participation in "Kashu Daishoji-han Sankin Kotai Walk 2019"	
Corporate Governance (→P39)	- Strengthening corporate governance	- Establishing corporate governance structures - Strengthening internal controls and risk management - Strengthening management oversight functions - Improving the transparency of management - Increasing dialogue with stakeholders	

## ESG Initiatives

# Environmental Initiatives

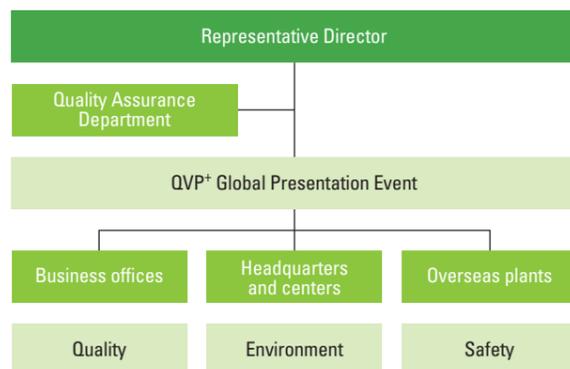
The Hokuriku region, where Sodick has a production base, is a place where traditional culture exists in symbiosis with beautiful natural surroundings. In our work of developing and manufacturing a large number of products in this well-favored region, we have come to realize that treating the natural environment with care is a practice that in itself leads to richness in the lives of the people.

### Sodick's Policies and Structures

Sodick has established systems for promoting quality, the environment and safety, from the perspective of Total Quality Management (TQM), in order to realize a sustainable society through manufacturing. As part of this process, we have formulated a "QVP+ Companywide Policy," and have rolled out QVP+ activities\* to our bases in Japan and overseas in order to reform and improve operations. At a global presentation event led by top management, our Group companies and departments review the previous fiscal year's activities in the light of their respective priority issues, reflect on these, and set targets for the new fiscal year. This leads to continuous improvements that take medium- and long-term targets into account.

All of Sodick's bases in Japan have obtained the international ISO 14001:2015 standard for environmental management systems. They operate while conducting ongoing reviews and improvements and confirming the effectiveness of systems.

### Structure for Promoting Quality, the Environment & Safety



The details of Sodick's policy on quality, the environment and safety are available on our website.

\*QVP+ activities: "QVP" stands for "Quality Victory Plan." This annual event serves as an opportunity for each department to explore ways to make improvements in the areas of quality, the environment, and safety, in keeping with the policies and targets for each fiscal year.

### Promoting Green Procurement

In May 2000, the Japanese government enacted the Act on Promoting Green Purchasing. This law was established to actively promote green procurement based on the perspective that demand-side initiatives were of equal importance to supply-side initiatives when it comes to forming a recycling-oriented society. It encourages procurement with a priority on goods that have a small environmental impact while still bearing in mind the unique features of a given business, the strength and durability required, the preservation of functionality, and cost considerations.

Our Green Procurement Standards took effect in November 2017, and prescribe selection criteria for suppliers and the items procured. These criteria also clarified the activities and surveys needed in order to fulfill our Green Procurement Standards. Additionally, we carried out a survey on our suppliers covering locations within Japan and overseas. We have also established a structure that is capable of handling situations such as earthquakes and data falsification by manufacturers.

In conjunction with this, Sodick is creating its own

ERP-linked harmful chemical substances control system (SHSCS). This enables the Company to systematically identify and control whether our products contain harmful chemical substances. The Procurement and Logistics Division, General Affairs Department, and Quality Assurance Department will be working hand-in-hand to thoroughly investigate whether any materials that we newly purchase in the future contain harmful substances.

### Activities and Surveys Needed in Order to Fulfill Our Green Standards

- Distributing copies of the Green Procurement Standards
- Distributing lists of hazardous chemicals
- Distributing and collecting survey sheets (survey request response forms for chemicals that impact the environment (certificates attesting that such chemicals are not used))
- Distributing and collecting evaluation sheets related to environmental conservation
- Distributing and collecting certificates attesting that designated chemical substances are not contained in products
- Distributing and collecting utilization reports concerning regulations on disclosing conflict minerals
- Distributing tables of exemptions to the RoHS2 directives
- Collecting Safety Data Sheets (SDS)

### CO<sub>2</sub> Reduction Initiatives to Tackle Climate Change

Amid rising global concern surrounding social issues centered on the climate and energy, the Paris Agreement, in which countries came together to mitigate global warming, and the SDGs set out by the UN, are drawing growing attention. In Japan, compliance with the energy conservation law will be required by 2030, and Sodick is setting its sights on the use of natural energy. Solar power systems have been installed on rooftops at our Head Office and at the Miyazaki Office of Sodick F.T.

In our offices, initiatives are being promoted to reduce CO<sub>2</sub>, including effective use of the "Cool Biz" energy-saving campaign (cooler business attire to cut down on air conditioning usage) and teleconference systems. The introduction of teleconference systems at our domestic offices and overseas subsidiaries reduces travel for meetings and business discussions, thereby helping to reduce energy consumption.

### CO<sub>2</sub> Emissions at Sodick Business Sites in Japan

	FY2015	FY2016	FY2017	FY2018	FY2019
CO <sub>2</sub> emissions (t)	7,227	8,543	6,583	8,831	10,164

### Crude Oil Equivalent at Sodick Business Sites in Japan

	FY2015	FY2016	FY2017	FY2018	FY2019
Crude oil equivalent (kl)	2,969	3,440	2,650	3,529	4,116

### Thailand plant wins an award in the Thailand Energy Awards 2019

The engineers at Sodick Group's Thailand plant—our biggest production base—formed an Energy Saving Committee in 2016, and have endeavored to reduce the energy usage of the entire plant. As a result, and in recognition of a reduction in energy usage for three years running, the plant received an award in the Energy Management Team for Designated Factory category of the Thailand Energy Awards 2019, a scheme organized by Thailand's Ministry of Energy to recognize environmental management and energy-saving activities in the country.

At the awards ceremony held at the Bangkok International Trade & Exhibition Centre (BITEC), Mr. Asano, vice-president of the Thailand plant, received the trophy from Thailand's Deputy Prime Minister Somkid.

We will continue working to further cut power consumption in order to realize sustainable production activities.



Mr. Asano, vice-president of the Thailand plant, on stage at the awards ceremony (far right)

## ESG Initiatives

### Promoting Environmentally-Friendly Products

Sodick is actively engaged in the development of products and technologies that contribute to high efficiency, lower consumption of energy and resources, and waste reduction.

#### Environmentally-Friendly Products



##### Tsubame Wire Plus

The world's first electrode wire, adapted to used-wire recycling systems, developed and manufactured in-house. Built using high-quality and high-precision production processes to offer superior straightness and an extremely smooth surface quality. It fully elicits machining performance that is highly reliable.



##### Eco-Ion R

An ion exchange resin system included with wire-cut EDMs (water specification), with an extended operating life making it well suited to long-duration machining. Its 18-L capacity is approximately twice that of conventional types. The "canister" itself is replaceable, so there is no need to perform the work of refilling the resin. This makes for an environmentally-friendly product.



##### Granule Powder Cooling System

Quickly and evenly cools granular raw materials including wheat flour, buckwheat flour and rice flour. Improves the dough quality and shortens cooling time in fields including noodle-making, bread and confectionery production, and also significantly cuts power consumption for cooling.

By supplying environmentally sound products and technologies, we are helping to reduce the global environmental footprint and protect the global environment.

### Biodegradable Plastic Molding Technology Initiatives

Research and development of plastics that biodegrade in natural conditions such as soil and water is currently drawing attention. Biodegradable plastic is a type of plastic that eventually breaks down completely into a natural by-product (such as carbon dioxide and water) through the action of microorganisms that exist in the natural world. This helps to resolve the problem of microplastics, which remain when plastic waste does not break down naturally, and by becoming progressively smaller are difficult to recover.

Sodick's injection molding machines employ the V-LINE® System, a unique mechanism that separates the processes of plasticization and injection. This system demonstrates outstanding performance in terms of the stability of the melted state and heat stability during injection, contributing to stable manufacturing of products made from biodegradable plastics.



eV-LINE horizontal injection molding machine "MS50" using electric V-LINE®

## Together with Society

Since our founding, Sodick has expanded its operations under the motto of "Create," "Implement," and "Overcome Difficulties." The very mettle and ability to take action possessed by each and every one of our employees provides the backbone for this endeavor. All of our employees – not just our technical staff, but also our sales and management personnel – maintain a high level of motivation at their respective stages in the process, and are actively engaged in their work as specialists.

The diversity of our workforce, with employees offering different perspectives and values, is conducive to further globalizing our business. Based on this thinking, Sodick is promoting efforts to employ a wide-ranging workforce that includes foreign nationals, the disabled, and senior citizens. Furthermore, we are also working hard to create an environment in which women can continue to flourish in the workplace after they marry and have children.

### Promoting Diversity

#### Encouraging Women in the Workforce

Sodick is striving to create an environment that allows our employees to balance work with child-rearing. We want to ensure that they can take maternity or parental leave and then return to their previous departments and positions. As a result of our initiatives, women are actively taking maternity and parental leave, with a 100% return-to-work ratio in the past five years. We are also encouraging male employees to take parental leave and they are gradually becoming more aware of this opportunity.

Sodick has drawn up an action plan to enable female employees to shine in a variety of fields, and the percentage of female new hires between 2015 and 2019 was 26.5%. We will continue working hard to promote women in the workforce, while supporting all our employees in achieving their own work-life balance.



#### Hiring Disabled Workers

Sodick itself is also making efforts to actively hire disabled persons and create an environment that broadly promotes such hiring goals in order to provide them with stability. In fiscal 2019, the percentage of disabled employees was 2.5%. In addition, we have invested in KIBI NC training center Corp., an enterprise that uses the latest machine tools to conduct skills-development training for the physically disabled with the goal of helping them to become socially independent.

#### Making the Most of Global Human Resources

Sodick was quick to adopt a global perspective in developing its business. Around 70% of our employees are currently working overseas, and the Company has also actively sought out non-Japanese hires.

Having foreign national employees will be absolutely indispensable for our efforts to further globalize our business in the future. Understanding their perspectives and thinking is extremely important when it comes to understanding the unique characteristics of each part of the world. This is also conducive to promoting the strategies pursued at our overseas sites and in developing and strengthening our marketing networks. We are also striving to hire locally for executive positions at our overseas sites as part of our overall goal of making optimal use of global human resources. Women are also serving as presidents at some of these overseas locations.

Ratio of overseas employees  
(as of December 31, 2019)



#### Hiring Senior Citizens

Starting on April 1, 2018, Sodick uniformly set the retirement age as the first March 31st after the employee's 65th birthday, and also introduced our Senior Program which allows workers to select a diverse array of work styles at the age of sixty. From the first March 31st after they turn sixty, we limit factors in response to employees' changing circumstances, such as their working hours, number of work days, work duties, and work locations. This establishes an environment in which they can work with peace of mind. We are striving to revitalize our organization through the realization of dual-track career paths, by giving broad consideration to extending the retirement age, career planning for each individual employee, and the Company's HR strategy.

## ESG Initiatives

### Creating a Comfortable Workplace Environment

The organization of the workplace environment is closely correlated with enhancing our employees' approach to their work. At Sodick, we are working to achieve a workplace environment where all employees can stay highly motivated and work with peace of mind. Maintaining a favorable workplace environment serves to keep new hire retention rates high and establish a foundation that facilitates the nurturing of outstanding human resources.

#### Promoting Health Management

Our employees are at the very heart of the Company, and ensuring that they stay healthy in mind and body, and can work in an energetic manner, is crucial when it comes to the Company's growth. Creating a management structure and providing safety and sanitation training that conform to the Industrial Safety and Health Act protects our employees from dangers and health impairments in the course of their work, and also prevents occupational injuries.

With this in mind, Sodick has introduced the Employee Assistance Program. We have established contact points not only within the Company, but also outside the Company including with medical specialists and lawyers, in order for employees to receive consultations about their mental and physical health, harassment, and other topics.

Through this, we have established a structure where people can receive care before things get out of hand as we focus on setting in place a work environment where employees can work with peace of mind. We have also set up similar contact points for overseas representatives and their families, and make every effort to ensure that they can adapt comfortably to life overseas. We are focusing our efforts on initiatives not only for the physical wellbeing of our employees, but also for their mental wellbeing, and are working to create follow-through structures to prevent mental and physical disorders from arising.

Sodick has also adopted a Compliance Helpline (whistleblowing system) with the objective of preventing and rapidly responding to wrongdoing or unethical behavior perpetrated by employees or corporate officers.

#### Sodick's Initiatives

- Safety and Sanitation Committee, Safety and Sanitation Rules**  
Inspection patrols are carried out throughout the Company once a month.
- Training for Managers by Industrial Physicians**  
Training is provided to management-level employees regarding mental health.

#### Promotion of Reduced Working Hours Scheme

Sodick has adopted a reduced working hours scheme to enable employees to undertake childcare or nursing care. This allows employees to alter their working hours as needed. In recent years, a number of employees have

taken advantage of this scheme, and we continue to make it available.

#### Educational Activities on Safe Driving

Sodick aims to achieve zero road accidents among our sales and service personnel. All Company-owned vehicles are equipped with driving recorders so that the causes of accidents can be ascertained and used to prevent future accidents. We also provide educational activities on safe driving, including inviting local police officers to give traffic safety seminars, and each month the number of accidents is notified throughout the Company.



#### Encouraging Employees to Take Paid Leave / Reducing Overtime Work

Sodick has designated specific days as days on which we encourage employees to use their paid leave, and we actively encourage them to take days off. Doing so creates a virtuous cycle, as they are refreshed from taking a break and thus tackle their work with renewed motivation. Sodick is actively taking steps to reduce overtime work. Once a certain number of hours of overtime is exceeded in a given month, the individual concerned and their manager are alerted by email.

As a result of these initiatives, the average number of days of paid leave taken by employees has increased since the March 2017 fiscal year, and there has been a significant reduction in overtime hours.

#### Change in Number of Users of Each Scheme and Overtime Hours

	3/2017	12/2019	Change over 3 years
Average no. of days of paid leave taken	7.8 days	12 days	+4.2 days
Annual average overtime hours	334 hours	252 hours	-82 hours
Number of employees taking parental leave	6	10	+4
Number of employees working reduced hours	7	8	+1

### Maintaining and Improving the Office Environment

Since 2018, we have renovated our office environment, including refurbishing the office, dining hall and cafeteria on the third floor of Head Office, and completing a second Head Office building and the Kaga multi-factory. The provision of a new office environment has increased our employees' motivation.



### Comprehensive Benefits Packages

Sodick strives to offer comprehensive benefits packages and relevant facilities so that our employees can attend to their duties without worrying about their daily lives or health.

As part of this, the Company offers financial incentives amounting to 20% of its employee stock ownership plan, provides regular health examinations, and offers financial assistance for cancer examinations using positron emission tomography (PET), a treatment technique that has been

much talked about recently, among other benefits. Also, in terms of facilities for employees to refresh themselves, Sodick has resort houses in Yatsugatake and Miyazaki, and has concluded corporate contracts that allow for preferential treatment at designated theme parks and similar facilities.

### Promoting Club Activities

At the Sodick Group, club activities including tennis, marathon running, cycling, futsal, badminton, and golf are very popular. They serve to promote employees' wellbeing, encourage interaction with employees from other departments, and promote sports in the local area. In September 2019, the Sumo club based in Kaga city in Ishikawa Prefecture won first prize in the second group section of the "61st All-Japan Corporate Sumo Tournament" held at the Sumo Hall of the Saitama Kenritsu Budokan.



### Initiatives for Social and Cultural Activities

#### Supporting the Preservation of Katanokamoike Wetland

As part of our regional contribution activities, Sodick made a donation to the "Machi, Hito, Shigoto" (town, people, work) regional revitalization program run by Kaga city in Ishikawa Prefecture, supporting grass-cutting and bamboo fence maintenance in Katanokamoike. Although only a small lake of around 10 hectares (100,000 m<sup>2</sup>), Katanokamoike is renowned for its abundant nature and coexistence with people, and in 1993 it was registered under the Ramsar Convention as an internationally important wetland. Through such initiatives, we will continue working to ensure that our business activities are rooted in the local community.



Katanokamoike

#### Supporting "Kashu Daishoji-han Sankin Kotai Walk 2019"

Sodick aims to deepen social exchanges, fulfill our corporate obligations, and improve our corporate brand name recognition through community activities.

In fiscal 2019, we supported the "Kashu Daishoji-han Sankin Kotai Walk 2019." This is a project that first arose through high school students' learning about their hometown of Kaga city in Ishikawa Prefecture. It re-enacts, in relay walk format, the "sankin kotai" (alternate attendance) journey from Nihonbashi, Tokyo to Kaga city, Ishikawa Prefecture taken by the Daishoji clan during the Edo period. Sodick employees took part in this walk, and we will continue to engage wholeheartedly in activities that help to revitalize local areas.



Sodick employees who participated in the event

## ESG Special Feature

# Nurturing human resources for Sodick's Next Stage



### Basic Approach

Based on our company motto "Create," "Implement," and "Overcome Difficulties," Sodick is striving to create a workplace environment and corporate culture in which each of our employees can grow together with the company, respect each other's individuality, and flourish. Amidst dramatic change in the business landscape, Sodick aspires to achieve further growth and improve productivity in our traditional specialist fields in order to realize our long-term management plan "Next Stage 2026 ~Toward Further Growth~." At the same time, our human resources will play an essential role in fearlessly pioneering future innovation while also adapting flexibly to changes in the business environment. Sodick is strengthening its systems and building the conditions to develop such human resources.

Related SDGs



### Creating a comfortable workplace environment

#### Promoting utilization of paid leave, parental and nursing care leave

Sodick supports the creation of a pleasant workplace environment that makes it easier for all employees to take paid leave. We are strengthening collaboration within the organization and promoting work style reform so that anyone can freely take time off work, while at the same time raising the quality of work and services.

In addition, based on the Act on Advancement of Measures to Support Raising Next-Generation Children, since 2016 we have encouraged male employees to take parental leave. Parental leave utilization among men has increased steadily, and employee awareness is gradually changing, not just among male personnel but also throughout the workplace.

#### Utilizing IT (introduction of telecommuting and RPA)

Sodick is establishing systems that enable each employee to select the optimal work style based on their work duties, irrespective of the work location, in order to realize a proper work-life balance. After a period of consideration, in 2019 we introduced telecommuting on a trial basis to boost employees' motivation by improving their self-management skills, and its use has steadily grown.

In addition, we are actively using Robotic Process Automation (RPA) as part of streamlining administrative operations in various areas of our business. RPA is a tool for automating simple PC-based tasks across applications, and requires no programming knowledge. In future, we will develop personnel who can create RPA scenarios, and promote RPA for various business tasks to improve operational efficiency.

### Introduction of "Global Career Track" to develop candidates for next generation of executive managers

In 2019, we introduced a "Global Career Track" position for employees with the potential to be the next generation of the Company's executive managers, once they have experienced different kinds of work and gained a comprehensive understanding of the management environment both in Japan and overseas. The career track includes managerial personnel, who are active as managers and are close to top management, and expert personnel, who possess a high level of expertise

and are actively engaged in the company's medium- to long-term growth. The aim is to offer a career path that aligns with the career ambitions and characteristics of different employees.

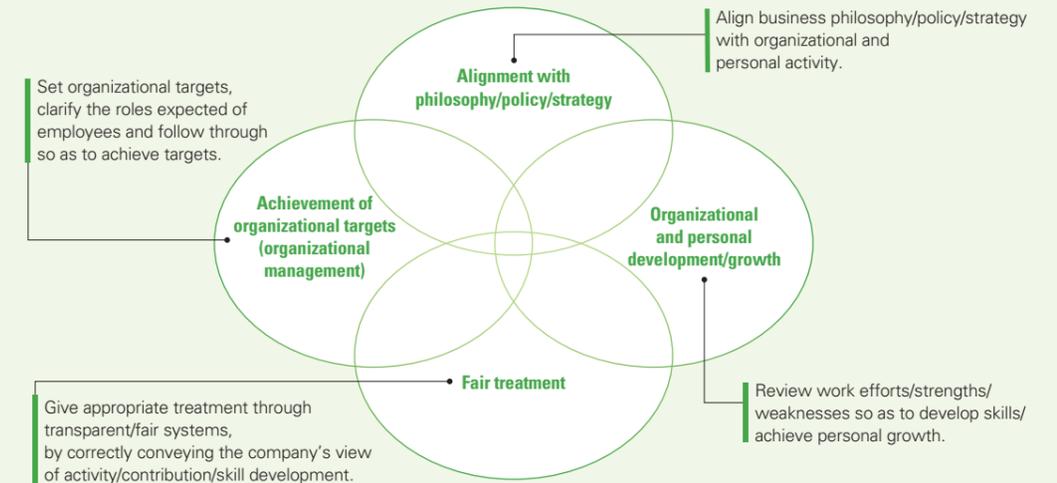
We have also established area career track and general clerk career track positions in order to realize a work-life balance that is compatible with our employees' diverse work styles and career aspirations.

Career hierarchy	3 types of position and 2 career paths					
	① Global Career Track		② Area Career Track		③ General Clerk Career Track	
Executive management	Management	Expert	Management	Expert		
Management						
Line and supervisory personnel						

### Personnel appraisal system to promote organizational and personal growth

We have relaxed our previous policy, which focused on the accumulation of experience, and have now introduced a personnel appraisal system based on how we expect the individual employee to grow together with the organization/company, and their role. This aims for our employees to flourish while playing their part in realizing

sustainable growth for the Company, regardless of age, gender or nationality. All employees with ambition and ability can play a more significant role and put into practice "Create," "Implement," and "Overcome Difficulties," thereby extending their skills.



### Reform of personnel training

In order to develop human resources with the qualities and abilities needed to realize further growth for Sodick, we have established a skill development system for the personal growth and career development of each employee.

- Internally produced training
- Training where employees are the lecturers
- OJT by coworker/manager
- Distance learning, course by external organization, etc.

	Group Training (OFF-JT)		Workplace Training (OJT)		Self-Development		
	By Level	By Department					
Officer	Officer training						
Department Manager	Management training						
Section Manager			Problem solving through action learning		Communications course	Obtaining formal qualifications	Various external seminars
Leader	Leader training	Various operational training, including sales and technology development	Global training (OJT training at overseas bases)	OJT training in each department Technology transfer			
Young Staff/General	Follow-up training Training for new/young employees						
Management Philosophy-Sharing Training							

## A Decade of Financial Summary

### Key Financial Data

	03/2011 FY	03/2012 FY	03/2013 FY	03/2014 FY	03/2015 FY	03/2016 FY	03/2017 FY	12/2017 FY	12/2018 FY	Unit: million yen 12/2019 FY	Unit: US\$1,000*1 12/2019 FY
<b>Business performance</b>											
Net sales	54,213	53,528	55,031	56,899	63,090	65,146	61,812	65,604	82,716	67,591	622,334
Cost of sales	36,592	35,957	38,296	40,232	42,215	41,369	39,318	42,445	52,488	45,421	418,210
Gross profit	17,621	17,570	16,734	16,667	20,874	23,777	22,494	23,159	30,227	22,169	204,124
Selling, general, and administrative expenses	12,027	12,080	12,719	14,014	15,984	17,424	17,257	15,669	20,338	18,747	172,614
Operating income	5,599	5,495	4,021	2,651	4,891	6,353	5,236	7,490	9,888	3,422	31,509
Ordinary income	3,944	4,577	5,356	3,886	5,647	5,719	4,620	7,910	9,619	3,558	32,766
Profit before income taxes	4,003	4,473	5,170	3,857	5,129	5,748	4,193	7,772	8,929	3,369	31,025
Profit attributable to owners of parent	5,111	3,320	4,191	4,194	3,550	4,167	3,644	5,736	6,462	2,002	18,435
R&D expenses	1,624	1,717	1,832	2,004	2,494	3,408	3,518	3,344	3,902	3,483	32,073
Facility investments	1,465	3,661	5,460	3,136	2,232	2,887	2,594	4,588	8,576	6,561	60,416
Depreciation	2,116	2,121	2,204	2,559	2,659	2,765	2,697	2,360	3,085	3,664	33,737
<b>Financial status</b>											
Total assets	79,510	92,993	95,041	98,776	104,167	99,722	109,271	121,815	119,082	114,647	1,055,590
Net assets	28,158	29,718	36,033	42,451	49,453	49,758	48,710	55,166	58,129	58,745	540,883
Interest-bearing debt	33,488	41,339	41,506	39,480	35,758	33,826	40,953	41,704	39,524	38,637	355,743
<b>Cash flow</b>											
Cash flows from operating activities	3,216	9,245	2,766	5,577	8,298	6,579	8,373	4,522	9,275	8,336	76,760
Cash flows from investing activities	-167	-5,295	-4,776	-4,181	-144	-2,773	-2,132	-4,715	-8,188	-5,609	-51,652
Free cash flow	3,048	3,950	-2,009	1,395	8,153	3,806	6,240	-193	1,087	2,727	25,108
Cash flows from financing activities	-1,965	6,809	-1,163	-3,696	-5,243	-2,854	3,134	-439	-3,485	-2,228	-20,518
<b>Per-share indicators</b>											
Earnings per share (EPS) (Yen/US\$*1)	103.23	67.07	83.29	83.36	70.55	82.82	76.91	122.15	137.58	42.58	0.39
Net assets per share (BPS) (Yen/US\$*1)	534.25	589.28	715.26	842.40	981.47	987.01	1,035.19	1,172.12	1,235.46	1,247.06	11.48
Dividends per share (Yen/US\$*1)	6.00	11.00	14.00	14.00	20.00	18.00	19.00	22.00	24.00	25.00	0.23
<b>Key financial indicators</b>											
Ratio of gross profit to sales	32.5%	32.8%	30.4%	29.3%	33.1%	36.5%	36.4%	35.3%	36.5%	32.8%	
Ratio of operating income to net sales	10.3%	10.3%	7.3%	4.7%	7.8%	9.8%	8.5%	11.4%	12.0%	5.1%	
Ratio of ordinary income to sales	7.3%	8.6%	9.7%	6.8%	9.0%	8.8%	7.5%	12.1%	11.6%	5.3%	
Return on equity (ROE)**2	21.0%	11.8%	12.8%	10.7%	7.7%	8.4%	7.4%	11.1%	11.4%	3.4%	
Ratio of ordinary income to total assets (ROA)**3	5.2%	5.3%	5.7%	4.0%	5.6%	5.6%	4.4%	6.8%	8.0%	3.0%	
Debt-to-equity ratio (D/E ratio)**4 (times)	1.17	1.30	1.17	1.02	0.86	0.75	0.92	0.84	0.72	0.69	
Equity ratio**5	33.3%	31.9%	37.9%	42.9%	47.4%	49.8%	44.5%	45.2%	48.5%	51.2%	
Dividend on equity (DOE)**6	1.0%	1.7%	2.0%	1.8%	2.4%	2.0%	2.0%	2.1%	2.1%	2.1%	
Ratio of overseas sales	57.7%	60.6%	63.7%	60.4%	64.1%	63.8%	62.7%	69.6%	65.8%	62.0%	
Average exchange rate over the period Yen/USD	85.74	79.08	82.91	100.17	109.76	120.15	108.34	111.69	110.44	109.03	
Yen/EUR	113.13	109.02	106.78	134.21	138.69	132.60	118.74	128.55	130.35	122.03	
Yen/CNY	12.95	12.35	12.66	15.87	17.14	19.21	16.32	16.62	16.71	15.77	
Yen/THB	2.75	2.59	2.70	3.19	3.38	3.44	3.08	3.33	3.42	3.52	
<b>Other</b>											
Number of employees (consolidated)	2,793	2,956	2,921	2,999	3,183	3,216	3,415	3,651	3,676	3,579	

\*1 US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

\*\*2 Return on equity (ROE) = Current net income/(Net assets - Subscription warrants - Non-controlling interests)

\*\*3 Ratio of ordinary income to total assets (ROA) = Ordinary income/Total assets (Average during the period)

\*\*4 Debt-to-equity ratio (D/E ratio) = Interest-bearing debt/Shareholders' equity

\*\*5 Equity ratio = (Net assets - Subscription warrants - Non-controlling interests)/Total assets

\*\*6 Dividend on equity (DOE) = Total dividends/Shareholders' equity

\* Due to the fiscal year-end change, FY12/17 consolidated financial results comprise 9 months (from April to December 2017) of results for companies whose fiscal year ends on March 31, and 12 months (from January to December 2017) of results for those whose fiscal year ends on December 31, resulting in irregular settlement of accounts.

# Consolidated Financial Statements

## Consolidated Balance Sheets

	Unit: million yen		Unit: US\$1,000*
	12/2018 FY	12/2019 FY	12/2019 FY
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥ 33,546	¥ 33,873	\$ 311,881
Notes and accounts receivable-trade	14,972	13,773	126,818
Electronically recorded monetary claims-operating	1,545	1,589	14,637
Merchandise and finished goods	9,774	8,733	80,411
Work in process	8,661	7,585	69,838
Raw materials and supplies	8,809	7,339	67,581
Other	2,807	2,774	25,541
Allowance for doubtful accounts	-171	-379	-3,494
<b>Total current assets</b>	79,946	75,290	693,216
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Buildings and structures	26,262	28,257	260,172
Machinery, equipment and vehicles	20,059	20,887	192,320
Tools, furniture and fixtures	3,486	3,831	35,278
Land	7,540	7,274	66,975
Leased assets	1,020	1,699	15,647
Construction in progress	1,168	706	6,508
Accumulated depreciation	-28,626	-30,800	-283,591
<b>Total property, plant and equipment</b>	30,912	31,856	293,311
<b>Intangible assets</b>			
Goodwill	1,642	1,494	13,764
Other	902	916	8,441
<b>Total intangible assets</b>	2,544	2,411	22,206
<b>Investments and other assets</b>			
Investment securities	3,607	3,501	32,243
Long-term loans receivable	8	5	52
Deferred tax assets	1,092	601	5,541
Other	1,088	1,075	9,898
Allowance for doubtful accounts	-117	-95	-879
<b>Total investments and other assets</b>	5,679	5,088	46,855
<b>Total non-current assets</b>	39,136	39,357	362,373
<b>Total Assets</b>	¥ 119,082	¥ 114,647	\$ 1,055,590

\* US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

	Unit: million yen		Unit: US\$1,000*
	12/2018 FY	12/2019 FY	12/2019 FY
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	¥ 4,855	¥ 4,231	\$ 38,957
Electronically recorded obligations-operating	5,969	5,063	46,617
Short-term loans payable	4,106	2,508	23,098
Current portion of long-term loans payable	7,777	8,944	82,354
Current portion of bonds	-	140	1,289
Accounts payable-other	1,412	1,092	10,062
Income taxes payable	535	293	2,701
Provision for product warranties	444	365	3,364
Provision for quality guarantee	4	2	22
Provision for bonuses	614	325	3,000
Provision for point card certificates	1	1	14
Other	6,083	4,123	37,962
<b>Total current liabilities</b>	31,804	27,092	249,445
<b>Non-current liabilities</b>			
Convertible bond-type bonds with subscription rights to shares	7,981	8,841	81,401
Long-term loans payable	19,659	18,203	167,599
Provision for directors' retirement benefits	20	22	208
Provision for product warranties	280	248	2,291
Net defined benefit liability	609	545	5,024
Asset retirement obligations	68	63	585
Other	528	885	8,149
<b>Total non-current liabilities</b>	29,148	28,810	265,261
<b>Total Liabilities</b>	60,953	55,902	514,706
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock	20,785	20,785	191,375
Capital surplus	5,877	5,896	54,291
Retained earnings	32,823	33,670	310,016
Treasury shares	-4,698	-4,647	-42,793
<b>Total shareholders' equity</b>	54,788	55,705	512,890
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	967	901	8,301
Foreign currency translation adjustment	2,513	2,286	27,259
Remeasurements of defined benefit plans	-236	-227	-2,090
<b>Total accumulated other comprehensive income</b>	3,244	2,960	27,259
<b>Non-controlling interests</b>	96	79	733
<b>Total Net Assets</b>	58,129	58,745	540,883
<b>Total Liabilities and Net Assets</b>	¥ 119,082	¥ 114,647	\$ 1,055,590

## Consolidated Financial Statements

### Consolidated Statements of Income

	Unit: million yen		Unit: US\$1,000*
	12/2018 FY	12/2019 FY	12/2019 FY
<b>Net sales</b>	¥ 82,716	¥ 67,591	\$ 622,334
<b>Cost of sales</b>	52,488	45,421	418,210
<b>Gross profit</b>	30,227	22,169	204,124
<b>Selling, general and administrative expenses</b>			
Personnel expenses	7,843	7,469	68,769
Provision of allowance for doubtful accounts	55	1	12
Amortization of goodwill	140	139	1,285
Provision for point card certificates	0	0	-
R&D expenses	2,352	2,528	23,279
Other	9,946	8,609	79,266
<b>Total selling, general and administrative expenses</b>	20,338	18,747	172,614
<b>Operating income</b>	9,888	3,422	31,509
<b>Non-operating income</b>			
Interest income	227	256	2,362
Dividends income	62	236	2,179
Equity in earnings of affiliates	44	42	392
Subsidy income	189	212	1,957
Gain on sale of scraps	41	20	184
Other	230	244	2,253
<b>Total non-operating income</b>	795	1,013	9,331
<b>Non-operating expenses</b>			
Interest expenses	308	285	2,627
Foreign exchange losses	429	132	1,221
Provision of allowance for doubtful accounts	0	274	2,522
Directors' condolence allowance	193	-	-
Other	132	184	1,702
<b>Total non-operating expenses</b>	1,065	877	8,074
<b>Ordinary income</b>	9,619	3,558	32,766
<b>Extraordinary income</b>			
Gain on sales of non-current assets	29	138	1,272
Other	-	3	29
<b>Total extraordinary income</b>	29	141	1,301
<b>Extraordinary losses</b>			
Loss on sales of non-current assets	7	114	1,057
Loss on retirement of non-current assets	57	31	289
Loss on valuation of shares of subsidiaries and associates	117	87	801
Loss on valuation of investments in capital of subsidiaries and associates	-	94	866
Business structure improvement expenses	536	-	-
Other	1	2	27
<b>Total extraordinary losses</b>	719	330	3,042
<b>Profit before income taxes</b>	8,929	3,369	31,025
Income taxes – current	2,102	888	8,185
Income taxes – deferred	340	479	4,415
<b>Total income taxes</b>	2,443	1,368	12,600
<b>Profit</b>	6,485	2,001	18,424
<b>Profit (loss) attributable to non-controlling interests</b>	23	-1	-10
<b>Profit attributable to owners of the parent</b>	¥ 6,462	¥ 2,002	\$ 18,435

\* US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

### Consolidated Statements of Comprehensive Income

	Unit: million yen		Unit: US\$1,000*
	12/2018 FY	12/2019 FY	12/2019 FY
<b>Profit</b>	¥ 6,485	¥ 2,001	\$ 18,424
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	-327	-65	-601
Foreign currency translation adjustments	-1,686	-227	-2,090
Remeasurements of defined benefit plans, net of tax	-311	9	83
Share of other comprehensive income of entities accounted for using equity method	-5	-4	-39
<b>Total other comprehensive income</b>	-2,330	-287	-2,649
<b>Comprehensive income</b>	4,155	1,713	15,775
(Comprehensive income attributable to)			
owners of parent	4,141	1,718	15,819
non-controlling interests	¥ 13	¥ -4	\$ -43

\* US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

# Consolidated Financial Statements

## Consolidated Statements of Changes in Equity

	Unit: million yen										
	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for sale securities	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Accumulated other comprehensive income		
<b>FY 2018/12</b> (from April 1, 2018 to December 31, 2018)											
Balance at beginning of current fiscal year	¥ 20,780	¥ 5,883	¥ 27,514	¥ -4,697	¥ 49,481	¥ 1,294	¥ 4,196	¥ 75	¥ 5,566	¥ 119	¥ 55,166
Changes of items during period											
Issuance of new shares – exercise of subscription rights to shares	5	5			10						10
Dividends of surplus			-1,127		-1,127						-1,127
Reserve for the awards and welfare fund for employees of foreign subsidiaries			-26		-26						-26
Profit attributable to owners of the parent			6,462		6,462						6,462
Purchase of treasury shares				-0	-0						-0
Disposal of treasury shares											
Restricted stock compensation											
Purchase of shares of consolidated subsidiaries		-10			-10						-10
Net changes of items other than shareholders' equity						-327	-1,682	-311	-2,321	-23	-2,344
Total changes of items during fiscal year	5	-5	5,308	-0	5,307	-327	-1,682	-311	-2,321	-23	2,962
Balance at end of current fiscal year	20,785	5,877	32,823	-4,698	54,788	967	2,513	-236	3,244	96	58,129
<b>FY 2019/12</b> (from January 1, 2019 to December 31, 2019)											
Balance at beginning of current fiscal year	20,785	5,877	32,823	-4,698	54,788	967	2,513	-236	3,244	96	58,129
Changes of items during period											
Dividends of surplus			-1,128		-1,128						-1,128
Reserve for the awards and welfare fund for employees of foreign subsidiaries			-26		-26						-26
Profit attributable to owners of the parent			2,002		2,002						2,002
Purchase of treasury shares				-0	-0						-0
Disposal of treasury shares				51	51						51
Restricted stock compensation		18			18						18
Net changes of items other than shareholders' equity						-65	-227	9	-284	-16	-300
Total changes of items during fiscal year	-	18	847	50	916	-65	-227	9	-284	-16	615
Balance at end of current fiscal year	¥ 20,785	¥ 5,896	¥ 33,670	¥ -4,647	¥ 55,705	¥ 901	¥ 2,286	¥ -227	¥ 2,960	¥ 79	¥ 58,745

	Unit: US\$1,000*										
	Shareholders' equity					Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for sale securities	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Accumulated other comprehensive income		
<b>FY 2019/12</b> (from January 1, 2019 to December 31, 2019)											
Balance at beginning of current fiscal year	\$ 191,375	\$ 54,118	\$ 302,215	\$ -43,260	\$ 504,448	\$ 8,903	\$ 23,146	\$ -2,173	\$ 29,876	\$ 888	\$ 535,213
Changes of items during period											
Dividends of surplus			-10,387		-10,387						-10,387
Reserve for the awards and welfare fund for employees of foreign subsidiaries			-246		-246						-246
Profit attributable to owners of the parent			18,435		18,435						18,435
Purchase of treasury shares				-4	-4						-4
Disposal of treasury shares				471	471						471
Restricted stock compensation		173			173						173
Net changes of items other than shareholders' equity						-601	-2,098	83	-2,616	-154	-2,771
Total changes of items during fiscal year	-	173	7,801	467	8,441	-601	-2,098	83	-2,616	-154	5,670
Balance at end of current fiscal year	\$ 191,375	\$ 54,291	\$ 310,016	\$ -42,793	\$ 512,890	\$ 8,301	\$ 29,876	\$ -2,090	\$ 27,259	\$ 733	\$ 540,883

\* US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

## Consolidated Statements of Cash Flows

	Unit: million yen		Unit: US\$1,000*	
	12/2018 FY	12/2019 FY	12/2019 FY	12/2019 FY
<b>Cash flows from operating activities</b>				
Profit before income taxes	¥ 8,929	¥ 3,369	\$ 31,025	
Depreciation	3,085	3,664	33,737	
Amortization of goodwill	140	139	1,285	
Increase (decrease) in net defined benefit liability	-314	-49	-456	
Increase (decrease) in provision for bonuses	83	-286	-2,636	
Increase (decrease) in provision of allowance for doubtful accounts	32	188	1,733	
Interest and dividend income	-289	-493	-4,542	
Interest expenses	308	285	2,627	
Share of (profit) loss of entities accounted for using equity method	-44	-42	-392	
Foreign exchange losses (gains)	115	11	109	
Loss (gains) on sale and revaluation of investment securities	117	90	829	
Loss (gains) on sale and retirement of non-current assets	35	8	74	
Business structure improvement expenses	536	-	-	
Decrease (increase) in notes and accounts receivable-trade	2,293	1,070	9,854	
Decrease (increase) in inventories	-756	2,944	27,110	
Increase (decrease) in notes and accounts payable-trade	-900	-1,519	-13,991	
Increase (decrease) in accounts payable-other	-169	-258	-2,378	
Increase (decrease) in advances received	-1,482	-408	-3,764	
Increase (decrease) in accrued consumption taxes	-18	582	5,362	
Other	427	56	518	
Subtotal	12,128	9,352	86,109	
Interest and dividends income received	285	410	3,783	
Interest expenses paid	-316	-292	-2,691	
Income tax refund (or paid)	-2,821	-1,133	-10,440	
<b>Net cash provided by operating activities</b>	9,275	8,336	76,760	
<b>Cash flows from investing activities</b>				
Payments into time deposits	-168	-53	-490	
Proceeds from withdrawal of time deposits	242	48	449	
Purchase of property, plant and equipment	-8,134	-5,645	-51,978	
Proceeds from sale of property, plant and equipment	301	767	7,063	
Purchase of intangible assets	-217	-357	-3,288	
Purchase of investment securities	-0	-0	-8	
Proceeds from sale of investment securities	-	1	15	
Purchase of shares of subsidiaries and associates	-43	-75	-696	
Payments of loans receivable	-59	-332	-3,056	
Collection of loans receivable	20	145	1,336	
Other	-131	-108	-997	
<b>Net cash used in investing activities</b>	-8,188	-5,609	-51,652	
<b>Cash flows from financing activities</b>				
Net increase (decrease) in short-term loans payable	-572	-1,645	-15,147	
Proceeds from long-term loans payable	7,373	8,000	73,658	
Repayment of long-term loans payable	-8,904	-8,291	-76,339	
Proceeds from issuance of bonds	-	1,000	9,207	
Repayments of finance lease obligations	-174	-138	-1,278	
Purchase of treasury shares	-0	-0	-4	
Cash dividends paid	-1,127	-1,128	-10,387	
Other	-79	-24	-225	
<b>Net cash used in financing activities</b>	-3,485	-2,228	-20,518	
<b>Effect of exchange rate change on cash and cash equivalents</b>	-1,026	-302	-2,786	
<b>Net increase (decrease) in cash and cash equivalents</b>	-3,424	195	1,802	
<b>Cash and cash equivalents at the beginning of the period</b>	36,075	32,650	300,617	
<b>Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries</b>	-	44	411	
<b>Cash and cash equivalents at the end of current period</b>	¥ 32,650	¥ 32,890	\$ 302,832	

\* US\$ amounts are converted at the rate of US\$1 = 108.61 yen observed in trading in the Tokyo foreign currency market as of December 31, 2019.

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224-8522 Japan  
Phone: +81-45-942-3111 (main)

**Established:** August 3, 1976

**Capital Stock:** 20,785,256,958 yen

**Total number of authorized shares:** 150,000,000

**Total number of shares issued:** 53,450,916

**Total number of shareholders:** 10,831

**Number of employees:** 841 (3,579 consolidated)

**Stock listing:** Tokyo Stock Exchange, First Section

**Stock code:** 6143

**Fiscal year:** January 1 – December 31

**Annual shareholder's meeting:** March

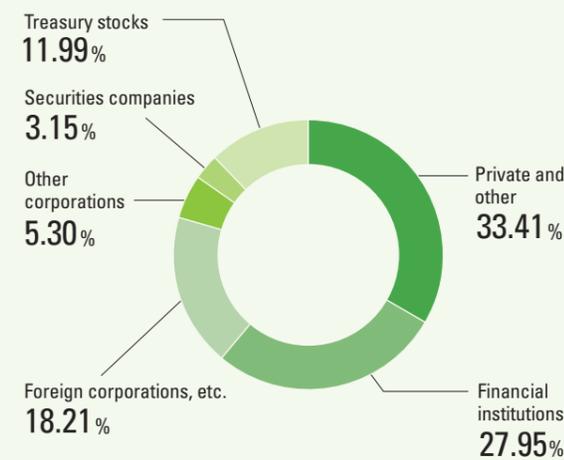
**Administrator of the shareholder register:**

Mizuho Trust & Banking Co., Ltd.  
2-8-4 Izumi, Suginami-ku, Tokyo, 168-8507  
Phone: 0120-288-324 (toll-free within Japan only)

**Major Shareholders**

	No. of shares (shares)	Percent ownership (%)
Sodick Co., Ltd.	6,407,799	11.99
Japan Trustee Services Bank, Ltd. (trust account)	4,353,500	8.14
The Master Trust Bank of Japan, Ltd. (trust account)	2,849,200	5.33
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	1,237,800	2.32
Japan Trustee Services Bank, Ltd. (trust account 9)	1,009,300	1.89
Japan Trustee Services Bank, Ltd. (trust account 5)	939,300	1.76
Sodick Business Partner Stock Ownership Association	934,200	1.75
TF Co., Ltd.	895,000	1.67
Sumitomo Mitsui Banking Corporation	850,000	1.59
DFA INTL SMALL CAP VALUE PORTFOLIO	847,800	1.59

**Share Distribution by Holder**



**Sodick IR Site**



Please feel free to use our IR site.

<https://www.sodick.co.jp/en/ir/>



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**Domestic Affiliates**

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**EWS Division**

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Business lines: Development, manufacturing, and marketing of wires and electrode wires for EDMs

**EMG Division Kaga Office**

Ho-49-1, Yokaichi, Kaga, Ishikawa 922-0336, Japan  
Business lines: Development and manufacturing of ceramics for machine components; development, manufacturing, and marketing of products that use various ceramics for direct sales

**Die Molding Division**

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**Tano Plant** Kou-8798-255, Tano-cho, Miyazaki, Miyazaki 889-1701, Japan  
Business lines: Manufacturing and marketing of precision molds and precision molded articles; development and manufacturing of nano processing technology

**SNM Division**

Kou-8798-253, Tano-cho, Miyazaki, Miyazaki 889-1701, Japan  
Business lines: Development, manufacturing, and marketing of dies for EDMs

**IAC Division**

5289 Nagatsuta-cho, Midori-ku, Yokohama, Kanagawa 226-0026, Japan  
Business lines: Development, manufacturing, and marketing of LED lighting

**Overseas Affiliates**

**Development Centers**

**Sodick America Corporation**

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**上海沙迪克软件有限公司/Shanghai Sodick Software Co., Ltd.**

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**Sodick Deutschland GmbH**

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