TS TECH Co.,Ltd.

Beyond Comfort

TS TECH Report 2019

Creation of a Foundation for ESG Management

Aiming for Activities That Contribute to Reducing the Burden on the Global Environment

We are not bound to the present.
Rather, we will create values that
go beyond the present in order to
bring joy to all our stakeholders
as we work to help build
a sustainable world.

Beyond Comfort

A goal that goes beyond comfort

In the manufacture of its products, TS TECH pursues safety, environmental sustainability, and comfort. The pursuit of comfort in particular is multifaceted and deep, and over the course of time this pursuit is subject to an infinite process of evolution.

Our corporate message is "Beyond Comfort." "Beyond" connotes transcending, rising above, or going ahead of something, while "Comfort" denotes ease, contentment, and relaxation. Put together, they represent our will to deliver much more than just comfort. Our actions are underpinned by the belief that comfort leads to satisfaction, which in turn brings joy to the end users of our products. We are not bound to the present. Rather, we will create values that go beyond the present in order to bring joy to all our stakeholders.

As we continue to grow as a global manufacturer of automobile interior components, we are determined to embody our beliefs to be a company dedicated to realizing people's potential and a company sincerely welcomed by all. To accomplish this, we will incorporate ESG-focused management that considers environmental (E), social (S), and governance (G) issues, and we will strive to help build a sustainable world.

TS Philosophy

Vision Statement

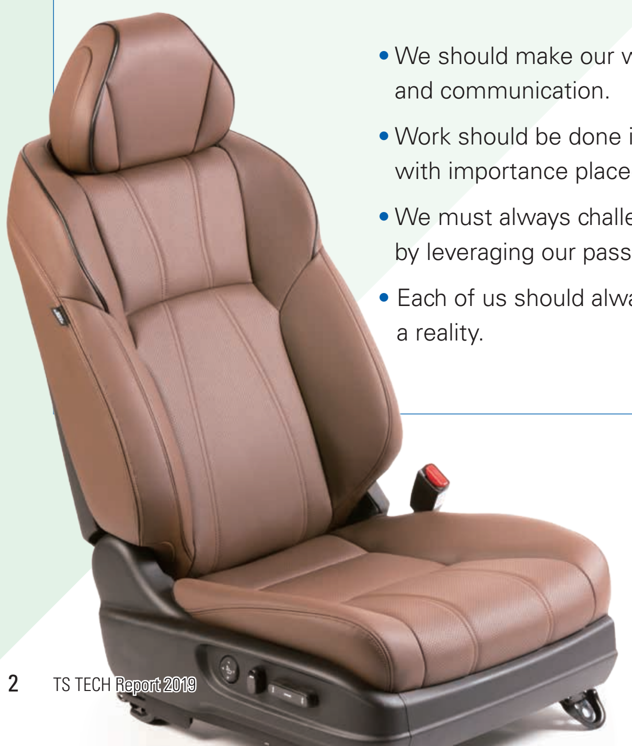
A company dedicated to realizing people's potential
A company sincerely appreciated by all

Mission Statement

We shall provide comfortable,
high-quality products at competitive prices
to our customers worldwide,
always pursuing the infinite
possibilities in manufacturing.

Operational Directives

- We should make our workplace a vibrant one, valuing consensus and communication.
- Work should be done in accordance with the circumstances, with importance placed on time and priorities.
- We must always challenge ourselves to create new value by leveraging our passion and know-how.
- Each of us should always persevere to make our individual vision a reality.



Honda
Legend seat

TS TECH Report 2019

CONTENTS

Editorial Policy

The TS TECH Group has been issuing the "TS TECH Report," an integrated report that includes both financial and non-financial information, since 2012. These reports introduce the Group's stance as an enterprise and the efforts it is making to contribute to sustainability in the course of its business in order to be a company sincerely appreciated by all whose presence is valued by all of its stakeholders.

About the Report's Formats

TS TECH Website

Non-Financial Information	Financial Information
CSR Activities Provides qualitative and quantitative information on society and the environment **https://www.tstech.co.jp/english/csr/**	IR Information Provides consolidated financial summary, results announcement, etc. **https://www.tstech.co.jp/english/ir/**

Scope of the Report

While the report is based on the consolidated group (TS TECH Co., Ltd. and its domestic and overseas subsidiaries and affiliates), some data regarding environmental and social efforts, etc., may pertain to aggregate results for the non-consolidated company in Japan. Cases in which the scope of aggregation differs will be specified in the text.

About This Report's Designations:
"TS TECH Group" (the Group) signifies the consolidated group, while "TS TECH" (the company) signifies the non-consolidated company in Japan.

Term Covered

Fiscal 2019 (April 1, 2018–March 31, 2019)
*Select activities from before or after this term may be included.

Reference Guidelines

- ISO 26000:2010 standard, International Organization for Standardization (ISO)
- International Integrated Reporting Framework, International Integrated Reporting Council (IIRC)
- Guidance for Collaborative Value Creation, Ministry of Economy, Trade and Industry of Japan

Disclaimer

This report contains forward-looking statements from TS TECH Co., Ltd. pertaining to plans, forecasts, strategies, and results. These forward-looking statements are based on currently available information.

For Comments and Inquiries Regarding the Report, Please Contact Us at the Address Below.

TS TECH Co., Ltd.
Public Relations Section,
Administration Department
TEL: +81-48-462-1136
FAX: +81-48-465-0403
3-7-27 Sakae-cho, Asaka-shi, Saitama
351-0012, Japan

Top Message

Working to help build a sustainable world through a solid foundation for ESG management and sustainable business growth

保田真成
Masanari Yasuda
President and
Representative Director

Introduction

The automotive industry is presently in the midst of an unprecedented period of change that includes technological innovation and advancements in mobility. With this in mind, we at the TS TECH Group believe that embodying our vision to be a company dedicated to realizing people's potential and a company sincerely appreciated by all is what is important in order to prevail in this time of change and continue to be a company whose presence is appreciated by society. The technological development, manufacturing initiatives, and promotion of corporate culture that we have steadily pursued are all guided by this vision, and each step we take is linked to our ESG[*1] management-related initiatives. As we continue to strengthen our existing foundation, we will work tirelessly to create new value that goes beyond the status quo through swift decision-making that gives us the capacity and flexibility to react and respond to a wide range of changes in the external environment.

*1 Management from an ESG standpoint comprises environmental (E), social (S), and governance (G) issues

Reviewing the fiscal year ended March 2019 (April 2018–March 2019)

Trade friction between the U.S. and China and policy trends around the world resulted in uncertainty, and decelerated economic growth in China and other countries offset economic stability in the U.S. These factors cast a shadow on the business environment in which the Group operates and created a difficult operating climate in the world's two largest automobile markets, with demand flat in the U.S. and down year-on-year in China. In Japan, automobile seats produced by the Group for major customers greatly exceeded the previous fiscal year's total due primarily to new model launches. However, production declined in China, and combined with factors such as the end of compensation in conjunction with the completion of the Guangzhou Plant relocation, this led to a decrease in revenue and profits.

While there are concerns that business will be impacted by regional risks due to factors such as the ever-changing state of global affairs and policy trends around the world, we will strive to maintain business operations and a business structure that will not waver under any set of circumstances.

Vision Statement: A company dedicated to realizing people's potential / A company sincerely appreciated by all

2030: A company whose presence is appreciated by stakeholders

2020: INNOVATIVE QUALITY COMPANY

13th Medium-Term Management Plan — Creation of a foundation for ESG management

- 1 Sustainable business growth
  - Create a system for world-leading quality
  - Become a world leader in component competitiveness
  - Establish a base for new customer relations[*2]
  - Use financial strategies to support business growth
- 2 Diversity management
  - Develop human resources to be promoted to management
  - Create measures to promote diversity
- 3 Harmony with the social environment
  - Practice environmentally conscious business activities
  - Conduct CSR activities

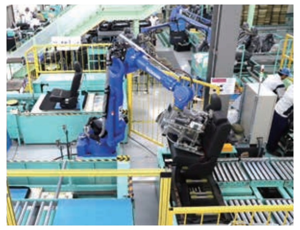
*2 The base is a move to expand sales to finished vehicle manufacturers other than major customers.

The progress of our creation of a foundation for ESG management

We have incorporated an ESG perspective effective our 13th Medium-Term Management Plan (fiscal year ended March 2018–fiscal year ending March 2020), and we named the "Creation of a foundation for ESG management" as the Group's management policy. We also designated "sustainable business growth," "diversity management," and "harmony with the social environment" as priority measures, and we aim to contribute to a sustainable society by improving our corporate value.

As part of our "sustainable business growth" measures, in the fiscal year ended March 2019 (hereinafter "the fiscal year under review") —the middle stage of the current medium-term management plan—we took steps toward becoming a world leader in component competitiveness by focusing on promoting automation of production lines and securing new clients and commercial rights in order to establish a base for new customer relations.

Promoting automation is part of our proactive approach to anticipated issues such as the shrinking workforce in the manufacturing industry. In the fiscal year under review, we promoted automation in all regions, including



Loading robots with automatic shape recognition

Lines with people and collaborative robots

the development and installation of loading robots with automatic shape recognition that can handle a wide range of seats; and lines with people and collaborative robots, where small robots operate alongside workers in an environment where high-performance sensors ensure safety.

With respect to securing new clients and commercial rights, in the fiscal year under review we began production of 3rd row seats for new SUV for the Volkswagen group's SEAT, S.A. Also, as part of our global strategy, our sales (new business development) division in Japan coordinates with our Americas, China, and Asia and Europe segments to continually deploy and conduct proactive sales initiatives. In particular, our U.S. office in Detroit, established in the fiscal year ended March 2018 with the goal of targeting the Big Three automakers (GM, Ford, and Fiat-Chrysler), and our Chongqing office in China, which primarily targets local manufacturers, are working diligently to further initiatives to secure new clients and commercial rights.

Regarding diversity management, in line with our vision to be a company dedicated to realizing people's potential, we strive to respect each and every employee's unique characteristics and abilities, as well as to provide workplaces and opportunities where diverse values are accepted and all employees are able to thrive. We believe that higher levels of job satisfaction and motivation not only foster worker autonomy and increase productivity but also fuel the company's growth. In Japan, we have adopted a flextime system with no core time, and we have expanded the system of shortened work hours for employees caring for children. Future plans include the introduction of an elective retirement system. We are also working outside of Japan to make work environment improvements suited to each location and to develop policies promoting diversity.

To ensure "harmony with the social environment," we strive for eco-friendly manufacturing and business operations, and we have obtained ISO 50001*3 certification for all worksites in Japan. This certification promotes efficient use and reduced consumption of energy. Next, we plan to deploy effective energy management methods identified through this certification throughout the entire Group to make our energy performance apparent to reduce our environmental footprint on a global scale.

In the fiscal year under review, we also received the first third-party evaluation of our efforts to implement ESG-related initiatives. Based on the results, we are closely examining our policies and enhancing initiatives to bring us closer to the kind of ESG management to which we aspire. Merely raising our evaluation scores region by region is not our objective. Rather, it is our belief that what will lead to further sustainable business growth is having our Group evaluated objectively and providing an accurate response that takes into account our strengths and weaknesses as well as where we stand relative to other companies.

*3 ISO 5000: An international standard designed to support the management of energy (electricity, gas, gasoline) used by companies and ensure continuous improvement

Principal initiatives for the fiscal year ending March 2020

In the fiscal year ending March 2020, we will further bolster our efforts to become a world leader in component competitiveness, which will, in turn, support sustainable business growth.

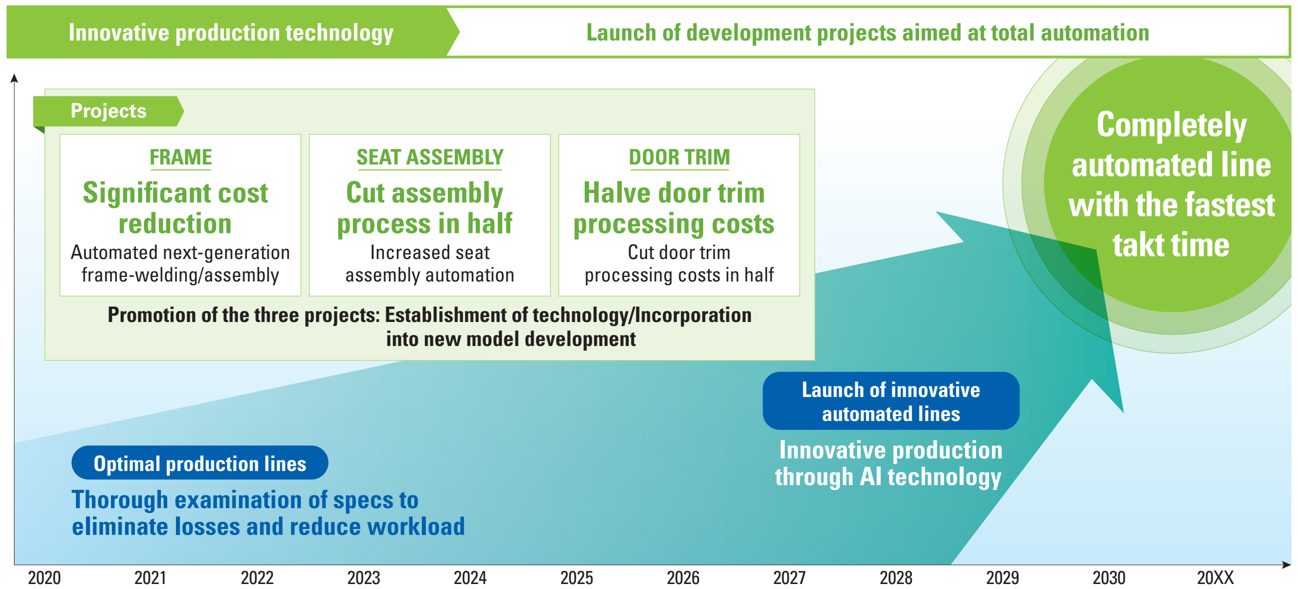
To begin with, we will release our new global standard seat frame, a lighter version of our flagship seat frame—in the top class among mass-produced frames worldwide (according to in-house research)—which has long been in development.

Furthermore, to deliver future growth, we will focus on the development of innovative production technology to enable more efficient production as well as new product development to create unprecedented value. In terms of innovative production technology, we will press forward with automation that is not dependent upon human skills or labor through means such as the development of new manufacturing technology and methods and the launch of a project to incorporate automated production lines that utilize AI.

Next, to give an example of our new product development, we are working through research and development toward the practical application of the Aisareru Seat®—the name "Aisareru," which means "to be loved" in Japanese, was given to the seat as we are sure it will endear itself to users—which integrates automobile seat technology and the IoT. This is a seat that not only senses the movements of the person sitting in it and turns that data into output, it also provides new forms of enjoyment through the seat's function as a controller that links with apps on smartphones or tablets. It also offers prospects for a range of new development potential via cloud aggregation of data gathered using sensing technology. We will also work to create new value by leveraging existing technology and knowledge.


Aisareru Seat®


An Aisareru Seat® demonstration



Cost-efficient automated production that is not dependent on human skills or labor

Medium- and long-term issues in achieving sustainable growth

Product quality is the most important and persistent issue facing manufacturing companies. Stable production of high-quality products leads to higher profit margins and cost reductions through fewer defective items and labor hours needed for correction. This then facilitates the acquisition of new commercial rights through the confidence gained from automobile manufacturers—our clients—and leads to the expansion of business.

However, continually maintaining high quality is not easy. Even in our own Group, there was a time several years ago when we encountered trouble with a new model launch at a U.S. location. We experienced an increase in unsatisfactory product quality due to a combination of factors, including insufficient personnel and a lack of experienced personnel stemming from a high turnover rate. As a result, the cost of addressing the issue was a factor that constrained profits. Using the lessons learned from this experience, when a problem with product quality arises, we thoroughly implement countermeasures around the globe, such as easy-to-understand product quality education using case examples, to prevent reoccurrence. Also, we continually strive to maintain a stable supply of products that meet high quality standards by instilling among all employees a shared awareness that includes our earnest approach to manufacturing through education based upon the Group's philosophy.

The number of necessary personnel and labor hours at manufacturing sites is expected to decrease as waste is eliminated through highly stable product quality. This is not merely a reduction of the workforce; we see opportunities for the redistribution of limited resources and the creation of new value. Moreover, what society seeks today is not just the pursuit of profits but new value creation, such as technological innovation and the application of one's field of expertise to resolve social issues.

Beginning with the aforementioned Aisareru Seat®, the Group is striving diligently through research and development focused on "sensing," which records the conditions of a seated occupant, to use biological data obtained through sensing to offer new value via the evolution of safety and the pursuit of the ultimate in comfort. The research on sitting we have undertaken since

our establishment is a strength unique to the Group. We feel that no matter how mobility may evolve in the future, it is our long-term mission to continue to devise products that provide vehicle occupants with comfort and contribute to society.

To prevent medium- and long-term challenges from becoming empty words in the forthcoming 14th Medium-Term Management Plan, we will begin formulation of the plan by gathering public opinion and feedback at operation sites. Executive officers in charge of each division and region will then convene focused discussions to bring to light essential challenges and promote the formulation of a highly effective plan.

To our stakeholders

At a time when there seems to be endless talk of scandals involving big corporations, strong, thorough governance in the form of proper internal control measures and the consistent operation thereof is essential for the construction and maintenance of a solid corporate groundwork to support sustainable business growth. Furthermore, we feel that what is most important is for all members of our team—from our executive officers to each one of our employees—to work together as a whole and share and embody the common values necessary for us to pursue the appropriate path. Based on the TS Philosophy (Vision Statement, Mission Statement, and Operational Directives), the Group will update the contents of TS TECH's Code of Conduct—our norms and ideals, the attitudes we must maintain, as well as guideposts for these values—and foster awareness among all employees.

The TS TECH Group, which will celebrate its 60th anniversary in 2020, will strengthen the foundation of its ESG-focused management and evolve into a company whose presence garners even more appreciation from all stakeholders in order to reach the 100-year mark. We will work vigorously to be a company that contributes to a sustainable world and delivers sustainable business growth, so we ask for your steadfast support for years to come.

TS TECH's Value Creation Model

The TS TECH Group is actively working to solve social issues as well as customer issues based on the TS TECH Philosophy. In conducting these activities, we employ the creation of appropriate strategies and resource allocation in line with factors such as the external environment, risks, and opportunities. Going forward, we will strive to create value for the realization of a sustainable society and aim to be a corporate citizen that is appreciated by stakeholders around the world.

External factors: Exchange rate fluctuations / Material price fluctuations / Economic and business trends / Competitive environment / Technological innovation / Changes in the structure of the industry

Vision Statement: A company dedicated to realizing people's potential. A company sincerely appreciated by all

2010 Vision: GOOD QUALITY COMPANY

Medium-Term Vision: 2020 Vision: INNOVATIVE QUALITY COMPANY

Long-Term Vision

To become a seat and interior system supplier that is trusted worldwide

BUSINESS MODEL

INPUT
Strengths

Technological prowess
Expertise related to "the philosophy and science of seating" cultivated since our establishment 59 years ago

High degree of stability in all QCDDM* domains

Competitive patents
Number of patents held in Japan: 968
Number of patents held outside of Japan: 543

Research and development expenses
12.7 billion yen (3.1% of revenue)

Intellectual capital

Global business development
A system arranged into the four regions of Japan, the Americas, China, and Asia and Europe

Operations in 14 countries
Number of sites: 68
Number of production sites: 49

Global promotion of TS TECH Philosophy education

Manufactured capital

Human capital

Sustainable management base
A philosophy for debt-free management since our establishment

A sound financial base
Consolidated equity: 277.4 billion yen
Revenue: 412.0 billion yen
Operating margin: 9.4%
(Transport equipment industry average: 5.67%)

Financial capital

BUSINESS ACTIVITIES
Value chain

- Sales
- Research and development
- Purchasing
- Manufacturing

Quality control

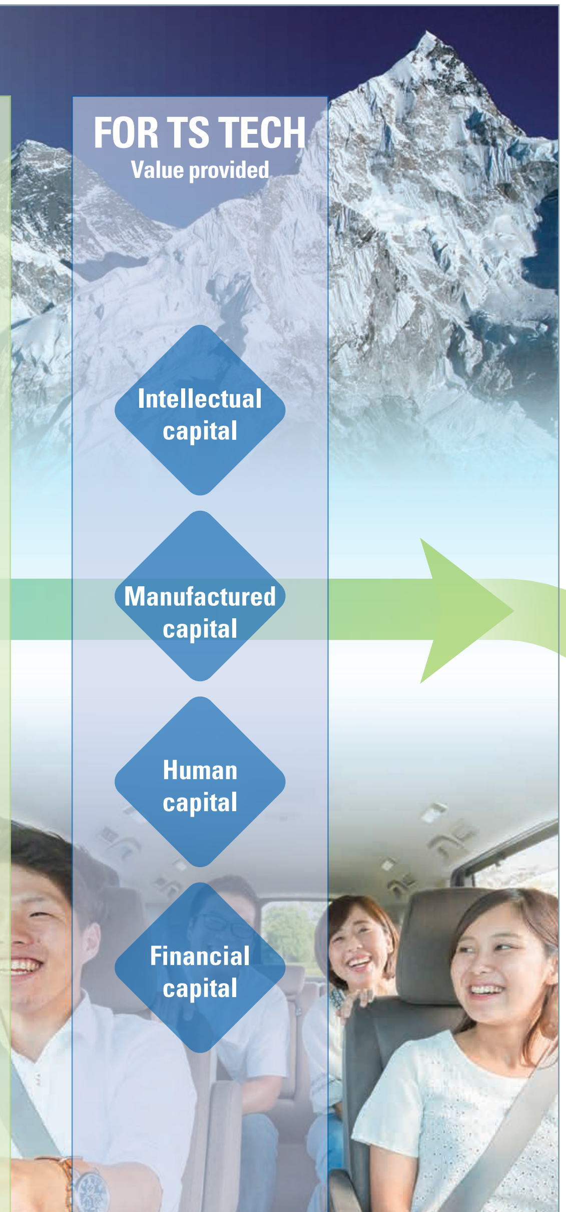
OUTPUT
Main products

Products for automobiles
- Seats
- Door trim
- Resin-based products

Products for motorcycles
- Seats
- Resin-based products

Other products
- Seats for multi-purpose off-road vehicles
- Seats for personal watercraft
- Chairs for medical use

VALUE



FOR STAKEHOLDERS
Social value

Safety
A high level of safety achieved with data gathered from a variety of collision tests, highly accurate simulation analysis and expertise, and cutting-edge technology developed over many years

Attractiveness
Comfort and convenience born of our unique theory on ideal posture to prevent fatigue even over long periods, as well as a wide range of proprietary seat arrangement technology that is versatile, functional, and easy to use

Environment
Lower environmental impact over the entire process from development through production, thanks to research and development of new materials that are both high quality and eco-friendly, lighter-weight products that help improve the fuel efficiency of automobiles, and energy-saving equipment to reduce CO_2 emissions

- Customers (Customer companies and end users)
- Shareholders and investors
- Business partners
- Employees
- Society and the local community
- The environment

FOR TS TECH
Value provided

- Intellectual capital
- Manufactured capital
- Human capital
- Financial capital

MISSION Social responsibility

Creation of a foundation for ESG management — *Beyond Comfort*

Contribution to the creation of a sustainable society

* QCDDM: Quality, Cost, Development, Delivery, and Management

Social issues: Changes in comfort sought for automobile interiors / Car safety / The creation of employee-friendly workplaces / Response to climate change

Investments in sustainable management resources

Report on the 13th Medium-Term Management Plan

Covering the fiscal year ended March 2018 through the fiscal year ending March 2020

With regard to the expansion of sales to new customers, although we are actively engaged in sales initiatives for new orders, some individual measures are running slightly behind schedule. However, the medium-term management plan as a whole is progressing as planned. (As of March 31, 2019)

Management policy	Priority measure	Measure	Notable initiatives
Creation of a foundation for ESG management	Sustainable business growth	Create a system for world-leading quality	• Stronger product assurance capabilities through quality improvements • Review and stronger management of unified global standards • Enhanced quality structure through reforms of supplier weaknesses
		Become a world leader in component competitiveness	• Creation of innovative production technology (Launch of automated production lines) • Development of new products such as the Aisareru Seat® • Higher ratio of automated production lines (Loading robots with automatic shape recognition, lines with people and collaborative robots, etc.) • Promotion of reorganization plans for domestic and overseas production • Establishment of the TS TECH Supplier Sustainability Guidelines
		Establish a base for new customer relations	• Aggressive sales initiatives utilizing the Detroit and Chongqing offices • Start of production of 3rd row seats for a new SUV from Volkswagen group subsidiary SEAT (Hungary)
		Use financial strategies to support business growth	• Stronger global fund management (Business operations, risk management, investment in future growth) • Stronger region- and country-specific risk management • Formulation of the TS TECH Group Tax Policy
	Diversity management	Develop human resources to be promoted to management	• Construction of successor training system to develop local management • Implementation of management development programs
		Create measures to promote diversity	• Adoption of a flextime system • Expansion of system for shorter working hours for childcare • Efforts to create workplaces conducive to the advancement of female employees
	Harmony with the social environment	Practice environmentally conscious business activities	• Certification at all domestic locations for energy management system ISO 50001 • Completion of a new global Head Office that is environment- and community-friendly (Saitama Prefecture) • Revision of the Basic Environmental Policy
		Conduct CSR activities	• Implementation of social contribution activities tailored to regional characteristics 535 social contribution activities (FY2018–FY2019)

Research and Development

Basic Policies on Value Creation

- Pursue and develop appealing products that exceed customer expectations
- Create original technologies that contribute to a sustainable society
- Expand application of technology and knowledge obtained through prior development
- Further enhance strengths and steadily reinforce areas needing improvement

Internal Environment

S Strengths
- Technologies to evaluate products' market feasibility, safety performance, etc., and the development capacity to create appealing products utilizing the knowledge acquired through those evaluations
- Development of projects dedicated to the creation of new appeal and value

W Weaknesses
- Insufficient development framework needed to bolster sales expansion efforts

O Opportunities
- Business development targeting CASE vehicles by utilizing TS TECH's specialized seat arrangement technology and electrical components

T Threats
- Intensification of the technological development race accompanying increased competition with mega-suppliers

External Environment

Yutaka Arai
Managing Director,
Development and Engineering Division
Executive General Manager

Overview of Our Value Creation

We pursue and develop appealing products that exceed customer expectations, striving to live up to our vision of being a company sincerely appreciated by all.

In step with the rapidly changing times, customer expectations for products are also changing day by day, moment to moment. It has become challenging to keep up with the pace of these changes by relying on traditional development methods. Since we aim to create value that exceeds customer expectations, in addition to our conventional development methods, we pursue new value that will contribute to the society of the future and work on developing products that will realize this new value.

Our Approach to Value Creation and Its Results

Measures to Create Appeal

When it comes to the creation of appealing products that exceed customer expectations, we do more than pursue forms of appeal in direct response to the conventional needs of customers; we analyze and develop a deeper understanding of the connections between society and people to pursue value that can shape and contribute to the society of the future.

For our "Project to Create Exciting, Attractive Products," we brought together forward-looking people from within the company to collaborate with outside experts. Following a series of wide-ranging workshops, we are now in a position to create new, appealing products that will help shape and contribute to the society of the future. We are looking forward to showcasing new product prototypes and other results of this project at venues such as the Tokyo Motor Show.

Creating One-of-a-Kind Technologies

The TS TECH Group strives to create original, one-of-a-kind technologies that competitors cannot imitate. We do this using a roadmap we created based on surveys of global trends in laws and regulations, new technologies, and other automobile-society-related issues. Using the roadmap, we identify the technologies that will be required and systematically specify development themes to be addressed, such as fundamental technologies required to create new kinds of appealing products.

Developing Technologies to Increase Our Competitive Edge

The Aisareru Seat® represents one result of our efforts to produce appealing products, delivering on our concept of "providing smiles through enjoyment." By using a seat with a sensing feature as an IoT information source, we are able to create spaces for enjoyable communication using apps to link people inside an automobile with those not in the vehicle. When the new seat that embodies the concept was displayed as a prototype at events such as Yuru Sports Land 2019, we saw many smiling faces among the visitors who tried it.

We will also work to meet CASE-related needs, which have become a pressing issue for automobile societies, through new product development driven by the application and utilization of the Group's existing fundamental technologies.

TS TECH's Value Chain

Sales

Basic Policies on Value Creation

- Offer appealing products that exceed customer expectations at competitive prices
- Permanently secure customers' unwavering trust
- Provide added value to customers in line with the changing times by integrating regional and functional departments

Internal Environment

Strengths (S)	Weaknesses (W)
• Maintain production bases throughout the world and offer high-quality products • An evaluation system covering all areas of QCDDM, which supports stable management	• A high degree of dependence on a specific business model and insufficient independent growth • Response to the trend of building partnerships between different industries amid advances in smart mobility
Opportunities (O)	**Threats (T)**
• Accelerating expansion of demand in emerging countries • Business field expansion through entry into mobility-related business, an industry outside our own	• Low rate of growth for automobile demand in advanced nations • Changes to the profit-sharing structure in the automotive component industry due to the rise of smart mobility

External Environment

Yoshiaki Yui

Senior Managing Director & Representative Director,
Sales Division Executive General Manager

Overview of Our Value Creation

The roles expected of sales are achievement of indicated targets, exemplified by sales revenue; maintenance and improvement of our reputation as the face of the company; and, most importantly, collection and dissemination of information.

The TS TECH Group creates value through manufacturing, but the things we make can only be recognized as having value if they are wanted by customers and also contribute to society as a whole. The standards for this are not readily discernible, but they are linked to information. Our Sales Division is on the front lines always working to collect and disseminate fresh information so that the TS TECH Group can continue to make proposals that exceed the expectations of our customers and society as a whole.

Our Approach to Value Creation and Its Results

Global Sales Proposal Efforts

In order to accurately ascertain the diverse needs of our customers around the world, our sales staff, primarily at overseas locations, sometimes use targeting data*1 collected from existing customers to research their needs. When approaching new customers, they rely on unique targeting data that starts with analyses of the automobile market.

Based on the results of those analyses, we design products suited to customers' needs in a process of close cooperation among various departments across the Group, including development, quality control, and production. The Sales Division also offers proposals to create new value for customers, adding original, one-of-a-kind TS TECH ideas that make the most of the different special characteristics of each Group business location. As a result, we enjoy a higher level of trust from our existing customers and receive business opportunities from new customers.

*1 Targeting: Narrowing down objectives/scope

Building a World-Class Sales Structure

Since sales initiatives are achieved through trust, we routinely teach the human element via on-the-job training. We also offer level-specific basic education through lecture courses as well as on-site training to confirm acquisition of knowledge and otherwise help employees take their skills to the next level. The purpose of these efforts is to foster human resources who are able to respond immediately to requests from customers all over the world.

Contributions to a Global Society

High-quality sales activities result in contributions not just to customers but to society as a whole. Since customers' product-related needs vary by region, unnecessary functions and components will get rejected without even being used, which is a big loss for the environment and for society. This is why we work so hard to offer products that satisfy regional needs around the world.

TS TECH's Value Chain

Purchasing

Basic Policies on Value Creation

- Mutual trust built on fair, equitable transactions and best practices
- Work with business partners to strengthen their procurement structures and create a sustainable supply chain
- Joint CSR activities with business partners

Internal Environment

Strengths (S)	Weaknesses (W)
• Development of activities with business partners that strengthen the manufacturing structure • Benchmark information collection prowess both in Japan and overseas thanks to teams of experts • Practice of ESG-focused purchasing*1 to help build a sustainable society	• Inflexibility of an aging purchasing structure • Slow conformity with rapidly changing customer needs and social trends
Opportunities (O)	**Threats (T)**
• Increased usage of Japanese parts manufacturers by OEMs in Europe, the Americas, and China • Trends toward high functionality and high added value in interior components for automobiles	• Impact of worsening trade friction on supply chain • Competition for orders with competitors intensifying on a global scale

External Environment

*1 ESG-focused purchasing: Purchasing activities that take ESG factors into account

Yoshikazu Ariga

Director,
Corporate Purchasing Division
Executive General Manager

Overview of Our Value Creation

We must develop our procurement structure based on trusting relationships with business partners in order to respond appropriately to rapidly changing automotive industry trends, trade friction, natural disasters, and other changes in the component purchasing environment to sustain growth. Toward this end, we are deploying initiatives such as close exchanges of information with our partners; joint development of appealing and competitive products; CSR activities that include further reduction of environmental impact throughout the supply chain; and legal compliance. By implementing ESG-focused purchasing that balances environmental, social, and governance factors, we create value the world can appreciate.

Our Approach to Value Creation and Its Results

Stronger Partnerships with Our Business Partners

In order to strengthen partnerships with our business partners, we regularly hold briefings on purchasing policy and discussions with our business partners' executives to share information on long-term business policies and listen to their views. Our purchasing departments in 14 countries work with our business partners to build a foundation for mutual prosperity.

Leveraging Industry Reform to Bolster Our Purchasing Structure

With the automotive industry in a transitional period, the necessary components are also in a state of flux. While we continue to work with existing business partners to strengthen their structures, we are also moving to enhance our information gathering capabilities related to outstanding companies, with our experts scouring not only Japan but the globe to discover new, highly competitive business partners. We will continue to develop our purchasing structure to use this transitional period as an opportunity to increase value.

Perpetual Cost Reduction Activities

In our efforts to reduce costs, we continue to develop initiatives such as VA/VE*2 to make us more cost competitive. We will utilize the strengths of each business partner in the areas of materials, processing, and new technologies, and we will work with these partners to create and develop mechanisms and strategies not only for on-site improvements but also for next-generation models, including measures aimed at realizing this from a business perspective over the medium to long term.

*2 VA/VE: VA refers to value analysis, a method for improving existing products. VE refers to value engineering, a method to improve product value by reducing the cost of purchased materials.

Implementing ESG-Focused Purchasing

The TS TECH Group asks our business partners to cooperate with our CSR initiatives as well, and we have achieved steady results by promoting best practices and standardizing risk management. Going forward, we will also use the newly formulated TS TECH Supplier Sustainability Guidelines to aim for an even stronger supply chain with excellent comprehensive capabilities, including cost, technological prowess, quality, and risk-response capability.

Manufacturing

Basic Policies on Value Creation

- Build resilience measures*1, create labor-saving, high-productivity lines
- Operate a "global mother plant" as a base for disseminating automation technology
- Develop global managers by cultivating global players able to compete worldwide

Internal Environment

S – Strengths
- A QCD*2 structure that ensures a minimum of above-average QCD at all locations worldwide
- Development of advanced production technology linked to fundamental technologies for future new products

W – Weaknesses
- Still in the process of building a globally competitive structure by strengthening resilience measures and advancing core manufacturing technologies
- Defective output from manufacturing processes due to weak points in global quality and structure

O – Opportunities
- Greater market expansion in emerging countries
- Further expansion of commercial rights on receipt of orders for seat frames for models from new customers

T – Threats
- Response to shrinkage and diversification of Japan's market
- Intensifying cost competition with competitors

External Environment

*1 Resilience measures: Measures to create a financial structure that generates a certain amount of profit even when earnings drop

*2 QCD: Quality, Cost, and Delivery

Akihiko Hayashi
Managing Director,
Manufacturing Division
Executive General Manager

Overview of Value Creation

It is necessary to enhance the composition of our manufacturing plants if we want to provide high-quality products at competitive prices.

The global mother plant in Japan will establish a uniform standard for production line construction and the know-how to self-manufacture equipment, and it will deploy both globally to establish "highly productive lines that do not depend on manpower" and achieve a world-class production structure.

To realize this, at our Engineering Center, which is responsible for the development of our manufacturing domain, we will promote the development of fundamental technologies linked to our Development and Engineering Division's product strategy in a bid to secure the technology necessary to prevail against the competition.

Our Approach to Value Creation and Its Results

Raising the Entire Manufacturing QCD Framework to a Uniform Level

We began development of a QCD framework assessment in 2004 primarily in Japan and the Americas with the aim of raising the framework to a uniform level of high quality. We expect to complete additional assessments in China and in Asia and Europe under the 13th Medium-Term Management Plan.

We will use the QCD perspective as a common global tool in the future, expanding its range of application from just framework evaluation to also include human resources development, and we will establish a uniform level for human resources development programs in order to cultivate talented personnel who can compete globally.

Deploying Advanced Technology

As part of efforts to achieve fully-automated production of seats, we will proceed with proposals for product specifications that make automation possible and preparations to install production equipment that utilizes AI technology.

With respect to door trim, we will work to develop technology that uses high-speed molding and stack molding*3 in the injection molding process, and we will continue to lay the groundwork for automated production lines.

*3 Stack molding: A method of molding multiple components with a single injection

Achieving a Sustainable Manufacturing Environment

As part of our environmental conservation efforts, we are committed to reducing CO_2 emissions at manufacturing facilities. We are striving to implement *karakuri**4 improvements so we can perform operations without using electricity. We are also working to turn *karakuri*-based efforts from initiatives at each plant into a Manufacturing Division-wide event to foster new ideas and widen the scope of *karakuri* through information exchange between technicians from each location. Going forward, in addition to considering the creation of a global *karakuri* meeting, we aim to create a sustainable manufacturing environment built on the principle of environmentally responsible manufacturing plants.

*4 *Karakuri* refers to equipment that uses levers, gears, gravity, linking mechanisms, etc., instead of electricity or compressed air.

Quality Control

Basic Policies on Value Creation

- Earn additional trust from our customers by creating a system for world-leading quality
- Stable provision of products with the same high level of quality worldwide
- Provision of safety and security to customers

Internal Environment

S – Strengths
- A quality control and assurance system based on international standards
- Development of TC Circles worldwide
- High ratings for several years in a U.S. initial quality survey (IQS)

W – Weaknesses
- Defective output due to delayed responses to new model changes
- Shortage of human resources with expertise in global quality assurance

O – Opportunities
- Increasingly sophisticated demands for quality assurance accompanying a trend toward multi-functionality in products
- Diversifying customer demands for quality on expanding relations with new customers
- Quality control for changes in manufacturing systems as typified by Industry 4.0*1

T – Threats
- Increased market problems and delivery defects accompanying globalization
- Shrinkage of the workforce due to a declining birthrate and aging population

External Environment

*1 Industry 4.0: A term referring to a technological strategy that the German government came up with in 2012. In Japan it is also called "The 4th Industrial Revolution."

Masashi Takezawa
Managing Officer,
Corporate Quality Assurance Division
Executive General Manager

Overview of Value Creation

In order to provide high-quality products around the world, we are developing policies to bolster our capacity for product assurance, strengthen quality and reliability at production bases, and improve the quality structure of business partners. These efforts all aim to earn additional trust from our customers.

We strive to achieve stability in the manufacture of our products by developing quality standards that are consistent from the stage of development through production, and by incorporating the results of analyses of complaints from the worldwide market into new specifications. We also use TC Circles*2 to coordinate production site reform activities, leading to greater awareness of quality.

We are working to raise the level of our quality structure at locations worldwide based on the global quality standards ISO 9001 and IATF 16949*3.

*2 TC Circles: Improvement activities undertaken by small groups. Generally referred to as a "QC (Quality Control) Circle," the activities are aimed at developing human resources who can use the QC method to solve problems and manage and improve operations.

*3 ISO 9001/IATF 16949: International quality management system standards of the automotive industry

Our Approach to Value Creation and Its Results

Building a Stronger Global Quality Structure

We aim to earn greater access to global customers by creating a system for world-leading quality. In addition to helping locations acquire ISO 9001 and IATF 16949 certification, we are working hard to maintain and improve quality at all locations by verifying the status of rule implementations and promoting improvements through periodic QAV-1*4 inspections.

*4 QAV-1 refers to a Quality Assurance Visit.

Offering Products with the Same High Level of Quality Worldwide

It is our duty to "provide high-quality products to customers around the world." To ensure the same high level of quality worldwide amid the advancement of globalized production and local development, the Corporate Quality Assurance Division has issued a unified set of rules. This quality standards manual includes requirements regarding standards, facilities, work operations, and techniques. Thanks to our stable provision of high-quality products, we have received high marks from our customers.

Providing Safety and Security to Customers

"Delivering products that can be used safely and securely"—that is the role of the Corporate Quality Assurance Division. We are working to raise the quality of our product manufacturing by sharing analysis results based on worldwide market quality data with development departments and providing feedback for upcoming models. We also plan to work toward consistent quality control from development to production using means such as reflecting manufacturing requirements identified through fault tree analysis (FTA) and failure mode and effects analysis (FMEA)*5 in the manufacturing process at production sites.

*5 FTA and FMEA are both analysis tools used to prevent product defects.

Dialogue

Special Discussion

Gaining Insights from Cross-Organizational Energy Management

The TS TECH Group sees environmental performance as a key management issue and constantly strives to make improvements in this area. As a part of these efforts, the Group acquired ISO 50001 energy management system certification at all locations in Japan in March 2019. Upon adoption of ISO 50001, Yoshitaka Nakajima, Executive General Manager of the Corporate Administration Division—the department that oversees the Group's environmental initiatives—sat down with Junichi Shimizu, Director of the ISO Registration Center at Japan Electrical Safety & Environment Technology Laboratories (JET), the organization which conducted the certification review, to discuss the Group's environmental initiatives.

The Evolution of TS TECH's Environmental Initiatives

Shimizu: As a certification standard related to environmental initiatives, the aim of the ISO 14001 environmental management system (2015 version), for which your company originally obtained certification, is to "continuously improve initiatives aimed at reducing the environmental risks that arise from corporate activities." It places an emphasis on building and managing a PDCA cycle for those initiatives. On the other hand, the ISO 50001 energy management certification (2011 version), which you recently acquired, aims to "make energy consumption apparent, establish policies, objectives, and goals necessary to reduce consumption, and conduct efficient and systematic management." Making both the current situation and the results of improvements visible clarifies various aspects, which helps to move environmental initiatives forward.

Nakajima: Making energy consumption visible certainly makes it easier to set very precise goals and creates momentum to keep moving forward. It has also brought new issues to light. At our company, our administrative department has served as secretariat, compiling documentation on environmental initiatives and their energy-saving effects at all companies, but now this work has crossed into highly specialized territory, such as energy management techniques. As we improve our endeavors going forward, we believe the divisions that manage facilities and equipment should take the lead. Furthermore, environmental activities must be sustainable, so it is, therefore, important to conduct efficient operations and capital investment by setting long-term goals and strategies, just as we would for our business activities. By being consistent with our initiatives and efforts, we can develop a routine that becomes common practice.

Shimizu: Exactly. If environmental initiatives are perceived as "common practice" rather than "something special" within your company, I think the scope of your activity will expand.

TS TECH's Environmental Initiatives

Nakajima: One of our environmental goals is the rate at which we reduce energy consumption; for the most part we have done all we can to reduce energy consumption over many years. Going forward, we hope to pursue environmental initiatives in collaboration with our suppliers. Since further management costs and resources become necessary when the scope of activity broadens, we plan to move forward strategically while cooperating with the relevant divisions. We are currently working on an environmental vision that provides specific medium- to long-term goals for environmental issues. To achieve these goals, we must use the perspectives gained through the acquisition of our certification as useful tools to create a ripple effect that impacts not only our Japanese operations and Group but our supply chain as a whole. Conceivably, environmental initiatives will no longer simply be improvements to the current state but become equivalent to organizational reforms. Each and every employee must be thoroughly aware of his or her own role in this. Pursuing environmental initiatives through

Junichi Shimizu
Director
ISO Registration Center
Japan Electrical Safety
& Environment Technology
Laboratories (JET)

Yoshitaka Nakajima
Senior Managing Director,
Corporate Administration Division
Executive General Manager
TS TECH Co., Ltd.

Special Discussion

the involvement of every employee requires considerable courage, but it will be necessary from now on. Even when we no longer have to think twice about making improvements, we must continue to change our awareness of what lies beyond improvements—what can be called environmental reform.

As a manufacturer, we must make advancements at all stages, from R&D through materials procurement and production. We hope to conduct versatile environmental initiatives, including developing eco-friendly materials and decreasing energy consumption through weight reduction and improved production efficiency. Of course, we think that it is best not to rely solely on our own company's resources but to develop these initiatives in a flexible manner while incorporating elements such as open innovation.

Shimizu: It is wonderful that your company has worked on these issues for so many years. Your early commitment to energy management can also be considered forward-thinking. However, you have just embraced a new energy management system, and it will take time to roll it out to all worksites. I think that the period after certification acquisition is crucial, so I hope to see you keep working at it. I agree with your view that reform that goes beyond improvements is necessary. It is difficult for a private company to balance that kind of ability to respond to society with its core businesses, but I certainly hope you will make the most of the ISO certification.

Impressions of TS TECH Based on the ISO Review

Shimizu: In the course of reviewing your company, I held interviews with many people—from those in charge of acquiring the certification to those in management—and I was impressed by everyone's high level of motivation. Although each individual's role and manner of involvement differed, it was admirable that everyone fundamentally shared the ambition to implement even better initiatives. At the same time, I was struck by the fact that, while a management system for all companies was in place,

the distinct characteristics of each office were taken into account. Since an ISO is a standard it has uniform management methods, and there is a tendency to think the recommendation is to apply those uniform methods across the board, but because a company is an aggregate of various divisions, each location is, naturally, unique. I saw each of your locations look for measures on their own, valuing their specific facilities and established cultures while simultaneously working toward the shared goal of acquiring ISO certification. This uniqueness seems to be the energy driving each individual. I think that leading without forcing standardization, yet not losing a sense of solidarity, is extremely difficult, but TS TECH is deftly managing this feat.

Nakajima: Each office, including the secretariat, is doing a good job, and for this I'm grateful. Though we may refer to our company's plants in broad terms, the seats we manufacture have extremely sophisticated structures and numerous components. Different vehicle models require different manufacturing methods and materials, so, in reality, it's impossible for all offices to be managed identically. I think it's interesting when each office takes the initiative to showcase its individual characteristics. However, viewed from a global perspective, there are still discrepancies in terms of degree of commitment. We have plans to apply the management techniques established in Japan through acquisition of ISO 50001 to overseas locations in the future, but I wonder if they truly possess the same level of determination that we have. There are still some locations that aren't fully autonomous, so until they get on the same track, I think the parent company in Japan has to take the lead. Even if it takes time, we will not only promote management methods but also sufficiently share our ideas on the environment with every single employee at every location in every country.

Shimizu: I believe it will take time, but first it is important to make sure that what you have started will take root. If you can do that, in due course you will be successful. At this moment, not very many Japanese companies have acquired ISO 50001 certification. I hope the success of your company's endeavors will increase the acquisition of certification in Japan.

Narrative

Environmentally Friendly, Highly Efficient New Head Office Building

Photo by Shigeo Ogawa of Shigeo Ogawa Studio

Overview of Head Office Building

TS TECH's new Head Office building, completed in March 2018, is an environmentally and community-friendly structure that was built based on the ideas of "highly-efficient operations" and "superior hospitality."

These concepts are manifested primarily in the building's environmental performance. With an approximately 40% reduction in the amount of electricity purchased compared to the old Head Office building—which was already the focus of energy-saving activities—the new building also incorporates the reuse of rainwater for general service water and more on-site greening. As a result, annual energy consumption was 78% less than ordinary buildings. The new building was certified as an energy-saving building and received a "Nearly ZEB*1" rating under the Building-Housing Energy-efficiency Labeling System (BELS)*2. It cut actual energy consumption levels by 86% in its first year of operation. It also earned the highest ranking of "S" in the Comprehensive Assessment System for Built Environment Efficiency (CASBEE*3), which rates environmental performance.

Additionally, an on-site digital signboard displays the building's target values and realtime usage information for electricity, gas, and water, encouraging employees to be mindful of saving energy.

*1 ZEB (Zero Energy Building): A building that delivers significant energy savings while maintaining the quality of its indoor environment, and is designed to achieve net zero energy consumption through the use of renewable energy.
Certification rank
ZEB: A building with zero or negative net annual primary energy consumption
Nearly ZEB: A building that comes as close as possible to ZEB by nearing zero annual primary energy consumption
ZEB Ready: An advanced building with a ZEB focus that is furnished with an exterior with superior insulation properties and high-efficiency energy-saving equipment

*2 Building-Housing Energy-efficiency Labeling System (BELS): A system in which a third-party evaluates and certifies the energy-saving performance of new and existing buildings based on the Ministry of Land, Infrastructure, Transport and Tourism's guidelines for indicating the energy consumption performance of buildings.

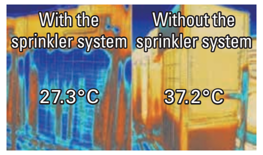
*3 Comprehensive Assessment System for Built Environment Efficiency (CASBEE): A comprehensive evaluation system for building quality that not only takes into account environmental considerations such as energy conservation and use of materials that have low environmental impact but also indoor comfort and scenery.

1 Efforts to Reduce Electric Power Consumption

The following is an overview of the Head Office's major initiatives to reduce power consumption.

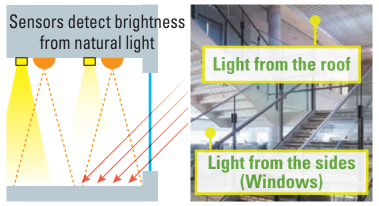
Load reduction and higher efficiency

We installed high-performance insulation panels on the building's exterior, and we designed the size of the building's apertures to provide both a pleasant view and sufficient daylight, thereby reducing the peak solar radiation load. We used low-emissivity glass with superior heat-blocking and heat-insulation properties for the south side of the building to reduce heat load, thereby providing comfort and saving energy. We also installed a sprinkler system (using recycled rainwater) for the outdoor air-conditioning (AC) units to improve cooling efficiency through the effects of latent heat cooling.



A system for energy-efficient operations

In order to be energy efficient yet accommodate a variety of work styles, including those that make use of our flex-time system, we installed a system that uses motion detectors to automatically turn air-conditioning and lighting on or off in specific areas depending on the presence or absence of people. We also use brightness sensors that detect natural light and adjust lighting intensity, thereby creating a system that can automatically conduct energy-saving operations. The natural light entering through the atrium in the center of the building also helps save energy.



Energy production

We installed 87.9 kW high-efficiency solar panels on the roof to help reduce CO_2 emissions, which helps to greatly reduce the amount of electricity purchased.

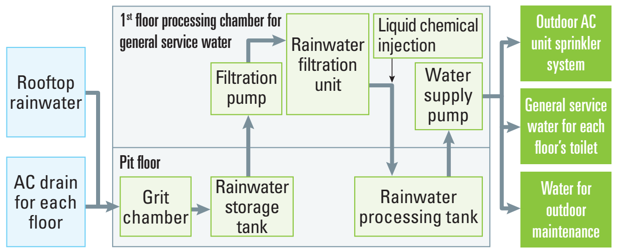
PDCA

In the year following the completion of the building, our energy management team and members of the Design Department from Takenaka Corporation, which was the designer and builder, held monthly meetings. We analyzed factors behind items that exceeded consumption targets, checking actual measurement data and the building's usability and convenience. We continued to make and incorporate improvements for each item, such as adjusting on/off schedules for air conditioning and lighting.

Going forward, we will continue to conduct energy-saving initiatives based on the ISO 50001 standard.

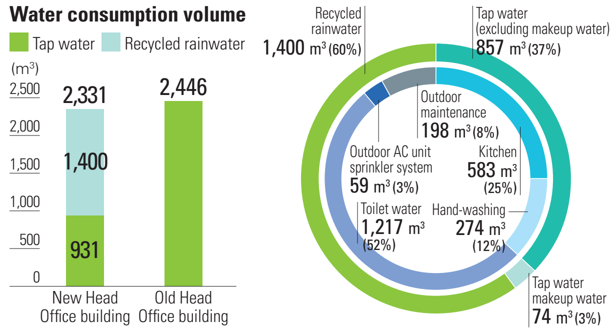
2 Efforts to Reduce the Amount of Water Used

We installed a rainwater reuse system with the aim of reducing tap water usage. Rainfall collected on the roof is retained in an underground rainwater storage tank where it is filtered and sterilized, and then used in toilets, outdoor maintenance, and the outdoor AC unit sprinkler system.



Although we made every effort to reduce water usage at the old Head Office, substantial equipment replacements conducted during the construction of the new building contributed to a 4.7% cut in water usage and a 61.9% decrease in tap water consumption compared to the old building.

Water consumption volume



3 Efforts to Raise Employees' Energy-Saving Awareness

With the goal of further raising energy-saving awareness among our employees, we display the status of the building's power, gas, and water usage on a large digital signboard.

To keep personnel aware of current conditions, we also installed "eco" lamps on the office floor that turn on when target values are exceeded.

Since our initiatives over the years have resulted in a high level of energy-saving awareness among employees, we expect them to understand the figures in real-time and take proactive energy-saving actions by paying attention to the "eco" lamps.

VOICE

Our approach to realizing TS TECH's vision

In planning the new Head Office, we were given the ambitious target of reducing the amount of electricity purchased by 40% from that of the old Head Office. Even before the term "ESG" became common, TS TECH included the resolution of social issues through its business in its business policy. Since this building is the head office of such a global company, we wanted to ensure that the ZEB initiatives undertaken here would be wide-reaching, spreading first to other offices in Japan and abroad and then to society at large. We, therefore, approached our work on the new building with the concept of "Accessible ZEB," considering not only energy reduction, but also "comfort, economy, use of general-purpose technology, and convenient, easy-to use energy-saving operations." We hope that the new building will be the catalyst for making ZEB more accessible both inside and outside the company.

Hopes for TS TECH going forward

These efforts to achieve ZEB status would not have been realized without TS TECH's firm resolve. Moreover, the company has been ISO 50001 certified at all of its business locations in Japan, so one can sense its strong resolve to reduce energy use. I hope TS TECH takes the lead in making all of its business activities carbon-free to become a model company for Japan and the world.

I learned that TS TECH's corporate message "Beyond Comfort" encompasses the intent to take up the challenge to realize a world that is still unseen. It would be our pleasure to be of some small assistance to TS TECH and join in its mission to help build a sustainable society.

Kohei Shiraishi
Manager, M&E Engineering Group 5
M&E Engineering Section, Design Department
Tokyo Main Office
Takenaka Corporation

Environmental Protection Efforts

Basic Environmental Policy

Policy

In the interest of protecting the global environment, the TS TECH Group will work to reduce the environmental impact of all aspects of its corporate activities, especially the production of interior components for automobiles, and help create a sustainable society, aiming to be "a company sincerely welcomed by all," which is one of the beliefs enshrined in the Group's philosophy.

Environmental Action Plan

(1) Compliance with Legal and Other Requirements
Strive to prevent environmental pollution and protect biodiversity and ecosystems primarily through compliance with requirements, such as environmental laws and regulations and environmental standards, and proper chemical management.

(2) Reduction of Environmental Impact
Aim to mitigate the impacts of climate change and realize a sustainable recycling-based society by striving to save energy and resources through collaboration across the supply chain, based on life cycle assessments that cover all stages in the product lifecycle, from development through sourcing, production, logistics, marketing, disposal, and reuse.

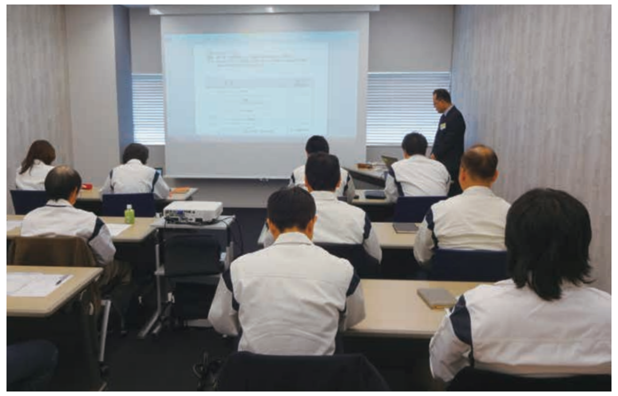
(3) Continuous Improvement of Environmental Management
Endeavor to continuously improve environmental and energy performance by setting environmental targets based on environmental and energy management systems, and regularly reviewing them. Provide the information and management resources needed for such improvement and also work toward the utilization of products and equipment that will improve energy efficiency.

Initiatives to Strengthen Environmental Management

Our Group is promoting environmental management system ISO 14001 certification not just in Japan but at all of our facilities around the world. We are united in our efforts to continuously reduce the burden on the environment. In fiscal 2019, TS TECH adopted ISO 50001 at all of its sites in Japan, seeking to further reduce emissions of CO_2 and other gases associated with global warming. Going forward, we will continue with efforts to bolster our environmental management not only to reduce the burden on the environment but also to decrease costs by improving resource efficiency.

Internal Environmental Audits

TS TECH has established an environmental and energy audit program that consists of annual audits of each site. The audits take into account the environmental and energy impact of the sites and the results of past audits. These internal audits examine measures to reduce environmental impact and energy consumption, the effect of these measures, compliance with regulations, and the status of the administration of ISO international standards, among other items. We promote swift, proper correction of deficiencies and non-compliance items detected in audits, aiming to improve our environmental management.



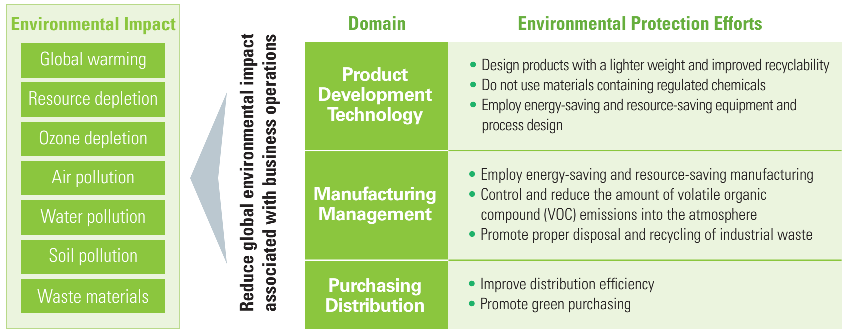
Internal environmental audit seminar

Environmental Education

TS TECH formed the Environmental Experts Committee in 2015 to pursue CO_2 reduction measures at its development and production sites. With the introduction of the ISO 50001 energy management system at these sites in 2019, the Committee's functions were transferred to our energy management team, which is fine-tuning energy management, analysis, and reduction efforts to make them even more effective. Since 2015, we have also been developing our own "energy-saving professionals" by attending seminars organized by The Energy Conservation Center, Japan (ECCJ) and strengthening our development of personnel who specialize in energy conservation at production sites. Learning not only the basic concepts of energy conservation but also detailed facility management methods leads to opportunities to create more efficient measures. We will continue with these types of environmental education initiatives moving forward, using highly knowledgeable, experienced personnel to convey initiatives throughout the entire Group.

Environmental Impact of Business Activities and Environmental Initiatives

TS TECH identifies and strives to reduce the environmental impact of its business activities in each region of the globe.



Main Environmental Targets and Results in Fiscal 2019 and Targets for Fiscal 2020

TS TECH has established and continues to work toward targets to reduce environmental impact with respect to CO_2, waste, and water. We have also been working to develop emissions-reduction initiatives throughout the TS TECH Group since 2017 under our 13th Medium-Term Management Plan. Our focus is on reducing the level of CO_2 emissions and waste output per unit*1 of production.

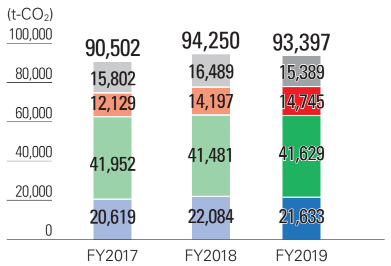
Environmental Targets and Achievements

Item	FY2019				FY2020	
	Targets	Measures	Results	Degree Achieved*4	Targets	Measures
CO_2*2	Basic unit per vehicle **1% lower than FY2018** FY2018 performance: **0.0085 t-CO_2/vehicle**	• Shift to energy-saving production equipment • Promote a shift to LEDs • Shift to energy-saving air-conditioning • Introduction of renewable energy • Shift to hybrid company vehicles	Basic unit per vehicle **0.4% lower than FY2018** FY2019 performance: **0.0084 t-CO_2/vehicle**	△	Basic unit per vehicle **2% lower than FY2018**	• Shift to energy-saving production equipment • Promote a shift to LEDs • Shift to energy-saving air-conditioning • Introduction of renewable energy • Shift to hybrid company vehicles
Waste*2	Basic unit per vehicle **3% lower than FY2018** FY2018 performance: **0.0019 t/vehicle**	• Promote recycling • Reduce product defect rate • Reduce packaging materials • Group-wide roll out of effective solutions via case studies	Basic unit per vehicle **6.4% lower than FY2018** FY2019 performance: **0.0018 t/vehicle**	○	Basic unit per vehicle **3% lower than FY2019**	• Promote recycling • Reduce product defect rate • Reduce packaging materials
Water*3	Basic unit per vehicle **Lower than FY2018 performance** FY2018 performance: **0.113 m^3/vehicle**	• Conserve water at all worksites • Inspect water supply equipment for leakage	Basic unit per vehicle **21.9% lower than FY2018** FY2019 performance: **0.088 m^3/vehicle**	○	Basic unit per vehicle **Lower than FY2019 performance**	• Conserve water at all worksites • Inspect water supply equipment for leakage

*1 "Per unit" figures are calculations performed according to TS TECH's standards and indicate CO_2 emissions, volume of waste generated, and water use relative to production volume during business activities.
*2 We are working to deploy reduction efforts at 37 locations (including some unconsolidated companies) selected using internal standards.
*3 Figures for "water" are the reduction target and performance of TS TECH on a non-consolidated basis.
*4 With regard to the degree achieved, ○ indicates achieved; △ indicates 90% achieved; and × indicates less than 90% achieved.

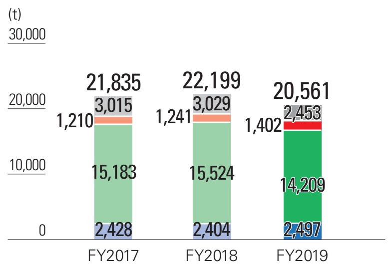
The TS TECH Group's Environmental Data

Total CO_2 Emissions



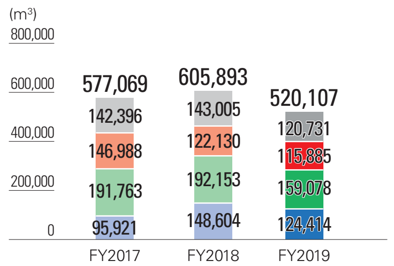
Total CO_2 Emissions from Reporting Sites
Scope of data: Consolidated sites excluding TS TECH ASIAN CO., LTD.

Total Waste Output



Total Waste Output from Reporting Sites
Scope of data: Consolidated sites excluding TS TECH ASIAN CO., LTD. and TS TECH (HONG KONG) CO., LTD.

Total Water Usage



Total Water Usage from Reporting Sites
Scope of data: Consolidated sites excluding TS TECH ASIAN CO., LTD. and TS TECH (HONG KONG) CO., LTD.

Japan | Americas | China | Asia and Europe

Efforts to Reduce Our Environmental Footprint

Development-Focused Measures

Efforts to Reduce Product Weight

The TS TECH Group understands that reducing the weight of our products is one of the most effective ways in which we can reduce our impact on the environment. For our seat frames, which account for a great deal of the weight of the products that we handle, we use a "minimum design," which uses the optimal specifications while considerably improving safety and comfort in line with the current needs. With each model change we reduce frame weight by at least 10% over the previous model.

We are also keeping an eye on the future, anticipating the use of materials such as high tensile strength steel or aluminum and proceeding with research into technology that fuses different materials. We are working to develop frames that will be the lightest in the world but improve safety and utility. The TS TECH Group will not simply use lighter materials; it will use the optimal designs for those materials and conduct research and development via state-of-the-art facilities and CAE to cut out even a single extra gram.

Evolution of the functional parts (blue areas) of the frame

Ultra-lightweight frame that uses carbon material (Reference exhibit)

Production-Focused Measures

With a policy to "build production plants that are sincerely welcomed by the local community," the environment is a key component of our social responsibility and a matter of great importance to our Manufacturing Division, which oversees our production plants. Accordingly, our Manufacturing Division aims to contribute to a recycling-oriented society and promotes efforts to build "people-friendly, environment-friendly production plants." A specific example of this is our improvement of the production environment through the use of Japan's traditional *karakuri* mechanisms. These mechanisms enable us to simultaneously save energy, reduce workloads, and improve production efficiency through the promotion of a plant-wide framework that aims to automate work without consuming energy.

Since 2017, Karakuri Presentation Conferences have been held twice a year at the Saitama Plant to present examples of successful improvements. Preparing to participate in Japan's Karakuri Kaizen Exhibition[*1] for the first time in 2019, TS TECH will hold *karakuri* networking events for production plants and suppliers both in and outside of Japan, aiming to build on and roll out improvements on a broader scale.

*1 The Karakuri Kaizen Exhibition is held every year in Japan to showcase improvements using *karakuri* mechanisms.

Karakuri networking event at Honda's Yorii Plant

Fostering Social Sustainability

The TS TECH Group is working to achieve global ESG management as part of its efforts to contribute to the creation of a sustainable society, sought by people around the world. One priority measure to help achieve this is "harmony with the social environment." We are working to promote business activities that will create even more environmentally friendly products. However, manufacturing products that contain a great number of components means that we procure components from a wide range of suppliers. We, therefore, believe that the entire supply chain must work together as one, and we make relevant calculations based on the Scope 3 standard.[*1]

TS TECH is formulating long-term reduction targets for CO_2 emissions in the spirit of the Paris Agreement[*2] and the SDGs[*3]. The company recognizes that continuing to grow its business while also making substantial reductions in CO_2 emissions will be challenging, but it is determined to address this problem in order to contribute to the planet's sustainability.

*1 Scope 3: The amount of CO_2 emissions produced indirectly by a business, such as in the supply chain

*2 Paris Agreement: A globally agreed long-term commitment to keep the increase in global average temperature well below 2 degrees Celsius above pre-industrial levels

*3 Sustainable Development Goals: A set of international goals for 2030 established by the United Nations for sustainable development

Verification of Greenhouse Gas (GHG) Emissions

TS TECH has received third-party verification from SGS Japan Inc. in order to reliably disclose environmental data.

The scope of verification uses data from fiscal 2018 for greenhouse gas emissions at TS TECH's 10 production sites in Japan and 30 sites outside of Japan and includes Scope 1 and 2 (CO_2 emissions from energy) as well as Scope 3 Category 1 (procurement of raw materials and components).

Installing Environmentally Friendly Equipment

In line with international efforts to reduce the impact on the global environment, such as the regulations of the Minamata Convention on Mercury and the CFC emission controls set forth in the Montreal Protocol, we are moving forward with efforts to remove mercury lamps, switch from fluorescent bulbs to LEDs, and replace equipment that uses R-22 CFCs. These efforts began Group-wide in fiscal 2018, and we aim to complete them by March 2020 in conjunction with the end of our 13th Medium-Term Management Plan.

Green Ecosystem Conservation Activities

The TS TECH Group conducts forest and biodiversity preservation activities in regions around its business facilities in Japan and overseas. These efforts are driven by the concept of creating new green spaces from company grounds borrowed from the earth for the TS TECH Group to conduct its business activities around the world and giving greenery back to the earth through environmental preservation activities.

One of the fruits of these efforts was the receipt of an Excellence Award at the 17th Saitama Environmental Excellence Awards[*1] in February 2016. This award was the result of high marks for the TS TECH Afforestation Program, a joint effort by the TS TECH Head Office and the Saitama Plant. We actively conduct tree planting, tree thinning, and leveling at each of our other sites as well. We have also participated in the Green Wave Movement[*2] since 2012.

As of the end of fiscal 2019, TS TECH had exceeded its target to conduct forest and biodiversity preservation activities on an area of land worldwide equivalent to two million m^2 by 16%, but the company will continue with these activities in and outside of Japan.

*1 Awards are bestowed upon individuals, organizations in the prefecture, and businesses that set an example through environmental initiatives to promote public environmental awareness and eco-friendly behavior.

*2 Actions by groups and organizations that lead to an understanding or increased public awareness of biodiversity through contact with forests, trees, etc.

A TS TECH Afforestation Program event

CDP Climate Change Evaluation

Since fiscal 2014, TS TECH has participated in the CDP climate change questionnaire. We received a "B" rating in fiscal 2019 in recognition of our third-party verification of greenhouse gas emissions and our efforts to reduce CO_2 emissions.

Narrative

Supporting a Work–Life Balance

Even if a company has a system in place to create good working conditions, we cannot achieve real work–life balance without a workplace environment comprised of supportive colleagues that understand the system.

We spoke with two men from the same workplace who took childcare leave as well as their supervisor.

Junya Matsumoto

Biography
Joined the company in 2011
Development Administration Section, Group 2, Model LPL Department
In charge of managing development costs and other aspects of development promotion and management

Family
Himself, wife, and son (1 year, 0 months) * As of this interview
May 2018: First child is born, wife takes childcare leave (12 months)
March 2019: Takes childcare leave (about one month)
April 2019: Returns to work
May 2019: Wife returns to work

"Taking childcare leave together with my wife really gave us a chance to become a family"

Workstyle Changes Born from Childcare Leave

My work requires expertise, and I feel motivated when my colleagues rely on me. However, because of this, I was honestly worried that I wouldn't be able to take childcare leave, even if only briefly. But I felt strongly that I wanted to spend as much time as possible as a couple taking care of our child, so I made the necessary preparations at work in order to be able to take childcare leave. Thanks to the efforts of everyone at work, everything went smoothly while I was on leave, and for this I am very grateful.

When I was training others how to do my work before I took leave, I was surprised by the amount of work that should be standardized so that it could be done by anyone, as well as knowledge that should be shared. Before we even realize it, certain tasks become the responsibilities of only designated individuals. I believe that many people don't think that they can take childcare leave because they feel that they are the only person who can do their work.

Taking childcare leave gave me a chance to reevaluate my own work process and strengthen my ties with my colleagues. These were unexpected added bonuses.

How Time Was Spent During Childcare Leave

In the morning, my wife and I would carry our son and go for a walk, or we'd go shopping as a family. When our son turned one, we took a long-distance trip. We didn't do anything out of the ordinary, but this gave us an opportunity to really become a family.

Before I took childcare leave, my wife would often tell me about the mischief my son got into, and hearing her talk about this with such pleasure made me feel a little left out. For that reason, being able to take childcare leave and witness a different side of my son was really fun for me.

Current Thoughts on the Childcare Leave Program

This was a really valuable experience for me, but I do have some regrets. After my childcare leave, I looked into the program again and gained a lot of information that I didn't have before. For example, the company has Papa-Mama Childcare Plus*, a special program for families in which both parents work. I think that if I had known about this or some other things earlier, I would have taken childcare leave in a different way.

Naturally, we the employees need to take an interest in and then take advantage of the programs available, but I think that the company should do more to spread the word about these great programs.

* Papa-Mama Childcare Plus: This is a special program for childcare leave that can be used by families in which both parents work so that they can extend their childcare leave if they both take leave.

Yuki Suzuki

Biography
Joined the company in 2006
Development Administration Section, Group 1, Model LPL Department
In charge of development promotion and management of new models and operations secretariat for internal organization meetings

Family
Himself, wife, daughter (six months) * As of this interview
December 2018: First child is born
January to mid-February 2019: Takes childcare leave (about one month)
Late February 2019: Returns to work

"Maintaining work–life balance even after childcare leave through the flextime system"

The Catalyst for Taking Childcare Leave

Many women in my workplace have taken leave before and after having children and have used the childcare leave program, and I knew that I really wanted to take leave as well. I had a strong desire to be with my newborn daughter as much as possible, so I left my work in the hands of my trustworthy colleagues and used the childcare leave program right after my wife gave birth.

The Positives of Childcare Leave

In addition to taking care of a baby, I gained an understanding of how difficult the daily housework is for my wife, and we had ample time to really talk about our future, so I'm very glad I took childcare leave. Also, because I was able to be with her from the time she was born, my daughter really bonded with me. You don't need to do anything special with your child during childcare leave—just spending more time together is the most important thing.

About the Flextime System

In addition to the childcare leave program that I used, I'm also really impressed with the flextime system that the company implemented. Our company's flextime system doesn't have any core time, so I can easily adjust my work hours based on how my daughter or wife is feeling or their schedules. I'm really grateful for this because my daughter might wake up with a fever in the morning—you never know what will happen when it comes to children.

Being able to adjust my work hours at my own discretion allows me to spend more time with my family, which really raises my motivation. At the same time, I feel a new sense of responsibility to work hard at the "work" part of the equation so that I can prioritize "life." I think much more about how to efficiently carry out my work.

I feel that the flextime system plays a big role in my ability to prioritize both work and family and lead a balanced life. My routine now involves playing with my daughter before going to work, and this enables me to power through my work day with a smile.

comment — Thoughts from the supervisor of the two men who took childcare leave

Honestly, I was surprised when I received requests for childcare leave from two men in the office in the same period of time. But at our company, where it is entirely normal for women to take childcare leave, it is not unusual for anyone to go out on leave. I have even used it myself. While these two were out, our sense of working together to support each other reached new heights, and it was an especially nice surprise to see young employees take the lead in driving this effort.

There are times when everyone, regardless of gender, must prioritize the "life" part of a work–life balance. If we have a workplace environment in which we all support each other during these times, I think it will become completely normal for men to take childcare leave.

Yumi Tsunakawa
Manager, Development Administration Section, Model LPL Department

Narrative

Supporting a Work–Life Balance

Fostering a Greater Awareness of Human Rights

As outlined in TS TECH's Code of Conduct, TS TECH respects human rights, does not practice discrimination, strives for equal opportunities in employment, and does not accept any form of child labor or forced labor.

The Code also discourages the use of words that are discriminatory in nature or could be construed as such. A Corporate Principles manual explaining the concepts underlying the Code is distributed to all employees, and training is conducted to ensure that everyone clearly understands the importance of respecting human rights. Overseas Group companies use this manual as a basis for developing their own educational approaches that reflect local culture, customs, and laws, and for deepening each employee's understanding of human rights awareness.

In accordance with our TS TECH Philosophy, we conduct fair hiring practices.

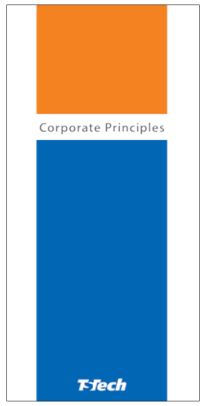
TS TECH's Code of Conduct

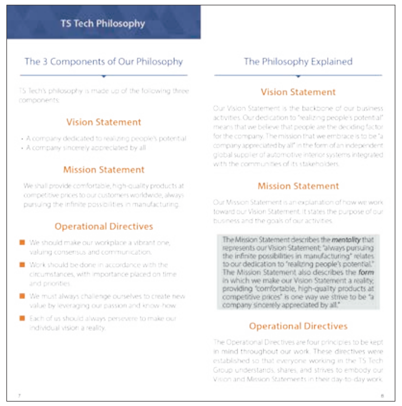
1. Providing safe, comfortable, and high-quality products and services
2. Human rights and work environment
3. Protection of the environment
4. Relationship with society
5. Compliance
6. Protection of company assets and information
7. Fair and clean business practices
8. Proper disclosure of information

Educating Employees Globally about the TS TECH Philosophy

Since 2015, the TS TECH Group has provided "TS TECH Philosophy Education" through TS TECH Philosophy promoters selected by overseas Group companies. Promoters and the managers they train regularly provide educational opportunities to local staff to familiarize them with the TS TECH Philosophy. We are working to further strengthen our unity as a group by sharing and establishing a common awareness (values) on a global level.

TS TECH Philosophy Education reached approximately 90% of employees globally in fiscal 2019.





The manual distributed to all employees

comment — Thoughts from a TS TECH Philosophy promoter at an overseas Group company

For many Associates, TS TECH Philosophy Education provides an opportunity to engage in self-reflection and reexamine how they can contribute to the company. Whether it's a manager who has become more careful about how he or she acts in order to set an example or an Associate who really identifies with our vision to be "a company sincerely appreciated by all" and is eager to give back to the community, the TS TECH Philosophy offers reliable, trustworthy guidance for each and every Associate to consider before planning or acting.

Things like language and corporate culture may vary by location, but a shared understanding of the TS TECH Philosophy makes it easy to facilitate communication and interaction between Group companies. As a promoter, I work to create environments that make it easy for every Associate to learn, regardless of background, work style, or title. Moving forward, I hope to help Associates further embrace the TS TECH Philosophy through an array of tools, such as classroom-style workshops held on a regular basis and video training via an e-learning system, and contribute to the Group's unity and growth.

Matthew Wagner
TS TECH AMERICAS, INC.
Senior Chief Administrator, Human Resources

comment — Thoughts from a female executive at an overseas Group company

The TS TECH Group is an enterprise that values its domestic and overseas employees. This culture has also spread to its overseas Group companies, and I feel that we are aiming to become a company sincerely appreciated by all around the world. I have been working for TS TECH (HONG KONG) CO., LTD. for 16 years, since the company launched. At first, I faced difficulties such as language barriers and cultural differences. However, in the course of working with the Japanese employees stationed in Hong Kong, even though our language and culture were different, I often felt that they shared my passion to make good products and contribute to society, and this impressed me. That experience is still a source of encouragement.

I was appointed as a director in 2013, when the TS TECH Group started to strengthen its operations in China. I do not think that there were many cases where foreign companies hired local staff as executives at the time, so I was quite honored to be chosen, and it made me feel that TS TECH was a company that was not afraid to take challenges. In the future, I want to contribute to Group unity and embody the TS TECH Philosophy to drive further growth.

Erica Cheng
Director,
Corporate Administration
Division General Manager
TS TECH (HONG KONG) CO., LTD.

Diversity Initiatives

Conduct at the TS TECH Group is based on TS TECH's Code of Conduct. Respect for diversity is a priority and an idea that we vigorously promote. We strive to build workplaces where everyone—in particular, female, disabled, and foreign employees—can thrive, so we implement medium- to long-term policies to support nondiscriminatory employment and working conditions. We also undertake long-term efforts to develop our overseas Group companies so that they integrate well within the countries in which they are located.

In addition, we are working to promote an understanding and awareness of diversity, gathering a wide range of opinions through a variety of methods such as gauging diversity-related awareness through an annual employee satisfaction survey and facilitating dialogue between the Human Resources Department and young employees. One example of our efforts is diversity management training for management. We are working to develop an environment in which our diverse group of employees can make the most of their respective individual knowledge, experience, and abilities in order to thrive.

Hiring pamphlet about women in the TS TECH workplace

Initiatives for Hiring Persons with Disabilities

In addition to regularly communicating with Hello Work,* employment support centers, and special needs schools, we actively recruit persons with disabilities through participation in job-hunting events for persons with disabilities.

In addition, as part of employee retention efforts, we regularly conduct interviews with and surveys of employees with disabilities, and we are working to build a system that can help us identify problems they face at work.

* An employment service operated by the Japanese government that has offices nationwide

The TS Women's Committee (TWC)

TWC is an entity that plans and formulates policies to ensure that the voices of a diverse group of female employees are heard in order to further improve their motivation and satisfaction. TWC members, employees chosen from each domestic location, then propose these policies to management. They make proposals that are tied to the development of personnel systems and workplace environments that leverage diversity so that everyone can actively participate, and these proposals may then be adopted. Specific initiatives aimed at creating "a company where everyone can thrive" have included the creation of maternity uniforms, the establishment of an on-site day care center, and the creation and distribution of child-rearing support handbooks.

TWC Report, a regular feature in the company newsletter

Tekuteku Kids Day Care, an on-site day care center

Narrative
Supporting a Work–Life Balance

A Company Dedicated to Realizing People's Potential —Part of the TS TECH Philosophy

The TS TECH Group believes that people are the decisive factor in a company. It is part of the company's management policy to "make our workplace a vibrant one, valuing consensus and communication." TS TECH is, thus, striving to create safe, comfortable workplaces.

Human Resources Development

TS TECH has created its own unique training system to cultivate human resources based on two types of training: Rank specific training that is tailored to years of service or position, including Mid-Level Training (Fifth-Year Training for Employees) and New Manager Training; and selective training, where employees are placed into courses, such as the TS Executive Business Management School, TS Camp, or TS Trainee programs, based on their current level of expertise.

The TS Executive Business Management School was launched in fiscal 2020 with the aim of developing candidates for the next generation of managers.

Participants, who are selected from among general managers, receive practical, systematic training regarding management knowledge and skills. The academy is an effort to consistently produce managers who will improve corporate value.


Corporate training taught by outside instructors

Work–Life Balance

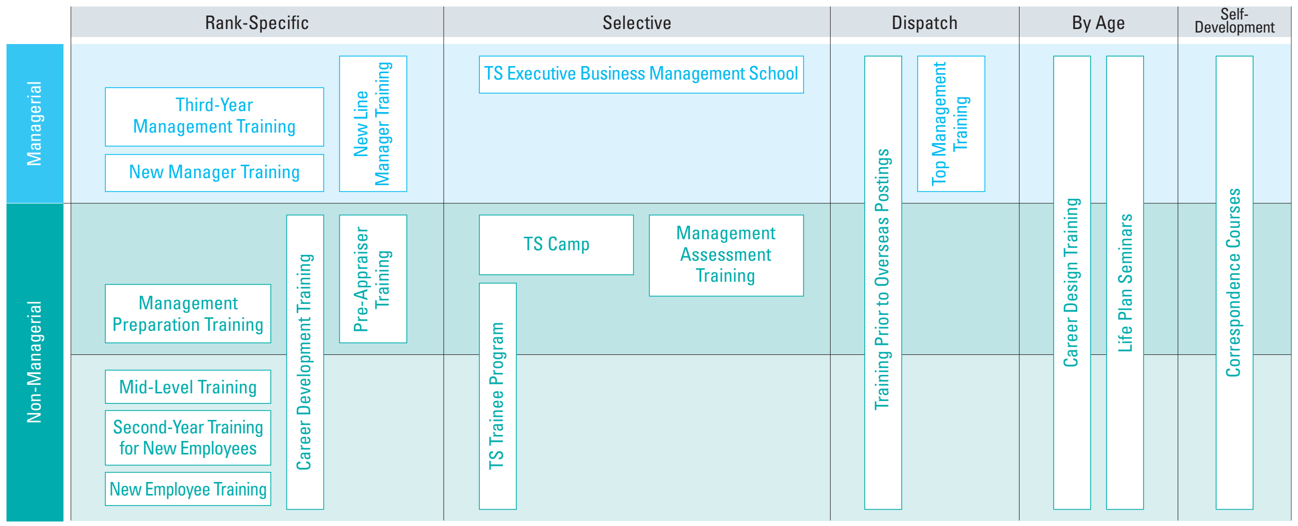
In addition to our general efforts to create workplaces offering favorable labor conditions and supportive working environments, TS TECH is also focused on raising employee awareness about the importance of maintaining an appropriate work–life balance. Toward this end, we have implemented various measures, such as offering childcare leave, caregiving leave, and shortened working hours, as well as opening an on-site day care facility. In FY2019, we also expanded our program for shortened working hours for childcare to cover children until they graduate elementary school to help facilitate a work–life balance.

To help support paid-vacation use and accommodate a range of lifestyles, we began allowing a limited number of half-day vacations in 2011 and raised this limit from 4 to 12 half-days per year in April 2016. The system enables us to further address the diverse needs of employees in a range of different life stages. As a result of this action, TS TECH placed fourth in a 2019 ranking by Toyo Keizai Inc. of the 300 companies with the most flexible paid leave.

Kurumin Certification: May 2015
We have been certified as a company that supports childcare and promotes measures to support the development of next-generation children.

Eruboshi Certification: October 2016
We have been certified as a company with outstanding implementation of measures to promote women's participation in the workplace. We received the highest rating of three stars.

Education and Training Programs



Flextime System

In January 2018, TS TECH adopted a flextime system with no core time. We aim to improve labor productivity by diversifying work styles and encouraging employees to create balance in their work schedule.

Improved labor productivity driven by efficient time allocation and diversified work styles that make it easier, for instance, to balance work with childcare or caregiving, are among the anticipated outcomes of the adoption of this system. This will contribute to an improved work–life balance. One year after its implementation, 61% of employees were utilizing the system and overtime in departments that have adopted the system was down roughly 5% from the previous fiscal year.

We are also moving forward overseas with work-style reforms tailored to regional characteristics to facilitate work styles and conditions that take advantage of diversity. Spearheading this effort is TS TECH AMERICAS, INC., which also adopted a flextime system in June 2018.

Communication with Employees

Conducting Employee Satisfaction Surveys

We conduct an employee satisfaction survey annually at TS TECH. The survey assesses job satisfaction, workplace atmosphere, the depth of education provided, inter-organizational communication, and more. Through these surveys, we gauge levels of satisfaction with the company from a broad, diverse range of perspectives.

By regularly conducting the survey to identify and improve issues, we aim not only to increase employees' motivation but also to improve organizational strength.

Talking with the Union

The company regularly communicates and consults with the TS TECH Workers' Union in a mutual effort to improve labor conditions and the workplace environment, and to promote a better work–life balance.

Promoting Occupational Safety & Health

TS TECH conducts work safety and health activities based on an occupational safety and health management system (OSHMS), and its basic safety and health policy is based on the concept that "Our Group makes 'safety' the highest priority in our business activities based on the belief of being 'a company dedicated to realizing people's potential.'" A top-down internal structure continually performs a plan–do–check–act (PDCA) cycle aimed at achieving three goals: Injury prevention, better employee health, and a more comfortable workplace environment.

Specific initiatives include risk assessment, *kiken yochi* training (KYT; hazard prediction training) and *hiyari-hatto* (near-miss reporting) activities*, which we conduct at all business sites. Taking countermeasures like these in anticipation of potential workplace risks helps prevent work accidents. We have also held training sessions led by lecturers from the Japan Industrial Safety and Health Association annually since 2007, helping to enhance the skills of risk management advocates (safety officers, production site managers, etc.).

Also, with respect to health, we have affiliations with mental health specialists and offer stress checks prescribed by Japan's Industrial Safety and Health Act. We have a system in place in which any employee experiencing mental health issues can work with company staff to promptly receive care from outside specialists. We also conduct internal seminars to promote proper understanding of mental health. In fiscal 2020, influenza vaccinations will be provided on-site to interested employees. By subsidizing the cost, we plan to promote individual health management and reduce production and distribution risks by preventing the spread of infection within the company.

* *Hiyari-hatto* (near-miss reporting) activities: Safety-minded activities regarding incidents in which no accident actually occurred, but involved parties report the near-misses; from the Japanese *hiyari* (feeling a sudden chill) and *hatto* (having one's breath taken away).


Training session for risk assessment


Mental health training

Philanthropy

Japan

Combating food loss

TS TECH held a food drive in its Tochigi district, and donated the food collected to the Takanezawa Council of Social Welfare. Employees were asked to bring excess food, such as items that they could not use, for donation. The 18 volunteer employees running the food drive gathered about 52 kilograms of food in one day.

Social welfare support

We have focused on social welfare support for many years, with the goal of creating a society where people with disabilities can work to their fullest.

Through the city of Asaka, the Asaka district donated sensory equipment for Snoezelen—a type of therapy which aims to relieve anxiety and tension that people with severe intellectual disabilities feel when involved in an activity—to Heartopia and the Shogaisha Fureai Center, two facilities that provide employment support and other social welfare services for people with disabilities.

In addition, our in-house cafes in the Asaka and Tochigi districts are operated in cooperation with local facilities that provide employment for people with disabilities.

* Snoezelen (pronounced /ˈsnuzələ(n)/): The word is a neologism formed from a blend of the Dutch "snuffelen" (to snuggle; to sniff) and "doezelen" (to doze, to snooze). Since the equipment is designed to deliver gentle stimuli to the five senses using lighting effects, sounds, scents, vibrations, temperature, and touches that even people with severe intellectual disabilities can enjoy, it can make them feel relaxed. This therapy is also used in dementia care.

Americas

Donating goods and volunteering in communities

Our locations in the Americas regularly donate items such as toys and school supplies to local children.

TRIMONT MFG. INC. volunteered with the local NPO Agincourt Community Services Association (ACSA) to pack vegetables for distribution and to build equipment to store food.

Cooperation with and participation in charity events

Twenty-four employees from TS TECH AMERICAS, INC. participated in the bicycle charity event "Pelotonia" to support cancer research. Two of them made sizable contributions to the event and earned the title of "high roller," which is conferred on riders who collect large amounts of donations.

Ecosystem conservation activities

We work with local conservation organizations to protect ecosystems. Monarch butterflies pass through the U.S. state of Indiana, where TS TECH INDIANA, LLC is located, during their annual migration to South America. In order to protect the monarch butterfly, which has become an endangered species, the company is working to build a butterfly-shaped habitat conducive to breeding butterflies on the premises of its manufacturing plant.

China

Assistance for the elderly and less fortunate households

We interact with elderly residents in communities where there are TS TECH offices, and we provide economic assistance to senior citizen homes. We also donate books and everyday goods to students from less fortunate households.

A team of volunteers from GUANGZHOU TECH INTERIOR TRIM MANUFACTURING CO., LTD. partnered with the government to visit and check in on elderly residents of the local community who have no relatives. GUANGZHOU TS AUTOMOTIVE INTERIOR SYSTEMS CO., LTD. invited local students and their guardians to tour the plant and learn more about the company's business.

Cleanup work to protect city streets and nature

We are also involved in ongoing environmental preservation activities. Through simple but effective activities such as picking up garbage on beaches and cleaning public roads near TS TECH offices, we are also trying to reduce environmental pollution in China, which has become a serious social problem.

At NINGBO EPZ TS TRIMONT AUTOMOTIVE INTERIOR INC., 17 employees spent about two hours cleaning up a river, removing food wrappers, paper, plastic, and other litter.

Asia and Europe

Eco-bag donations

TS TECH SUN INDIA PRIVATE LIMTED donated 450 cloth eco-bags featuring the slogan "Let's Eliminate Disposable Shopping Bags" to the local community. The company informed local residents that they could contribute to environmental conservation in their daily lives through measures such as not using disposable shopping bags.

Economic support

At TS TECH UK LTD, 15 employees formed a cross-departmental team to attempt the Three Peaks Challenge and climb three mountains in England, Scotland, and Wales. In conjunction with this, they used the JustGiving website to raise about 500,000 yen in donations from both inside and outside the company. They then donated these funds to Brighter Futures, a charity which operates local hospitals.

Educational support for children

TS TECH (KABINBURI) CO., LTD. held a trash sorting lesson at a local elementary school to help students learn about the importance of protecting the earth and recycling. TS TECH TRIM PHILIPPINES, INC. donated crayons, notebooks, and other school supplies to 91 local kindergarteners to help prepare them for the transition to elementary school.

Supply Chain Management Policy

In order to coexist harmoniously with society and be a company sincerely appreciated by all whose presence is appreciated by stakeholders, management focuses on ESG-related issues, not just the pursuit of profit, is necessary.

Based on the TS Philosophy, the TS TECH Group aims to realize a sustainable society with its worldwide business partners by promoting initiatives that consider the environment, safety, human rights, compliance, and social responsibility, not only independently but throughout its supply chain.

Major Initiatives

Supplier Conference

As a general rule, TS TECH holds conferences with its main business partners once a year. The goals are to explain its purchasing policy for the period and exchange information.

Supply Chain Surveys

To address procurement risks, the TS TECH Group works to prevent all "events that impact production," including natural disasters, fires, and financial challenges affecting its business partners. For example, the company considers procured components, etc., for which production is concentrated at a single supplier to be "high risk components" and is working with business partners to prepare for emergencies and secure alternate suppliers.

Conflict Mineral Surveys

Based on its own Policy on Conflict Minerals, TS TECH conducts surveys that trace the supply chain in an effort to prevent the flow of funds to armed forces committing human rights violations in conflict zones. The TS TECH Group is working with our business partners to prevent the use of questionable minerals.

Promotion of Environmental Initiatives

TS TECH presents its business partners with targets for lowering CO_2 emissions to reduce environmental impact and works with these partners to achieve them.

We are also working with business partners to comply with all laws and regulations concerning all materials and components that comprise products, and to manage chemical substances to reduce impact on the global environment and ecosystems.

Important Business Partners

We select particularly important business partners from a production reliability standpoint, check the status of their compliance with the TS TECH Supplier Sustainability Guidelines and risk management, and work with them to conduct joint initiatives to further improve corporate value.

Narrative

Taking the First Step with Business Partners toward Sustainable Business Activities


Yoshikazu Ariga
Director,
Corporate Purchasing Division
Executive General Manager

Business Partner Assessments

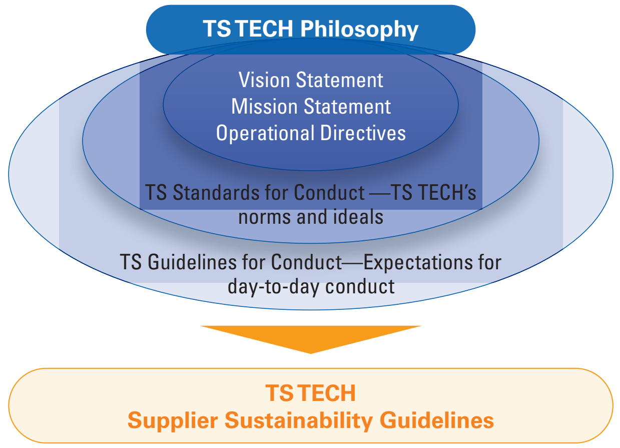
In order to continuously supply high quality products to our customers, we evaluate business partners once a year. We assess them in terms of Quality, Cost, Delivery, Development, and Management (QCDDM) to arrive at an evaluation of the total strength of each business partner. For business partners that need improvement, we work to improve their overall capabilities with the cooperation of each department.

TS TECH Supplier Sustainability Guidelines

Based on the TS TECH Philosophy, the TS TECH Group is working to fulfill its social responsibility in various fields, including the environment and safety.

In order to strengthen our initiatives and deploy them throughout the entire supply chain, in May 2019 we established the TS TECH Supplier Sustainability Guidelines to facilitate a shared awareness of sustainability with our business partners and actively promote sustainability initiatives. Using these guidelines, we will share TS TECH's values with our business partners, prevent noncompliance and other problematic events, and continue to grow and become a company whose presence is appreciated by stakeholders.

At present, the TS TECH Supplier Sustainability Guidelines have been provided to our primary business partners, and we will work to spread awareness of them throughout the entire supply chain to enhance our initiatives.



Category	Content
1. Safety and Quality	• Supply of products and services that satisfy consumer and customer needs • Provision of appropriate information concerning products and services • Guarantee of safe products and services • Guarantee of quality products and services
2. Human Rights and Labor	• Elimination of discrimination • Respect for human rights • Prohibition of child labor • Prohibition of forced labor • Wages • Labor hours • Communication and negotiation with employees • Safe, healthy work environments • Handling of conflict minerals
3. The Environment	• Environmental management • Reduction of greenhouse gas emissions • Prevention of air, water, soil, and other forms of environmental pollution • Resource conservation and waste reduction • Management of chemical substances • Protection of ecosystems
4. Compliance	• Compliance with laws and regulations • Compliance with competition laws • Prevention of corruption • Management and protection of confidential information • Management of export transactions • Protection of intellectual property • Rejection of antisocial forces
5. Information Disclosure	• Disclosure of information to stakeholders

comment

We expect continuous disclosure regarding actual on-site circumstances and the extent of improvements made.

The recently established TS TECH Supplier Sustainability Guidelines are highly comprehensive and cover important issues in the supply chain. However, setting guidelines is only the first step in supply chain management. I would like the company to build an in-house management and promotion system that will make suppliers follow the guidelines and improve overall manufacturing quality.

Various problems have been pointed out at supplier workplaces such as issues related to foreign workers, which have attracted special interest in recent years. It is difficult to grasp and make improvements to the current situation without on-site confirmation and audits, so we expect on-site action to be taken to see that operations are being run in accordance with the guidelines. We also expect continuous disclosure of the actual on-site situation and the extent of improvements made in these areas.


Hidemi Tomita
Director, Lloyd's Register Japan K.K*

*A Japanese subsidiary of the Lloyd's Register Group, an independent risk management organization that provides advisory services in the areas of CSR and sustainability

TS TECH Partners

The TS TECH Group's products are made from a wide variety of materials and components provided by its suppliers. In order to reliably offer quality products at competitive prices to our customers, solid partnerships with our suppliers are indispensable.

The Group has established the Four Principles of TS Procurement, explained below, to ensure fair, just transactions as well as to construct and maintain win–win relationships with suppliers globally. By following these principles, we aim to construct a procurement and purchasing system that can be relied upon by all stakeholders.

Four Principles of TS Procurement

(1) Fair Trade

When selecting a supplier, we offer our business to several candidates irrespective of their nationality, size, or past transactions and finalize our choice in a fair manner by comprehensively evaluating their ability to offer superior quality, expertise, price, delivery, and other elements, as well as competitiveness, rationality, efforts for business security and other relevant matters.

(2) Mutually Beneficial Transactions

We share with our trade partners business challenges such as development and competitive pricing, set goals from a common perspective, and conduct joint efforts to achieve targets. We afford the highest priority to mutually beneficial transactions in terms of results thus obtained and make continuous efforts to strengthen trust as the basis of mutually beneficial relationships.

(3) Environmental Responsibility

In our corporate activities, we attach the greatest importance to global environmental preservation under all circumstances. Accordingly, we practice "green purchasing," granting preference to environmentally responsible products, services, companies, etc.

(4) Legal Compliance and Confidentiality

We respect the principle of legal compliance and thoroughly observe relevant laws and regulations and generally accepted norms. We handle with the greatest care all kinds of information obtained from our customers and trade partners and make the utmost effort to prevent the loss or misuse of such information.

Handling the Supply Chain

The TS TECH Group promotes communication with business partners by providing opportunities to share information regarding purchasing strategies and policies. We hold an annual conference with major business partners to explain the purchasing policies for the period and to exchange information.

We established the TS TECH Supplier Sustainability Guidelines in May 2019 to share and promote our views on sustainability with our business partners. We ask all business partners to comply with these Guidelines in the following five categories: (1) Safety and Quality, (2) Human Rights and Labor, (3) The Environment, (4) Compliance, and (5) Information Disclosure.

In addition, we select particularly important business partners using factors such as production reliability. We check the status of these partners' initiatives and risk countermeasures against the TS TECH Supplier Sustainability Guidelines and work to implement joint initiatives that further enhance corporate value.

Supplier conference

Workflow for handling major business partners

Policy on Conflict Minerals

The Group checks whether conflict minerals* originating in or near the Democratic Republic of the Congo, as designated by the Dodd–Frank Wall Street Reform and Consumer Protection Act of the United States, are used in our products. We prevent the flow of money used to fund armed forces and/or illegal conduct such as human rights violations in conflict zones. We also refuse the use of conflict minerals for the purpose of undermining armed forces.

In addition, we have investigated the sources of conflict minerals annually since 2013 to fulfill our social responsibility in our procurement.

Regardless of its origin, we will implement the appropriate measures with a supplier if a questionable mineral is found during an investigation.

To ensure compliance with this policy, we share with our suppliers the TS TECH Supplier Sustainability Guidelines, which outline our handling of conflict minerals and other CSR initiatives. We also engage in procurement based on these guidelines.

* Conflict minerals: Tin, tantalum, tungsten, and gold are defined as conflict minerals, and they are collectively abbreviated as "3TG."

Compliance with the Antimonopoly Act and Prohibition of Corruption

TS TECH has prepared and put into use its own Antimonopoly Act and Subcontract Act Compliance Manual, which sets forth the approach and considerations related to Japan's Act on Prohibition of Private Monopolization and Maintenance of Fair Trade ("Antimonopoly Act") and the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors ("Subcontract Act"). The relevant

Rank-specific training

departments utilize the manual in day-to-day operations in conjunction with an accurate understanding of the two laws and a thorough, close examination into the legality of individual events.

TS TECH has created mechanisms that allow relevant departments to liaise with the department responsible for legal affairs and consult as needed with attorneys on events that cannot be definitively decided based solely on the manual. Moreover, TS TECH provides proper, appropriate training on the Antimonopoly Act and the Subcontract Act in accordance with its stratified training programs to foster awareness of compliance among employees.

In March 2016, the Group issued new anti-corruption guidelines and anti-cartel guidelines as part of its continuing effort to build a solid framework for ensuring fair, honest business operations across all Group operations.

Policy and Action against Antisocial Forces

The TS TECH Group's basic policy for internal control requires individual officers and employees to diligently avoid any type of relationship with antisocial groups that can threaten a safe, orderly civil society, and to work together as an entire group to demonstrate uncompromising attitudes against such forces. Specific measures include making assessments in advance of the start of new transactions and incorporating provisions for excluding the influence of antisocial forces in preparing agreements.

Intellectual Property Management

The TS TECH Group respects intellectual property rights. In developing products and technologies, we take the utmost care to ensure that the Group does not infringe on the intellectual property rights of others. At the same time, the Group asks others to respect its intellectual property rights. In cases where an infringement is identified, the Group takes all necessary measures, including demanding that infringing parties immediately discontinue any offending activities and offering such parties an opportunity to negotiate in the signing of license agreements. In general, the Group works to maximize intellectual property value and minimize loss.

Board of Directors

We will continue to work with our stakeholders to achieve sustainable business growth.

DIRECTOR
(Outside Director)
Teruyasu Mutaguchi 1

Technical Advisor at Biko, Inc.
Director, TS TECH Co., Ltd. (2016–present)

SENIOR MANAGING DIRECTOR
Minoru Maeda 2

Joined TS TECH Co., Ltd. in 1979
Senior Managing Director, TS TECH Co., Ltd.
Americas Executive General Manager,
Chairman and President of
TS TECH AMERICAS, INC.

CHAIRMAN & CEO
(Representative Director)
Michio Inoue 3

Joined TS TECH Co., Ltd. in 1977
Chairman & CEO (Representative Director), TS TECH Co., Ltd.

PRESIDENT
(Representative Director)
Masanari Yasuda 4

Joined TS TECH Co., Ltd. in 1982
President (Representative Director),
TS TECH Co., Ltd.
Quality Assurance Supervision,
TS TECH Co., Ltd.

DIRECTOR
(Outside Director)
Shizuo Kitamura 5

Senior Advisor at Resona Business Service Co., Ltd.
Director, TS TECH Co., Ltd. (2015–present)

SENIOR MANAGING DIRECTOR
Hitoshi Yoshida 6

Joined TS TECH Co., Ltd. in 1981
Senior Managing Director, TS TECH Co., Ltd.
Asia and Europe Executive General Manager,
Chairman of TS TECH ASIAN CO., LTD.,
TS TECH BANGLADESH LIMITED, and
TS TECH UK LTD

MANAGING DIRECTOR
Yutaka Arai 7

Joined TS TECH Co., Ltd. in 1982
Managing Director, TS TECH Co., Ltd.
Development and Engineering Division Executive General Manager

MANAGING DIRECTOR
Akihiko Hayashi 8

Joined TS TECH Co., Ltd. in 1978
Managing Director, TS TECH Co., Ltd.
Manufacturing Division Executive General Manager

DIRECTOR
Yoshikazu Ariga 9

Joined TS TECH Co., Ltd. in 1990
Director, TS TECH Co., Ltd.
Corporate Purchasing Division Executive General Manager

SENIOR MANAGING DIRECTOR
Yoshitaka Nakajima 1

Joined TS TECH Co., Ltd. in 1982
Senior Managing Director, TS TECH Co., Ltd.
Corporate Administration Division Executive General Manager,
Compliance Officer,
Officer in Charge of Public Relations

SENIOR MANAGING DIRECTOR
(Representative Director)
Yoshiaki Yui 2

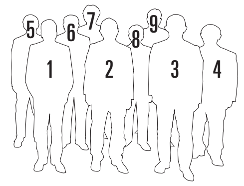
Joined TS TECH Co., Ltd. in 1980
Senior Managing Director (Representative Director), TS TECH Co., Ltd.
Management Supervision, TS TECH Co., Ltd.
Sales Division Executive General Manager,
Risk Management Officer

AUDITOR (Part-Time)
Tatsuya Motoda 3

President of Motoda Tax & Accounting Office
Auditor, TS TECH Co., Ltd. (2014–present)

AUDITOR (Part-Time)
Akira Kawashita 4

Auditor, TS TECH Co., Ltd. (2016–present)



DIRECTOR
Atsushi Igaki* 5

Joined TS TECH Co., Ltd. in 2016
Director, TS TECH Co., Ltd.
Corporate Business Administration Division Executive General Manager

* Former General Manager of Regional Operations Planning Office (Japan) at Honda Motor Co., Ltd.

MANAGING DIRECTOR
Koichi Mase 6

Joined TS TECH Co., Ltd. in 1979
Managing Director, TS TECH Co., Ltd.
China Executive General Manager,
Chairman and President of
TS TECH (HONG KONG) CO., LTD.

MANAGING DIRECTOR
Kenichi Hasegawa 7

Joined TS TECH Co., Ltd. in 1982
Managing Director, TS TECH Co., Ltd.
Officer in Charge of New Business Development,
Chairman of TS TECH Deutschland GmbH

AUDITOR (Full-Time)
Senzo Yamazaki 8

Joined TS TECH Co., Ltd. in 1979
Auditor, TS TECH Co., Ltd.

AUDITOR (Full-Time)
Akihiro Miyota 9

Joined TS TECH Co., Ltd. in 1976
Auditor, TS TECH Co., Ltd.

Narrative

Efforts to Improve Corporate Governance and Compliance

Basic Policies

(1) Securing the Rights and Equal Treatment of Shareholders

We respect the rights of all stockholders, who are important stakeholders, and shall maintain an environment that ensures that all shareholders, including non-controlling interests, are treated equally and can fully exercise their rights.

(2) Appropriate Cooperation with Shareholders

We shall cooperate appropriately with all shareholders while working to achieve sustainable growth and an increase in mid- to long-term corporate value.

(3) Ensuring Appropriate Information Disclosure and Transparency

We shall actively disclose information in order to be a company sincerely welcomed by all of our shareholders, and we shall manage our business with transparency and good faith.

(4) Responsibilities of the Board

The Board shall take appropriate responsibility for the establishment of mid- to long-term management policies and oversight of directors, and it shall work to build systems to enable transparent, fair, and resolute decision-making.

(5) Dialogue with Shareholders

The company shall engage in constructive dialogue with shareholders and investors through the annual General Meeting of Shareholders and other avenues with respect to management principles and other issues as it works to achieve sustainable growth and an increase in mid- to long-term corporate value.

Basic Policy on Corporate Governance

The TS TECH Philosophy calls for a company sincerely appreciated by all, from its customers and shareholders to its suppliers, employees, and the community. The company recognizes that establishing corporate governance is an important step in fulfilling its social responsibility and achieving sustainable growth and an increase in mid- to long-term corporate value.

TS TECH endorses the Tokyo Stock Exchange's Corporate Governance Code and has set the above basic policies accordingly.

Response to Japan's Corporate Governance Code

With the goal of achieving sustainable growth and increasing our mid- to long-term corporate value, since the Tokyo Stock Exchange established the Corporate Governance Code in 2015, TS TECH has endeavored to strengthen its own governance system while keeping it aligned with the intent and spirit of the Code.

When the Code was revised in December 2018, we reviewed and revised the content disclosed in our corporate governance reports. We have currently adopted an "explain" approach with regard to Supplementary Principle 4.10.1 (Use of Optional Approach) and are in compliance with all other codes.

In regard to Supplementary Principle 4.10.1, although less than half of TS TECH's directors are outside directors, we endeavor to ensure the transparency and objectivity of the decision-making process when appointing directors and making decisions on compensation and other matters. These matters are discussed by the Executive Committee with monitoring by full-time auditors, and decisions are made at Board of Directors' meetings after outside directors have been briefed and their opinions heard.

At present, this system is functioning effectively, and we thus have no urgent plans to establish voluntary committees, but TS TECH will continue to actively work to strengthen its governance system in line with the Code's intent.

Group Governance System

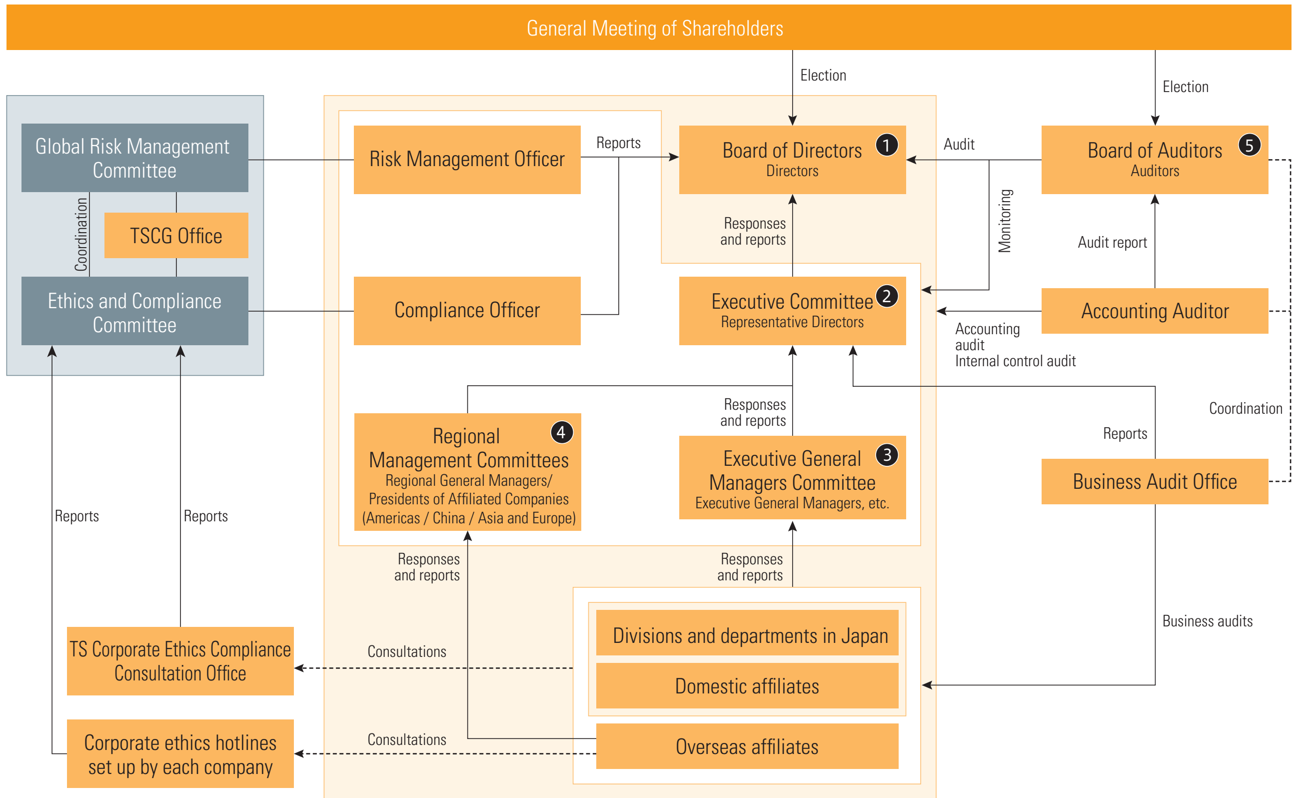
The TS TECH Group has established a sound corporate governance system. It includes sharing the TS TECH Philosophy, a policy on corporate governance, and a three-year medium-term management plan throughout the Group. Affiliated companies also have their own effective, efficient corporate governance systems that are based on the laws of their respective countries and their respective businesses.

Important management issues at affiliated companies must be reported to and approved by TS TECH in advance based on the standards stipulated by TS TECH. Affiliated companies must also report business plans, sales results, and financial status as well.

Furthermore, affiliated companies participate in routine compliance and risk verification measures known as the TSCG self-verification system. This ensures that the entire TS TECH Group acts as one in promoting compliance and reducing risk.

TS TECH's internal audit department conducts audits of affiliated companies and works with internal audit departments set up at the head offices in each region to enhance the internal audit structure of the entire TS TECH Group.

Governance System Diagram



❶ Board of Directors
The Board of Directors comprises 14 directors, including two outside directors. It convenes at least once per month in principle. The Board of Directors makes decisions regarding management policies, important management issues, and matters mandated by laws and regulations. It also supervises the execution of the company's operations.

The outside directors are elected based on their wealth of professional experience because they will be consulted regarding management policies and important company decisions.

❷ Executive Committee
It comprises the company's three representative directors. It conducts preliminary deliberations on such matters as resolutions to be put to the Board of Directors, and, within the scope of the authority assigned to it by the Board of Directors, discusses important matters relating to the execution of the duties of the directors.

❸ Executive General Managers Committee
The Executive General Managers Committee is made up of nine executive general managers. This Committee discusses policies, plans, and governance related to operations in each division to maintain efficient operations.

❹ Regional Management Committees
These committees consist of directors and presidents of subsidiaries and affiliated companies in our three business regions of the Americas, China, and Asia and Europe. They deliberate on important matters affecting management in their respective regions, as well as measures to promote the independence of these regions and companies and to strengthen the system for the execution of operations.

❺ Board of Auditors
It comprises four members, including two outside corporate auditors. Each corporate auditor audits the directors' execution of duties in accordance with the audit policy determined by the Board of Auditors through attendance at important meetings such as meetings of the Board of Directors, various examinations, and the regular exchange of opinions with the directors.

Outside corporate auditors are elected to utilize their professional experience outside of TS TECH and to make audit functions even more objective and independent.

Appointments of Outside Directors

Name	Reason for Appointment
Shizuo Kitamura	Mr. Kitamura's extensive experience at financial institutions and a wide range of knowledge and high level of insight as a corporate manager at other companies qualify him to provide advice on our corporate activities and help ensure the soundness of the company. Since we have determined that Mr. Kitamura has not at any time shared any business or fiduciary interests with the Group and that his appointment poses no risk of conflict of interest with shareholders, he was selected to serve as an Outside Director.
Teruyasu Mutaguchi	Mr. Mutaguchi's abundant experience as a corporate manager of a manufacturing company qualifies him to provide valuable insight and advice related to our management practices and help ensure the soundness of the company. Since we have determined that an appointment of Mr. Mutaguchi poses no risk of conflict of interest with shareholders, he was selected to serve as an Outside Director.

Appointments of Outside Auditors

Name	Reason for Appointment
Tatsuya Motoda	Mr. Motoda's specialized knowledge and abundant experience as a tax accountant will enable him to monitor the company's management from an independent and objective perspective and help ensure the soundness of the company and strengthen its auditing system. Since we have determined that an appointment of Mr. Motoda poses no risk of conflict of interest with shareholders, he was selected to serve as an Outside Auditor.
Akira Kawashita	Mr. Kawashita's broad knowledge and insight achieved through many years of experience with financial institutions and work as a corporate manager at other companies will enable him to help ensure the soundness of the company and strengthen its auditing system. Since we have determined that Mr. Kawashita has not at any time shared any business or fiduciary interests with the Group and that his appointment poses no risk of conflict of interest with shareholders, he was selected to serve as an Outside Auditor.

Operations of an Internal Control System

With the inclusion of regulations on internal controls in the Companies Act in 2006, TS TECH passed a resolution on the basic policies of its internal control system at a Board of Directors' meeting held in May 2006. Since then, the Board of Directors has reviewed the implementation of this system each fiscal year and passed resolutions on changes to these policies as necessary at Board of Directors' meetings.

Additionally, in accordance with the Financial Instruments and Exchange Act, the TS TECH Group has established an internal control system to ensure the reliability of its financial reporting. The effectiveness of this system is maintained by regularly evaluating improvements and operations and taking corrective actions when necessary.

Compliance Framework

Based on the TS TECH Philosophy, the Group established the TS Standards for Conduct—TS TECH's norms and ideals as an organization—and the TS Guidelines for Conduct—expectations for day-to-day conduct for individual executives, officers, and employees. Education is provided regularly to ensure that all Group employees have a thorough understanding of these policies. In fiscal 2019, the TS Standards for Conduct and the TS Guidelines for Conduct were reorganized from an ESG management perspective as TS TECH's Code of Conduct, and efforts were made to familiarize the Group with this code.

A director is appointed as a Compliance Officer in order to promote compliance initiatives, and steps are continually taken to prevent legal violations before they occur through regular TSCG self-verifications and deliberations of important ethics and compliance issues by the Ethics and Compliance Committee.

We have established a whistleblower hotline called the TS Corporate Ethics Compliance Consultation Office, which enables employees to bring issues before compliance officers, who respond with rapid, effective investigations and corrective guidance in the event of a problem. The Office handles approximately 15 complaints per year, and its continuous availability has been effective in resolving internal issues and maintaining compliance.

Tax Policies

The TS TECH Group's tax policy aims to fulfill the appropriate tax obligations and social responsibilities, minimize tax risks while maintaining transparency, and contribute to the development of the communities in which the Group operates. In order to achieve these objectives, the Group has established the TS TECH Group Tax Policy based on the TS Philosophy.

TS TECH Group Tax Policy

(1) Tax Governance

The Group positions the reinforcement of tax governance as one of the most important management issues. This policy was approved by TS TECH's Board of Directors, and the Board of Directors bears final responsibility for tax governance.

(2) Compliance

The Group works to promote and instill awareness of compliance among its employees. This enables the Group to comply with and always ensure the correct understanding of tax laws and regulations, etc., in each country and region in which it operates, and to meet the appropriate tax declaration and tax payment obligations.

(3) Tax Planning and Tax Havens

The Group will determine investment and business activities according to its business objectives and economic rationality. The Group will avoid tax planning that is not in line with business purposes or operations, as well as tax activities that use tax havens.

(4) Transfer Pricing

The Group will abide by international tax frameworks such as the OECD Transfer Pricing Guidelines and the Base Erosion and Profit Shifting (BEPS) Action Plan, and will strive to ensure tax transparency. International transactions between Group companies will comply with the OECD Transfer Pricing Guidelines, and transaction prices will be determined based on the arm's length principle.

(5) Minimal Tax Risk

The Group will conduct the appropriate accounting and tax measures in accordance with the tax systems and tax administrations of each specific country and region. In the event of complicated, unclear tax matters, the Group will consult in advance with external experts and tax authorities to minimize tax risks.

(6) Relationship with Tax Authorities

The Group will provide timely, accurate information to tax authorities in each country and region in order to reduce tax risks, and will respond in good faith to maintain trust and good relations.

Risk Management

Important management issues are carefully deliberated upon by TS TECH's Executive Committee as well as various advisory committees. Through these discussions, TS TECH makes every effort to avoid and mitigate business risks.

In addition, a Risk Management Officer is appointed from among the representative directors and placed in charge of risk management. The Global Risk Management Committee, comprising directors and other officers, has been set up to deliberate regularly on the results of TSCG self-verifications and discuss responses to serious risks affecting management, ensuring that efforts are continually made to mitigate potential risks.

Findings obtained through TSCG self-verifications are shared with internal auditors so that they can be applied in risk approach auditing.


Emergency response training

Global Risk Management Committee

This Committee was formed in September 2014 as an advisory committee for the Executive Committee as a means to appropriately identify and control the various risks affecting global business activities and to solidify the sustainability and stability of business.

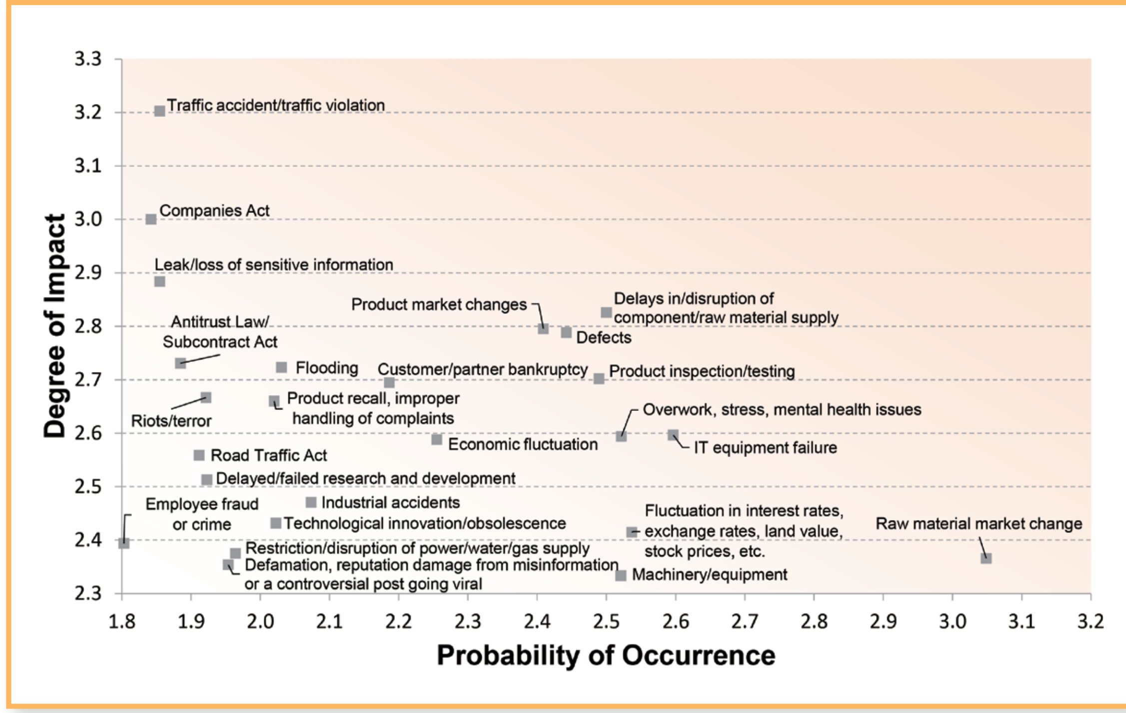
In the following year, regional risk management committees were formed in each region to manage the risks specific to these regions and promptly pursue risk mitigation measures.

In fiscal 2019, TS TECH identified seven major risks and pursued risk mitigation measures. These included the risk of natural disasters, which have a major impact on business continuity. TS TECH bolstered its initiatives as a Group and conducted emergency response training that anticipated the most frequently occurring natural disasters in each geographic region of our business.

Risks covered in training	**Japan:**	**Large-scale earthquakes**
	Americas:	**Hurricanes**
	China:	**Flood damage from typhoons**
	Asia and Europe:	**Flood damage from heavy rains**

Risk Map

Magnified View of the Risk Map



TS TECH's Products

For nearly 60 years, the TS TECH Group has been involved with the development and manufacture of seats and interior components for automobiles, seats and resin-based parts for motorcycles, and more. We offer a wide range of products related to seating that makes the most of our strengths, which include a wealth of techniques and specialized knowledge acquired over the years, a global network that spans 14 countries around the world, and a highly efficient manufacturing process that takes advantage of regional characteristics.

Main Products for Automobiles

Honda Step WGN seat

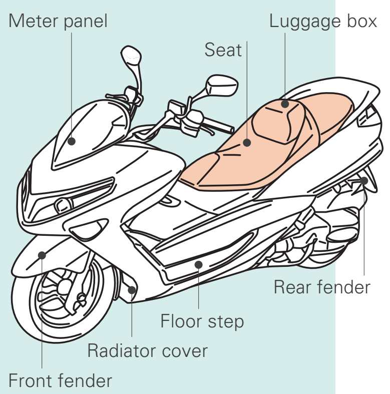

Door trim


Honda NSX seat


Honda Elysion seat
Note: Model for the Chinese market


Honda Civic Type R seat

Main Products for Motorcycles



Main Types of Other Products

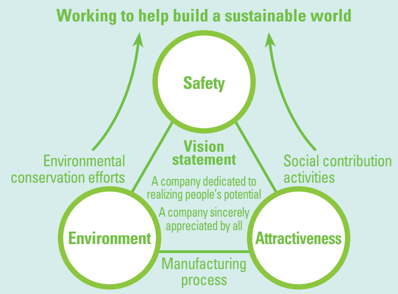

Seats for multipurpose off-road vehicles


Seats for personal watercraft


Chairs for medical use

Original Value Creation Story

At the TS TECH Group, we offer products that are appreciated by all due to their safety, environmental performance, and attractiveness, and we work together as an entire Group to create value that contributes to a sustainable society. Here, we introduce the TS TECH value creation story, from the mass-produced products we deliver to customers to the new products we are developing for the future.



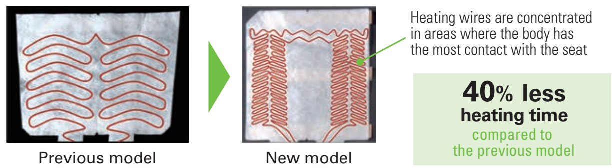
The Seats for the Honda CR-V

The creation of a roomier, more comfortable passenger space

The newest model of the CR-V, a car beloved by drivers around the world, went on sale in Japan in August 2018. Here, we introduce the seats for the newest CR-V, which combine comfort and convenience in all everyday situations to stay true to its model name "Comfortable Runabout Vehicle."

POINT! "Speed heating" seat heater

This vehicle is often driven in cold regions, so seats that warm up quickly were a must. Thanks to a revised heating wire layout and better temperature control technology, we were able to increase the heating speed and not only save power but also improve comfort.

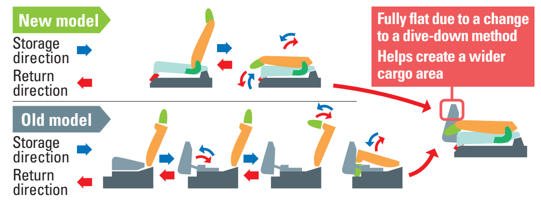


POINT! 3rd row seat specification

The model uses a three-row layout to accommodate more passengers in a limited space. We made the 3rd row comfortable as well by focusing on how the seat feels.

POINT! A seat arrangement that meets the needs of customers who want more cargo room

The rear seats in the old model used a single-action method in which the pull of a lever would push the seat bottom out and forward and then collapse the seatback onto it. The new model uses a simpler mechanism that incorporates a single-action dive-down* method, which allows for a thinner seat that is more than 20% lighter yet maintains the previous model's levels of safety and ride comfort. A flatter cargo area also makes it easier to load and unload luggage.



* Dive-down: A mechanism that simultaneously tilts the seatback forward and lowers the seat bottom into the floor

The Rear Seat for the Honda N-VAN

More cargo room makes it possible to do more with a microvan

July 2018 marked the launch of the newest N-VAN, which offers new value for a "loading and transporting lifestyle." Here, we introduce the rear seat of the newest N-VAN, designed with ease of use for workers in mind.

POINT! A seat designed for ease of use

We reduced the number of steps needed to fold down the rear seats from that of previous models to easily create a flat storage space. Seats that are 20% thinner when folded down help to create a more spacious luggage area and low floor. The result is smoother loading and unloading of cargo.


Rear seat when in use


Rear seat when stowed

Development of Car Parts That Use Environmentally Friendly Materials

TS TECH is conducting research into how cellulose nanofiber (CNF), a plant-derived material that has gained attention in the automobile field for its low environmental impact and its high functionality, can be used in interior components.

Environmentally Friendly Manufacturing Will Shape the Future of the Automotive Industry

In order to contribute to the creation of a sustainable society as a company in the automotive industry, we must work to reduce our environmental impact by reducing product weight, which improves fuel consumption and cuts material use, and using environmentally friendly materials.

As part of these efforts, we participated in an evaluation of samples provided by the "Development of Technologies for Manufacturing Processes of Chemicals Derived from Inedible Plants"/"Development of Integrated Manufacturing Processes for High-Performance Ligno-CNF and Technologies for Their Commercial Application" project conducted by Japan's New Energy and Industrial Technology Development Organization (NEDO)*1. We also successfully molded door trim using reinforced resin containing CNF and verified its performance.

CNF-reinforced resin is exceptionally stiff and can also be made very thin. While these qualities make it a way to reduce weight, it is also very fragile and breaks easily, so it can be difficult to mold. TS TECH used polypropylene mixed with a CNF with a mass percent*2 of 10%, which was provided as an evaluation sample. This polypropylene/CNF material was molded to a sheet thickness that was 1.5 mm, thinner than 2.0 mm door trim made with conventional materials, and its weight was 17% lighter.

*1 The New Energy and Industrial Technology Development Organization (NEDO) is a national research and development organization that plays a key role in Japan's economic and industrial policies by promoting development of technology to solve energy and global environmental problems as well as bolster industry's technical strengths. NEDO aims to combine the technical and research strengths of industry, academia, and the public sector to solve social issues and create markets.

*2 Mass percent: The mass of the solute divided by the mass of the solution

What is cellulose nanofiber (CNF)?

Cutting-edge biomass nanofiber material created by separating plant-derived cellulose into pieces of 3 to several 100 nm in diameter and several μm in length

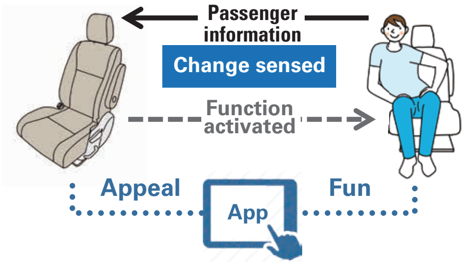
Since CNF is derived from plants, it has five times the strength of steel, but one-fifth the weight, giving it impressive strength and lightness. It is also a renewable resource, and in Japan, which has few resources, it is attracting attention as a new material that utilizes forest resources. By using CNF to make automobile components, we can help to make parts even lighter, improve fuel consumption, and reduce the environmental load.

Combining Automobile Seats with the IoT: Proposing New Possibilities for Seating

With the Aisareru Seat®, which was created using technology and expertise accumulated over many years of automobile seat development, we aim to propose new possibilities for seating. This seat is imbued with our strong desire to make people and society happy.

Proposing New Possibilities for Seating

The Aisareru Seat® is a system that uses the seat as a controller and combines the automobile seat sensing technology that we have cultivated over many years with IoT technology. This system makes it possible to visualize the movements of seated passengers using apps and cloud computing, and it can be used not only to offer new ways to spend time in next-generation passenger spaces—including wellness content that trains the body's dynamic muscular strength and sports that can be enjoyed by everyone, including children, the elderly, and people with disabilities—but also in a wide range of areas such as sports and healthcare.



The Aisareru Seat® system can be installed in vehicle seats and chairs of various shapes and sizes

Enjoy in combination with various apps

A seat demonstration venue overflowing with smiles

A range of apps provides endless ways to enjoy the Aisareru Seat®. We are exhibiting the seat at various events to show its range of possibilities.

One example of this is "Kankyuso" ("Slow/Fast Running"), which was unveiled at Yuru Sports Land 2019. This is a type of "yuru sports," a new type of sport that anyone can enjoy regardless of age, gender, or athletic ability, made in collaboration with the World Yuru Sports Association. In this sport, a virtual player in an app runs in conjunction with the detected movements of a seated person. During development, we sought to create a virtual sport that could be enjoyed by anyone, and the "Beyond Girls," a dynamic trio of women in wheelchairs, participated in many of our trials. We co-created the sport with them while asking questions such as "Could they enjoy a sport even while sitting?" and "Could women in wheelchairs compete with athletic men and win?"

Everyone who tried it at the event enjoyed themselves and couldn't help but smile.

In the future, we will continue to actively participate in events and exhibitions to raise the profile of this system.

Yuru Sports Land 2019

New value from products born from a core vision

The development of the Aisareru Seat® began with a new value creation project comprised of members from various departments within the company. This project was conducted using "design-driven innovation*," which differs from problem-solving innovation in that it is aimed at proposing new meaning for products.

The project searched for keywords necessary for the society of the future via a wide range of academic studies and discussions with experts. Then, to share the members' various impressions, it established a vision, part of which states that "TS TECH products are a form of media that bring people together and provide happiness to individuals, families, society, and the environment."

The Aisareru Seat® was born as a result of each member working on development while considering global, domestic, and foreign issues as their own problems and always thinking from the company president's perspective about how resources can be used to make society better.

Although the system is still evolving and incomplete, we will explain to our stakeholders in detail the usage situations derived from our vision. As more and more communities want to help us create and expand its benefits, we believe this will lead to new business and contribute to corporate growth. The Aisareru Seat® is a platform to help achieve this.

Hiroyuki Kaku
Project Leader,
Product Development Department

*Design-driven innovation: A concept proposed by Professor Roberto Verganti of Italy's Polytechnic University of Milan which refers to innovation created by giving new meaning to a product

Fact Book

Contents

The TS TECH Group's Business Operations

We will support the TS TECH Group's growth strategy by leveraging our sound financial foundation to achieve the medium-term management plan as well as additional business growth in the future.

Atsushi Igaki

Director,
Corporate Business Administration Division
Executive General Manager

Using Financial Strategies to Support Business Growth

Under the 13th Medium-Term Management Plan, the Group has established the "Use of financial strategies to support business growth" as one of its corporate initiatives and has been working to solidify the foundation for the company's further growth from a financial point of view.

As we operate globally (68 locations in 14 countries), we have allotted reserve capital to be retained in light of risks in each region and country, and we are carefully investigating funds available for growth investment from a medium- to long-term standpoint in order to achieve business growth.

As part of efforts that center on securing new commercial rights from major customers as well as expanding business through sales to new customers, the TS TECH Group is formulating strategic investment plans that do not just focus on increased production capabilities and the creation of new locations but also measures such as the development of advanced technology to create new added value or stronger cost competitiveness. Using the sound financial foundation that we have constructed, we will continue to effectively and strategically utilize the Group's capital in regions and fields where growth is expected by building a global cash management system that spans all regions and countries.

Supported by high profitability to date, the TS TECH Group has a low interest-bearing debt ratio (0.09% in the fiscal year ended March 2019), and has flexibly developed its business, operating on a self-funded basis. Going forward, we will continue to make proposals from a financial point of view that contribute to management, sound warnings when necessary, and build a financial structure that ensures sustainable business growth.

External Recognition

TS TECH has received high marks from various external institutions, such as those that operate ESG indices, by actively pursuing ESG-focused activities for the development of a sustainable society.

JPX-Nikkei Index 400

JPX-NIKKEI 400

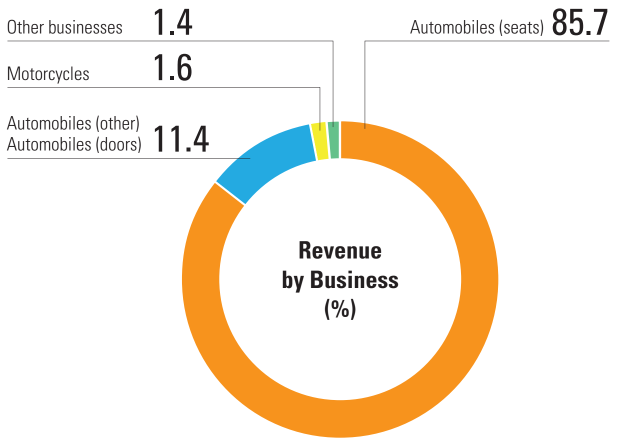
TS TECH is a constituent of the JPX-Nikkei Index 400, which comprises listed issues of companies with high appeal for investors. This marks our 7th consecutive selection, starting with the initial announcement of the index and including the six subsequent annual reshuffles.

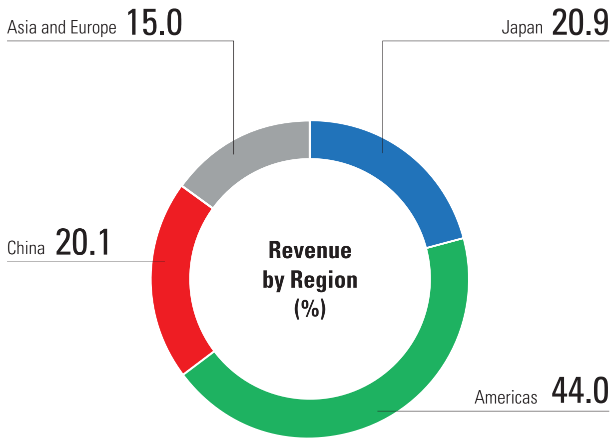
https://www.jpx.co.jp/english/markets/indices/jpx-nikkei400/index.html

SNAM Sustainability Index

Member of SNAM Sustainability Index 2018

TS TECH was selected as a 2018 member of the SNAM Sustainability Index, which is made up of 300 companies selected by Sompo Japan Nipponkoa Asset Management Co., Ltd. for their superior ESG-related initiatives.





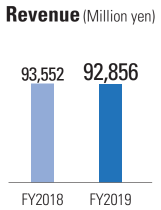
Results by Segment for the Fiscal Year Ended March 2019

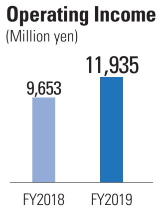
Japan

In the fiscal year under review, the Group launched production of seats for Honda's new N-VAN, CR-V, and Insight.

In order to accommodate minicar seat production increases and new model production launches, we worked to implement a highly efficient production system through measures such as revamped plant layouts, automated loading processes, and the installation of collaborative robots.

Honda CR-V seat



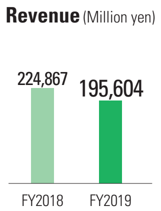


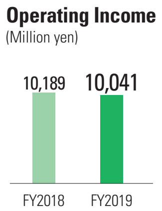
Americas

In the fiscal year under review, the Group launched production of seats for the new Honda Insight and new Acura RDX.

We worked to create a highly profitable structure through measures such as quality cost control through enhanced quality assurance capabilities at each process. Additionally, construction began on a logistics center in Ohio, U.S.A. that aims to make logistics even more efficient.

Honda Acura RDX seat



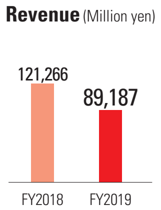


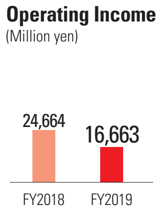
China

In the fiscal year under review, the Group launched production of seats for the new Honda Accord and new Acura RDX.

Actual production volume fell far short of plans due to a slowdown in the Chinese economy caused by trade friction and a prolonged production stoppage by a customer. Although the difficult operating environment is expected to continue, we are proceeding with comprehensive measures to improve profitability and strengthening sales initiatives aimed at securing new customers and commercial rights.

Honda Accord seat



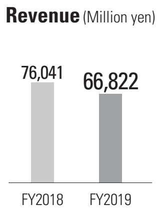


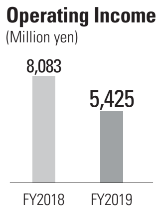
Asia and Europe

In the fiscal year under review, the Group launched production of seats for Honda's new Civic and Amaze in India. We also began producing 3rd row seats in Hungary for a new SUV manufactured by the Volkswagen group.

Work began on a plant expansion project at TS TECH BANGLADESH LIMITED, which supplies trim cover to Group companies, to bolster production capabilities. We aim to make the Group even more cost competitive through additional distribution of high-quality trim cover at low cost.

Honda Amaze seat





Management's Discussion and Analysis

1. Analysis of Financial Condition

Assets at the end of FY2019 stood at 358,265 million yen, increasing 6,321 million yen from the end of FY2018. This change is primarily the result of an increase in cash and cash equivalents stemming from the allocation of net income and an increase in other financial assets resulting from an increase in time deposits. These factors offset a decrease in trade and other receivables stemming primarily from changes in orders received.

Total liabilities at the end of FY2019 amounted to 80,840 million yen, down 11,178 million yen from the end of FY2018. The decline resulted mainly from a decrease in provisions due to a recall by a major customer, a decrease in trade and other payables on a change in the method of payment to subcontractors from notes to cash, and a decrease in income tax receivables stemming from payment of corporate tax.

Equity at the end of FY2019 totaled 277,424 million yen, rising 17,500 million yen from the end of FY2018. This change is primarily the result of an increase in retained earnings stemming from the allocation of net income.

2. Overview of Cash Flows

Cash and cash equivalents (hereinafter "cash") at the end of FY2019 amounted to 128,647 million yen, up 9,888 million yen from the end of the previous fiscal year.

Cash flows from operating activities amounted to 43,806 million yen, showing a year-on-year decrease of 4,600 million yen. This is the result of a decrease of 8,273 million yen in income before income tax and a change in provisions from an increase of 912 million yen in the previous fiscal year to a decrease of 4,513 million yen in FY2019. These factors offset a change in trade and other receivables from an increase of 6,301 million yen in the previous fiscal year to a decrease of 6,751 million yen in FY2019.

Cash flows from investing activities came to 18,321 million yen, an increase of 5,579 million yen year-on-year. This primarily reflects a net change in both payments into and proceeds from the withdrawal of time deposits from an outlay of 2,910 million yen to an outlay of 8,659 million yen in FY2019.

Cash flows from financing activities totaled 16,390 million yen, an increase of 4,531 million yen year-on-year. This reflects an increase of 3,390 million yen in dividend payments (including payments to non-controlling interests) and a net change in short-term loans payable from an outlay of 99 million yen to an outlay of 863 million yen.

3. Analysis of Operating Performance

The global economy continued to show signs of gradual improvement during the period under review, but the signs were overshadowed by trade friction between the U.S. and China, uncertainty stemming from policy trends around the world and a slowdown in the Chinese economy that offset market stability in the U.S. Despite increased demand for automobiles in Japan and Asia, the environment proved difficult given the activity in the world's two largest automobile markets, with demand flat in the U.S. and down year-on-year in China.

Production of automobile seats for the Group's major customers was down year-on-year in the China and Asia and Europe segments. This offset a sharp year-on-year rise in the Japan segment on increased minicar seat production and new model launches, as well as slight growth in the Americas segment.

Amid this backdrop, we proceeded with various measures to improve the Group's profitability. We are diligently working toward our goals by implementing comprehensive cost-cutting measures, such as the construction of an even more efficient production system and quality cost control through enhanced quality assurance capabilities at each process, and launching projects with an eye to future cost competitiveness, such as fully automated production lines.

However, revenue for the fiscal year under review amounted to 412,072 million yen on a consolidated basis, down 67,418 million yen (14.1%) from the previous fiscal year. This was mainly due to the impact of the adoption of IFRS 15 (53,174 million yen), lower order volume in the China and Asia and Europe segments, lower press tool sales in the Americas segment, and exchange rate impact. These factors offset higher order volume from major customers on new model launches in the Japan and Americas segments. Looking at profits, operating income stood at 38,793 million yen, down 8,552 million yen (18.1%) year-on-year. This reflected the elimination of compensation received in FY2018 following the completion of the Guangzhou Plant relocation in China (3,840 million yen) and the impact of higher materials costs, offsetting continued efforts to cut costs through more efficient production. Income attributable to owners of parent totaled 25,750 million yen, a decrease of 4,364 million yen (14.5%) year-on-year.

The Group's consolidated forecasts for FY2020 are as follows:

Revenue
400.0 billion yen
(Down 2.9% year-on-year)

Operating income
36.5 billion yen
(Down 5.9% year-on-year)

Income before income tax
38.3 billion yen
(Down 7.5% year-on-year)

Net income
29.2 billion yen
(Down 6.0% year-on-year)

Income attributable to owners of parent
24.2 billion yen
(Down 6.0% year-on-year)

Consolidated Statement of Financial Position

(Unit: Million yen)

	Note	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	¥118,758	¥128,647
Trade and other receivables	7	74,294	67,774
Other financial assets	8	11,541	18,596
Inventories	9	25,175	25,948
Income taxes receivable		1,227	1,117
Other current assets		4,959	5,713
Total current assets		235,957	247,797
NON-CURRENT ASSETS			
Property, plant and equipment	10	73,532	71,515
Intangible assets	11	10,753	10,080
Investments accounted for using the equity method	29	1,463	1,484
Other financial assets	8	24,290	22,466
Net defined benefit assets	17	2,804	2,535
Deferred tax assets	15	2,367	1,778
Other non-current assets		775	607
Total non-current assets		115,986	110,467
TOTAL ASSETS		¥351,944	¥358,265

See notes to consolidated financial statements.

(Unit: Million yen)

	Note	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	12	¥ 67,262	¥ 64,747
Current borrowings	13	1,059	157
Other financial liabilities	14	1,269	773
Income taxes payable		3,773	1,772
Provisions	16	4,641	271
Other current liabilities		2,720	3,673
Total current liabilities		80,727	71,395
NON-CURRENT LIABILITIES			
Non-current borrowings	13	424	75
Other financial liabilities	14	1,430	745
Net defined benefit liability	17	1,267	1,365
Provisions	16	99	99
Deferred tax liabilities	15	5,159	5,326
Other non-current liabilities		2,911	1,832
Total non-current liabilities		11,292	9,445
Total liabilities		92,019	80,840
EQUITY			
Common stock	18	4,700	4,700
Capital surplus	18	5,171	5,171
Treasury stock	18	(4)	(5)
Retained earnings	18	219,999	240,038
Other components of equity	18	5,723	5,712
Total equity attributable to owners of parent		235,589	255,617
Non-controlling interests		24,335	21,807
Total equity		259,924	277,424
TOTAL LIABILITIES AND EQUITY		¥351,944	¥358,265

Consolidated Statements of Profit or Loss and Comprehensive Income

Consolidated statement of profit or loss

(Unit: Million yen)

	Note	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Revenue	5, 19	¥479,490	**¥412,072**
Cost of sales	20	(399,329)	**(338,031)**
Gross profit		80,160	**74,040**
Selling, general and administrative expenses	20	(37,418)	**(36,521)**
Other income	21	5,192	**1,692**
Other expenses	21	(588)	**(418)**
Operating income	5	47,346	**38,793**
Finance income	23	2,161	**2,371**
Finance costs	23	(214)	**(125)**
Share of profits of investments accounted for using the equity method	29	388	**367**
Income before income tax		49,681	**41,407**
Income tax expense	15	(11,288)	**(10,343)**
Net income		38,392	**31,064**
Income attributable to:			
Owners of parent		30,115	**25,750**
Non-controlling interests		8,277	**5,313**
Net income		¥ 38,392	**¥ 31,064**
Earnings per share:			
Basic earnings per share (Yen)	24	¥ 442.89	**¥ 378.70**
Diluted earnings per share (Yen)	24	—	**—**

See notes to consolidated financial statements.

Consolidated Statements of Profit or Loss and Comprehensive Income

Consolidated statement of comprehensive income

(Unit: Million yen)

	Note	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Net income		¥38,392	**¥31,064**
Other comprehensive income			
Components that will not be reclassified subsequently to net profit or loss:			
Remeasurements of net defined benefit plans	25	289	**23**
Equity financial assets measured at fair value through other comprehensive income		—	**(1,363)**
Total components that will not be reclassified subsequently to net profit or loss		289	**(1,340)**
Components that may be reclassified subsequently to net profit or loss:			
Change in fair value of available-for-sale financial assets	25	963	**—**
Differences on translation from foreign operations	25	(2,616)	**1,219**
Share of other comprehensive income of associates accounted for using the equity method	25	47	**(95)**
Total components that may be reclassified subsequently to net profit or loss		(1,605)	**1,124**
Other comprehensive income, net of tax		(1,315)	**(215)**
Comprehensive income for the period		37,077	**30,849**
Comprehensive income for the period attributable to:			
Owners of parent		28,222	**25,740**
Non-controlling interests		8,855	**5,108**
Total comprehensive income for the period		¥37,077	**¥30,849**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

	Note	Equity attributable to owners of parent: Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
BALANCE AT THE END OF THE PREVIOUS FISCAL YEAR		¥4,700	¥5,257	¥(4)	¥194,847	¥7,617	¥212,417	¥18,572	¥230,989
Comprehensive income:									
Net income					30,115		30,115	8,277	38,392
Other comprehensive income	18					(1,893)	(1,893)	577	(1,315)
Total comprehensive income		—	—	—	30,115	(1,893)	28,222	8,855	37,077
Transactions with owners, etc.:									
Dividends	26				(4,963)		(4,963)	(2,362)	(7,326)
Acquisition of treasury stock				(0)			(0)		(0)
Changes in ownership interest in subsidiaries			(85)				(85)	(730)	(815)
Total transactions with owners, etc.		—	(85)	(0)	(4,963)	—	(5,049)	(3,092)	(8,142)
BALANCE AT THE END OF THE FISCAL YEAR		¥4,700	¥5,171	¥(4)	¥219,999	¥5,723	¥235,589	¥24,335	¥259,924

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Note	Equity attributable to owners of parent: Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
BALANCE AT THE END OF THE PREVIOUS FISCAL YEAR		¥4,700	¥5,171	¥(4)	¥219,999	¥5,723	¥235,589	¥24,335	¥259,924
Comprehensive income:									
Net income					25,750		25,750	5,313	31,064
Other comprehensive income	18					(10)	(10)	(204)	(215)
Total comprehensive income		—	—	—	25,750	(10)	25,740	5,108	30,849
Transactions with owners, etc.:									
Dividends	26				(5,711)		(5,711)	(7,636)	(13,348)
Acquisition of treasury stock				(0)			(0)		(0)
Changes in ownership interest in subsidiaries							—	—	—
Total transactions with owners, etc.		—	—	(0)	(5,711)	—	(5,712)	(7,636)	(13,349)
BALANCE AT THE END OF THE FISCAL YEAR		¥4,700	¥5,171	¥(5)	¥240,038	¥5,712	¥255,617	¥21,807	¥277,424

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Unit: Million yen)

	Note	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		¥ 49,681	**¥ 41,407**
Depreciation and amortization		11,568	**11,982**
Impairment loss		189	**69**
Loss (gain) on disposal of non-current assets		(206)	**(242)**
Finance costs (income)		(1,735)	**(2,010)**
Share of loss (profit) of investments accounted for using the equity method		(388)	**(367)**
Decrease (increase) in trade and other receivables		(6,301)	**6,751**
Decrease (increase) in leased receivables and leased investment property		20	**3,319**
Decrease (increase) in inventories		3,307	**(526)**
Increase (decrease) in trade and other payables		(1,903)	**(2,886)**
Increase (decrease) in net defined benefit asset and net defined benefit liability		(688)	**362**
Increase (decrease) in provisions		912	**(4,513)**
Other		3,168	**392**
Subtotal		57,625	**53,738**
Interest income received		1,024	**1,246**
Dividend income received		856	**919**
Interest expenses paid		(152)	**(122)**
Income taxes paid		(10,946)	**(11,975)**
Net cash provided by operating activities		48,406	**43,806**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments into time deposits		(5,790)	**(11,004)**
Proceeds from withdrawal of time deposits		2,880	**2,345**
Purchase of property, plant and equipment		(8,952)	**(6,782)**
Proceeds from sales of property, plant and equipment		406	**512**
Purchase of intangible assets		(1,351)	**(2,012)**
Purchase of equity instruments		(60)	**(1,373)**
Proceeds from sales of equity instruments		0	—
Payments of loans receivable		(188)	**(168)**
Collection of loans receivable		181	**173**
Other		134	**(10)**
Net cash used in investing activities		¥(12,742)	**¥(18,321)**

Consolidated Statement of Cash Flows (Continued)

(Unit: Million yen)

	Note	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term loans payable	27	¥ (99)	¥ (863)
Proceeds from long-term loans payable	27	300	—
Repayments of long-term loans payable	27	(5)	(390)
Repayments of finance lease obligations	27	(1,351)	(1,859)
Purchase of treasury stock		(0)	(0)
Cash dividends paid	26	(4,963)	(5,711)
Cash dividends paid to non-controlling interests		(4,921)	(7,564)
Acquisition of equity interests of subsidiary from non-controlling interests		(815)	—
Net cash used in financing activities		(11,858)	(16,390)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(1,055)	794
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		22,749	9,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	96,008	118,758
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	¥118,758	¥128,647

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. REPORTING ENTITY

TS TECH Co., Ltd. (hereinafter "the Company") is a company domiciled in Japan.

The consolidated financial statements of the Company as of and for the year ended March 31, 2019 comprise the Company, its subsidiaries (hereinafter "the Group"), and the Group's interests in its affiliates.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Compliance with International Financial Reporting Standards (IFRS)

The Company meets the requirements of a "specified company applying designated international accounting standards" set out under Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements." Accordingly, the consolidated financial statements are prepared according to IFRS pursuant to the provisions of Article 93 of said Ordinance.

The consolidated financial statements were approved by the Board of Directors on June 21, 2019.

(2) Basis for measurement

The consolidated financial statements, with the exception of the financial instruments, etc., measured at fair value stated in Note 3, "Important Accounting Policies," have been prepared on a historical cost basis.

(3) Functional currency and presentation currency

The presentation currency used in the consolidated financial statements is Japanese yen, which is the Company's functional currency. Any fractions below one (1) million yen are discarded.

(4) Important accounting judgments, estimates, and assumptions

In the preparation of the consolidated financial statements, management exercised certain judgments, estimates, and assumptions in the process of applying the accounting policies and in determining the reported amounts of assets, liabilities, income, and expenses. Actual results, as such, may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis, and the impact of the review is recognized in the period in which the review was conducted and in future periods.

Among the items which were subject to estimates and judgments, the following are considered to have significant impact on the amounts of the consolidated financial statements for the fiscal year under review and the following fiscal years.

- Scope of consolidation: Note 3, "Important Accounting Policies (1) Basis of consolidation"
- Estimated useful lives of intangible assets: Note 3, "Important Accounting Policies (8) Intangible assets"
- Scope of contracts including leases: Note 3, "Important Accounting Policies (9) Leases"
- Impairment of non-financial assets: Note 3, "Important Accounting Policies (10) Impairment of non-financial assets"
- Measurement of defined benefit obligations: Note 3, "Important Accounting Policies (12) Employee benefits"
- Recognition and measurement of provisions: Note 3, "Important Accounting Policies (13) Provisions"
- Revenue recognition: Note 3, "Important Accounting Policies (16) Revenues"
- Recoverability of deferred tax assets: Note 3, "Important Accounting Policies (18) Income taxes"

(5) Changes in accounting policies

The Group has applied the following accounting standards from the fiscal year under review.

Standard	Name of standard	Additions and amendments
IFRS 9	Financial Instruments	Amendment of the classification and measurement of financial instruments, impairment, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	Amendment of accounting treatment relating to revenue recognition

(Application of IFRS 9 "Financial Instruments")

The Group has applied IFRS 9 "Financial Instruments"(amended July 2014, hereinafter "IFRS 9") from the fiscal year presented in the accompanying consolidated financial statements. In accordance with the transitional provision of IFRS 9, the Group has not applied IFRS 9 retrospectively to the consolidated financial statements of the previous fiscal year.

By applying IFRS 9, the Group has changed the classification of its financial assets as follows.

The Group classifies its financial assets as those measured at fair value and those measured at amortized cost. Financial assets are classified as those measured at amortized cost if it meets both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Except for equity financial assets held for trading that must be measured at fair value through net profit or loss, the Group designates each equity financial asset measured at fair value as that which is measured at fair value through net profit or loss or that which is measured at fair value through other comprehensive income and continues the designation for each equity financial asset.

In conjunction with this change in classification, financial assets, previously classified as "available-for-sale financial assets," shall be classified as "financial assets measured at fair value through other comprehensive income."

Gains and losses on sales of "available-for-sale financial assets" and the impairment loss on "available-for-sale financial assets," previously recognized as net profit or loss in the consolidated statement of profit or loss, shall be recognized as other comprehensive income.

Additionally, by applying IFRS 9 the Group has changed to the method by which the impairment loss of a financial asset measured at amortized cost is recognized as an allowance for doubtful accounts for the expected credit loss associated with the financial asset. Under this method, the Group assesses whether credit risk associated with each financial asset has increased significantly since the initial recognition at each reporting date, and if the credit risk has not increased significantly the Group recognizes a 12-month expected credit loss as allowance for doubtful accounts. If the credit risk has increased significantly since the initial recognition, the Group recognizes the amount equal to the lifetime expected credit loss as allowance for doubtful accounts.

However, for trade receivables that do not have a significant financing component, the Group recognizes the amount equal to the lifetime expected credit loss as allowance for doubtful accounts, irrespective of whether or not the credit risk has increased significantly since initial recognition.

The application of IFRS 9 has not had any impact on the consolidated financial statements of the Group.

Reconciliation of the consolidated statement of financial position from IAS 39 to IFRS 9 on the initial date of application

The reconciliation of the consolidated statement of financial position from IAS 39 to IFRS 9 on the initial date of application (April 1, 2018) is as follows.

(Unit: Million yen)

	IAS 39 Carrying amount (Note 1)	Reclassification	Remeasurement	IFRS 9 Carrying amount	Impact on retained earnings as of the initial date of application
Financial assets:					
Loans and receivables:					
Cash and cash equivalents	118,758	(118,758)	—	—	—
Trade and other receivables	74,294	(74,294)	—	—	—
Other financial assets	14,932	(14,932)	—	—	—
Total	207,985	(207,985)	—	—	—
Financial assets measured at amortized cost:					
Cash and cash equivalents	—	118,758	—	118,758	—
Trade and other receivables	—	74,294	—	74,294	—
Other financial assets	—	14,932	—	14,932	—
Total	—	207,985	—	207,985	—
Total reclassification to financial assets measured at amortized cost	207,985	—	—	207,985	—
Available-for-sale financial assets:					
Other financial assets	16,016	(16,016)	—	—	—
Financial assets measured at fair value through other comprehensive income:					
Other financial assets	—	16,016	—	16,016	—
Total reclassification to financial assets measured at fair value through other comprehensive income	16,016	—	—	16,016	—
Total financial assets, reclassifications, and remeasurements as of April 1, 2018	224,002	—	—	224,002	—

Notes: 1. There were no changes in carrying amounts based on the measurement categories pursuant to IAS 39.
2. There were no reclassifications of financial liabilities.

(Application of IFRS 15 "Revenue from Contracts with Customers")

The Group has applied IFRS 15 "Revenue from Contracts with Customers"(issued in May 2014) and Clarifications to IFRS 15 (issued in April 2016) (hereinafter, collectively "IFRS 15") from the fiscal year under review.

In accordance with the transitional provision of IFRS 15, the Group recognizes the cumulative effect of initial application of this standard as an adjustment to the opening balance of retained earnings for the fiscal year under review.

In conjunction with the application of IFRS 15, the Group recognizes revenue, except for interest and dividend income under IFRS 9 "Financial Instruments," based on the following five-step approach.

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

The Group's primary line of business involves the manufacture and sale of seats for automobiles. Revenue pertaining to the sale of these products will be recognized when a product and control of said product are transferred to the customer and the performance obligation is deemed satisfied according to the contract with the customer.

Revenue will be measured as amounts net of discounts, rebates, and refunds from compensation agreed upon in the contract with the customer.

The impact of the application of IFRS 15 on the consolidated financial statements for the fiscal year under review is as follows.

(i) Consolidated Statement of Financial Position

(Unit: Million yen)

	Amount pertaining to IAS 18 and related interpretations (March 31, 2019)	Impact of the application of IFRS 15	FY2019 (March 31, 2019)	Note
Assets				
Current assets				
Trade and other receivables	66,079	1,695	67,774	1
Inventories	25,172	776	25,948	1, 2
(Omitted)				
Liabilities				
Current liabilities				
Trade and other payables	62,276	2,471	64,747	2
(The remainder of the statement is omitted.)				

Notes: 1. The ending inventory for components and raw materials provided at cost by customers, which had previously been presented as "Inventories," has been reclassified as "Trade and other receivables." As a result, "Trade and other receivables" increased by ¥1,695 million and "Inventories" decreased by ¥1,695 million.

2. Components and raw materials supplied at cost to suppliers were originally removed from inventories at the time of supply but inventories will continue to be recognized as a financial transaction, while the ending inventory of components and raw materials retained by the customer will be recognized as a financial liability. As a result, "Inventories" and "Trade and other receivables" increased by ¥2,471 million, respectively.

(ii) Consolidated Statement of Profit or Loss

(Unit: Million yen)

	Amount pertaining to IAS 18 and related interpretations (April 1, 2018–March 31, 2019)	Impact of the application of IFRS 15	FY2019 (April 1, 2018–March 31, 2019)	Note
Revenue	465,246	(53,174)	412,072	3
Cost of sales	391,205	(53,174)	338,031	3
(The remainder of the statement is omitted.)				

Notes: 3. Components and raw materials provided by customers at cost, which had previously been presented both in "Revenue" and "Cost of sales," are now presented as a decrease in "Revenue." As a result, "Revenue" and "Cost of sales" decreased by ¥53,174 million, respectively.

3. IMPORTANT ACCOUNTING POLICIES

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group gains control to the date that the Group loses control.

When the accounting policies applied by a subsidiary are different from those applied by the Group, the financial statements of said subsidiary are revised as necessary.

The balance of accounts receivable and payable and transactions within the Group and the unrealized gain and loss on transactions within the Group are eliminated upon consolidation.

Any change in the Company's interest in subsidiaries not involving the loss of control is processed as a capital transaction.

The carrying amounts of the Group's ownership interest and non-controlling interests are adjusted according to the changes in the ownership interest, and any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity and allocated to owners of the parent.

(ii) Affiliates

Affiliates are entities over which the Group has significant influence but does not have control over the financial and operating policies of such entities, and they are accounted for using the equity method from the date that significant influence commences until the date the significant influence ceases.

Under the equity method, investments in affiliates are initially recorded at cost and subsequently increased (or decreased) to reflect the Group's post-acquisition changes in ownership interest in the associate's equity. In such cases, the amount of net profit or loss of the affiliate equivalent to the ownership interest of the Group is recognized in net profit or loss, while the amount of other comprehensive income of the associate equivalent to the ownership interest of the Group is recognized in other comprehensive income.

Profits from important internal transactions are eliminated proportionately to the ownership share in the affiliate.

(2) Business combinations

Business combinations are accounted for using the purchase method.

Consideration for the acquisition is measured as the total fair value of the assets transferred, liabilities assumed, and equity instruments issued by the Group.

Costs related to the acquisition are recognized in net profit or loss when incurred.

The identifiable assets and liabilities acquired from the merged company are measured at fair values unless stipulated otherwise by the IFRS.

Goodwill is recognized if the consideration for the acquisition exceeds the fair values of the identifiable assets and liabilities acquired from the merged company; it is recognized in net profit or loss if the consideration for the acquisition is less.

(3) Foreign currency translations

The financial statements of each Group company are prepared in the currency of the primary economic environment in which each Group company conducts business (hereinafter "the functional currency").

Additionally, the financial statements of foreign operations are translated into Japanese yen, the functional currency of the Company, when preparing consolidated financial statements.

(i) Foreign currency transactions

Transactions in currencies other than the functional currency are translated into the functional currency using the spot exchange rate at the date of the transaction or an exchange rate that approximates the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the end of the fiscal year are translated using the spot exchange rate at the end of the fiscal year.

Exchange differences arising from translation or settlement of foreign currency-denominated monetary assets and liabilities are recognized in net profit or loss.

(ii) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the spot exchange rate at the end of the fiscal year, while income and expenses are translated into Japanese yen at the average exchange rates for the period, provided, however, that there have been no significant fluctuations in the exchange rates.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income, and cumulative exchange differences are presented in other components of equity.

(4) Financial instruments

(i) Financial assets

(a) Initial recognition and measurement

The Group recognizes trade and other receivables when they occur, and other financial assets on the transaction date on which the Group becomes a contractual party of the financial asset

The Group, at initial recognition, measures all financial assets at fair value. However, if an asset is not classified as measured at fair value through net profit or loss, it is measured at the amount by which the transaction costs directly attributable to the acquisition of the financial asset are added to the fair value. Transaction costs of financial assets measured at fair value through net profit or loss are recognized in net profit or loss.

(b) Classification and subsequent measurement

The Group classifies the financial assets that it holds as (a) financial assets measured at amortized cost, (b) equity financial assets measured at fair value through other comprehensive income, or (c) financial assets measured at fair value through net profit or loss. These classifications are determined at the time of initial recognition, and the financial assets after initial recognition are measured in the following manner according to each classification.

(A) Financial assets measured at amortized cost.

The Group classifies the financial assets that it holds as those measured at amortized cost if it meets both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets measured at amortized cost are measured using the effective interest method less any impairment loss, as necessary. Amortization using the effective interest method and any gains or losses due to derecognition are recognized in net profit or loss for the period.

(B) Equity financial assets measured at fair value through other comprehensive income

For certain equity financial assets, the Group has made the irrevocable election to measure fair value changes after initial recognition in other comprehensive income and classifies such financial assets as equity financial assets measured at fair value through other comprehensive income.

After initial recognition, such financial assets are measured at fair value, and fair value changes are recognized in other comprehensive income. In the event that the investment is disposed, or if the fair value has declined significantly, the cumulative gains or losses recognized through other comprehensive income are reclassified from other components of equity to retained earnings.

Dividends from equity financial assets measured at fair value through other comprehensive income are recognized as finance income in net profit or loss.

(C) Financial assets measured at fair value through net profit or loss

The Group classifies financial assets other than those measured at amortized cost and financial assets other than equity financial assets measured at fair value through other comprehensive income, described above, as financial assets measured at fair value through net profit or loss. Derivative assets fall under the Group's financial assets measured at fair value through net profit or loss.

After initial recognition, such financial assets are measured at fair value, and fair value changes are recognized in net profit or loss. Any gains or losses relating to the financial asset measured at fair value through net profit or loss are recognized in net profit or loss.

(c) Impairment of financial assets

With regard to impairment loss on financial assets, including financial assets measured at amortized cost, the Group recognizes an allowance for doubtful accounts for the expected credit loss associated with the financial asset.

On each reporting date, the Group assesses whether the credit risk associated with the financial instrument has increased significantly since initial recognition.

If the credit risk has not increased significantly since initial recognition, the Group recognizes an amount equivalent to a 12-month expected credit loss as allowance for doubtful accounts. If the credit risk has increased significantly since the initial recognition, the Group recognizes an amount equal to the lifetime expected credit loss as allowance for doubtful accounts. However, for trade receivables, the Group recognizes the amount equal to the lifetime expected credit loss as allowance for doubtful accounts.

The expected credit loss of financial instruments is estimated using a method that reflects the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions that is available without undue cost or effort at the reporting date.

The amounts associated with such measurements are recognized in net profit or loss.

If, after the recognition of an impairment loss, an event occurs which could reduce the amount of the impairment loss, the decrease in impairment loss is reversed and recognized in net profit or loss.

(d) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to cash flows from the financial asset expire, or when the Group transfers the financial asset, or when substantially all the risks and rewards of ownership of the financial asset have been transferred in a transaction.

(ii) Financial liabilities

(a) Initial recognition and measurement

The Group initially recognizes financial liabilities on the transaction date.

The Group, at initial recognition, measures all financial assets at fair value. However, financial liabilities measured at amortized cost are measured at the amount by which the transaction costs directly attributable to the financial liability are deducted from the fair value. Transaction costs of financial liabilities measured at fair value through net profit or loss are recognized in net profit or loss.

(b) Classification and subsequent measurement

The Group classifies financial liabilities as either financial liabilities measured at fair value through net profit or loss or financial liabilities measured at amortized cost. These classifications are determined at the time of initial recognition. Financial liabilities after initial recognition are measured in the following manner according to each classification.

Derivative liabilities fall under the Group's financial liabilities measured at fair value through net profit or loss. The Group has not made any irrevocable elections to measure financial liabilities as financial liabilities measured at fair value through net profit or loss, at initial recognition. After initial recognition, financial liabilities measured at fair value through net profit or loss are measured at fair value, and fair value changes are recognized in net profit or loss for the period.

After initial recognition, financial liabilities measured at amortized cost are measured using the effective interest method. Amortization using the effective interest method and any gains or losses due to derecognition are recognized in net profit or loss for the period.

(c) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished, i.e., when the contractual obligation is fulfilled, or when a specific contractual obligation is discharged, canceled, or expires.

(iii) Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are presented in the consolidated statement of financial position as a net amount, if and only if the Group has a legal right to offset financial assets with financial liabilities and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits withdrawable as necessary, and short-term investments which are easily converted into cash, with original maturities of three months or less and minimal risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value.

Cost of inventories includes purchase costs, processing costs, and all other costs incurred in bringing inventory to its existing location and condition.

Cost of inventories is calculated primarily using the first-in, first-out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(7) Property, plant and equipment

The cost model has been applied, and all property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

Cost includes costs directly attributable to the acquisition of the assets, the cost of restoring the site, and other costs.

Depreciation of assets other than land and construction in progress is calculated using the straight-line method based on the estimated useful life of each asset. The estimated useful lives of major assets are as follows:

- Buildings and structures: 2 to 50 years
- Machinery, equipment and vehicles: 2 to 20 years
- Tools, furniture and fixtures: 2 to 20 years

The estimated useful lives, residual values, and depreciation methods are reviewed each year and revised as necessary.

(8) Intangible assets

The cost model has been applied, and all intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets comprise mainly development expenses, and expenses incurred in development activities are capitalized if and only if they meet all of the requirements listed below.

- It is technically feasible to complete their developments to use or sell them;
- The Group has the intent to complete their developments and to use or sell them;
- The Group is capable of using or selling them;
- It is highly probable that they will generate future economic benefits;
- The Group has the adequate technical, financial, and other resources to complete their developments and to use or sell them; and
- The Group is capable of reliably measuring the expenditures associated with the intangible assets during the development process.

Capitalized development expenses are amortized using the straight-line method over the estimated useful life (mainly five years) commencing from the time the product subject to development commences mass production.

The estimated useful lives and amortization methods are reviewed each year and revised as necessary.

(9) Leases

Lease transactions are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, while all other leases are classified as operating leases.

Whether a contract is a lease or whether a contract contains a lease is determined based on the substance of the contract. If the fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset, such assets are considered to be under a lease.

(i) Lease as lessee

Lease assets and lease liabilities under finance leases are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments in the consolidated statement of financial position at the inception of the lease. Leased assets are amortized using the straight-line method in accordance with the accounting policies applied to the assets.

Payments under operating leases are recognized in net profit or loss throughout the lease term.

(ii) Lease as lessor

Amounts due from lessees under finance leases are recognized in the consolidated statement of financial position at the amount of net investment in the lease.

The difference between the amount of net investment in the lease and the cost of lease investment is recognized in net profit or loss at the inception of the lease.

(10) Impairment of non-financial assets

During each reporting period, the Group assesses each asset or cash-generating unit for any indications of impairment, and if any such indication exists, the Group estimates the recoverable amount of the asset.

The recoverable amount is calculated at the higher of the fair value of the asset or cash-generating unit less costs to sell and the value in use.

Value in use is calculated by discounting the estimated future cash flows to the present value using the pre-tax discount rate that reflects the current market assessments of the time value of money.

If the recoverable amount is less than the carrying amount of the asset or cash-generating unit, the difference between the carrying amount and the recoverable amount is recognized as impairment loss in net profit or loss.

In terms of impairment losses recognized in the past, assessment is conducted for any indications of the possibility of decrease in impairment, including cases in which the assumptions used to determine the recoverable amount have changed. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated, and if the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment loss is reversed up to the lower of the recoverable amount determined and the carrying amount net of depreciation that would have been determined if no impairment loss had been recognized in prior years.

(11) Non-current assets held for sale

Among assets or asset groups whose carrying amounts are expected to be recovered through a sale transaction rather than continuing use, assets for which sale within one year is highly probable, assets which are available for immediate sale in their present condition, and assets for which the Group's management is committed to a plan to sell the assets are classified as non-current assets held for sale.

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of the carrying amount and fair value less costs to sell.

(12) Employee benefits

(i) Post-employment benefits

The Group has adopted defined benefit plans and defined contribution plans.

Defined benefit plans are recognized in the consolidated statement of financial position in the amount of defined benefit plan obligations, which has been calculated at the discounted present value of the amount of estimated future benefits earned by the employee as consideration for services rendered in the past and in the current period under each plan, less the fair value of the plan assets.

The present value of defined benefit plan obligations and related service costs is calculated using the projected unit credit method. The discount rate is determined by reference to market yields on high-quality corporate bonds with similar maturities to the obligations under the plans.

Increases/decreases through remeasurements of defined benefit plan obligations and plan assets are recognized in other comprehensive income.

Past service costs resulting from plan amendments or curtailment are recognized in net profit or loss at the earlier of the time of amendment or the time at which the related restructuring costs or severance benefits are recognized.

The obligation to make contributions under the defined contribution plans is recognized in net profit or loss in the period in which the employee renders the related service.

(ii) Short-term employee benefits

Short-term employee benefits including wages are recognized in net profit or loss in the period in which the employee renders the related service.

Bonus payments are recognized as liabilities if the Group has a legal or constructive obligation to pay and the obligation can be estimated reliably.

The cost of paid leave is recognized as a liability in the period in which the employee renders the service which will increase the employee's entitlement to future paid leave.

(iii) Other long-term employee benefits

Other long-term employee benefits, including a long-service award system, are recognized as liabilities by estimating the amount of future benefit that employees have earned in consideration for services rendered in the current and prior periods and discounting that amount to the present value.

(13) Provisions

Provisions are recognized if a present legal or constructive obligation exists as a result of a past event that can be estimated reliably and if it is probable that an outflow of economic resources will be required to settle the obligation.

When the time value of money is material, a provision is measured at the present value to which estimated cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the obligation. Increases in the amount of provisions associated with the passage of time are recognized in net profit or loss.

(14) Government-imposed levies

Government-imposed levies are recognized as a liability in the estimated amount to be paid when an event obligating payment to the government has occurred.

(15) Equity

(i) Common shares

The amount of equity instruments issued by the Company is recognized in common stock and capital surplus, and direct issue costs (after consideration of tax effects) are deducted from capital surplus.

(ii) Treasury stock

When the Company acquires treasury stock, the consideration paid, including direct transaction costs (after consideration of tax effects), is recognized as a deduction from equity. When the Company disposes of treasury stock, gains or losses on sales of treasury stock are recognized in capital surplus.

(16) Revenues

(i) Revenue from contracts with customers

The Group recognizes revenue based on the following five-step approach.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group's primary line of business involves the manufacture and sale of seats for automobiles. Revenue pertaining to the sale of these products will be recognized when a product and control of said product are transferred to the customer and the performance obligation is deemed satisfied according to the contract with the customer. Revenue will be measured as amounts net of discounts and other deductions from compensation agreed upon in the contract with the customer.

(ii) Interest income

Interest income is recognized based on the effective interest method.

(iii) Dividend income

Dividend income is recognized when the right to receive payment of the dividend is established.

(17) Government grants

Government grants are recognized at fair value when and only when there is reasonable assurance that the Group will comply with the conditions attached to the grant and that the grant will be received.

Government grants relating to revenues are recognized in net profit or loss over the period of the expenses, which the grant is intended to compensate, are recognized.

Government grants relating to assets are recognized as deferred revenue and reclassified to net profit or loss on a systematic basis over the useful life of the asset.

(18) Income taxes

Income taxes comprise current taxes and deferred taxes, and they are recognized in net profit or loss, excluding items related to business combinations, items that are directly recognized in equity, and items recognized in other comprehensive income.

Current taxes are calculated based on the estimated payment to or refunds from the tax authorities. Current tax liabilities are calculated based on tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax bases at the end of the fiscal year, unused tax losses, and unused tax credits (hereinafter "temporary differences, etc.").

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits only to the extent that it is probable that there will be taxable profits against which the temporary differences may be utilized.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the temporary difference is reversed based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority.

(19) Basic earnings per share

Basic earnings per share is calculated by dividing profit or loss for the year attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares outstanding during the year adjusted for the weighted-average number of treasury shares purchased in the year.

4. NEW STANDARDS NOT YET ADOPTED BY THE GROUP

New or revised standards and interpretations that were issued by the date of approval of the consolidated financial statements but were not adopted by the Group are as follows.

Standard	Title	Date of mandatory adoption (Fiscal year of commencement thereafter)	Fiscal year of application by the Group	Overview of new/revised standard
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revision of accounting relating to lease arrangements

By applying IFRS 16 "Leases", the previous distinction between operating and finance leases will no longer exist and all leases, in principle, will be capitalized and reported in the consolidated statement of financial position.

The major impact of this change on the Group's consolidated financial statements is estimated to be an increase of approximately ¥2.5 billion in total assets and total liabilities, respectively, in the consolidated statement of financial position as of April 1, 2019. The impact on the consolidated statement of profit or loss will be minimal.

5. SEGMENT INFORMATION

(1) Overview of reportable segments

The reportable segments are components of the Company for which separate financial information is available. These segments file monthly reports which the Board of Directors uses for deciding the allocation of management recourse and evaluating results.

Positioning Japan as its global base, the Company has a control and management system for the three operating regions of the Americas (the U.S., Canada, Mexico, and Brazil), China (China and Hong Kong), and Asia and Europe (Thailand, the Philippines, India, Indonesia, the U.K., and Hungary). The Company appoints an officer responsible for control and management in each region. Policies, plans, controls, and other matters concerning general operations are discussed at regional management meetings attended by directors and the like in these regions for executing business activities.

Accordingly, the Company positions Japan, the Americas, China, and Asia and Europe as its four reportable segments.

In the reportable segments of Japan, the Americas, and Asia and Europe, the Company manufactures and sells products that mainly consist of automobile seats, automobile interiors, motorcycle seats, and resin-based products for motorcycles. In the reportable segment of China, the Company engages primarily in the manufacture and sale of automobile seats and automobile interiors.

(2) Accounting method for revenue, profits or losses, assets, liabilities, and other items by reportable segment

Accounting methods for reportable business segments are the same as those presented in Note 3, "Important Accounting Policies."

The Company decides the price of transactions carried out among segments by considering market prices and gross costs, and through price negotiations.

Profits for reportable segments are operating income figures based on the consolidated statements of profit or loss and comprehensive income.

(3) Information on revenue, profits or losses, assets, liabilities, and other items according to reportable segment

FY2018 (April 1, 2017–March 31, 2018)

(Unit: Million yen)

	Reportable segments						
	Japan	Americas	China	Asia and Europe	Total	Adjustments	Consolidated
Revenue							
External revenue	¥68,050	¥223,018	¥113,954	¥74,467	¥479,490	¥ —	¥479,490
Inter-segment revenue	25,502	1,849	7,312	1,573	36,237	(36,237)	—
Total	¥93,552	¥224,867	¥121,266	¥76,041	¥515,727	¥(36,237)	¥479,490
Segment profits	¥ 9,653	¥ 10,189	¥ 24,664	¥ 8,083	¥ 52,591	¥ (5,245)	¥ 47,346
Finance income and finance costs	—	—	—	—	—	—	1,947
Return on investment using the equity method	—	—	—	—	—	—	388
Income before tax	—	—	—	—	—	—	49,681

Note: Adjustments of -¥5,245 million for segment profits included an inter-segment elimination of- ¥151 million and operating expenses of -¥5,093 million associated with the administration division of the headquarters of the parent, which could not be allocated.

Other important items

(Unit: Million yen)

	Reportable segments						
	Japan	Americas	China	Asia and Europe	Total	Adjustments	Consolidated
Depreciation and amortization	¥2,799	¥5,008	¥1,956	¥1,854	¥11,619	¥(50)	¥11,568
Impairment loss	—	3	176	9	189	—	189
Capital expenditures	3,515	2,671	1,322	1,131	8,640	—	8,640

Note: The adjustment for depreciation and amortization is an inter-segment elimination.

FY2019 (April 1, 2018–March 31, 2019)

(Unit: Million yen)

	Reportable segments						
	Japan	Americas	China	Asia and Europe	Total	Adjustments	Consolidated
Revenue:							
External revenue	¥69,984	¥194,167	¥83,595	¥64,324	¥412,072	¥ —	¥412,072
Inter-segment revenue	22,871	1,437	5,591	2,497	32,397	(32,397)	—
Total	¥92,856	¥195,604	¥89,187	¥66,822	¥444,470	¥(32,397)	¥412,072
Segment profits	¥11,935	¥ 10,041	¥16,663	¥ 5,425	¥ 44,066	¥ (5,272)	¥ 38,793
Finance income and finance costs	—	—	—	—	—	—	2,246
Return on investment using the equity method	—	—	—	—	—	—	367
Income before tax	—	—	—	—	—	—	41,407

Notes: 1. Adjustments of -¥5,272 million for segment profits included an inter-segment elimination of -¥156 million and operating expenses of -¥5,116 million associated with the administration division of the headquarters of the parent, which could not be allocated.

2. As outlined in "Changes in accounting policies," accounting methods to recognize revenue have changed in conjunction with the application of IFRS 15 "Revenue from Contracts with Customers" effective the fiscal year under review, and methods for measuring profits and losses for reportable segments have changed accordingly.

As a result, in the fiscal year under review revenue in the Japan segment decreased by ¥9,912 million; revenue in the Americas segment decreased by ¥27,259 million; and revenue in the China segment decreased by ¥17,082 million versus the previous accounting method. There is no impact on segment profits.

Other important items

(Unit: Million yen)

	Reportable segments						
	Japan	Americas	China	Asia and Europe	Total	Adjustments	Consolidated
Depreciation and amortization	¥2,847	¥5,204	¥2,127	¥1,824	¥12,003	¥(20)	¥11,982
Impairment loss	—	10	12	46	69	—	69
Capital expenditures	3,667	2,033	737	974	7,412	—	7,412

Note: The adjustment for depreciation and amortization is an inter-segment elimination.

(4) Information related to products and services

FY2018 (April 1, 2017–March 31, 2018)

Segment information according to products and services is omitted as revenue from external customers in a single product/service category accounts for the majority of revenue in the consolidated statement of profit or loss.

FY2019 (April 1, 2018–March 31, 2019)

Segment information according to products and services is omitted as revenue from external customers in a single product/service category accounts for the majority of revenue in the consolidated statement of profit or loss.

(5) Information according to region

(i) Revenue

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Japan	¥ 67,238	**¥ 69,575**
U.S.	161,531	**139,883**
Canada	51,723	**44,335**
China	114,473	**83,755**
Other	84,522	**74,521**
Total	¥479,490	**¥412,072**

Note: Revenue is based on customers' locations and is categorized into countries and regions.

(ii) Non-current assets (excluding financial instruments, deferred tax assets, net defined benefit asset, and rights arising from insurance contracts)

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Japan	¥30,814	**¥31,686**
U.S.	16,819	**16,030**
China	12,919	**11,523**
Other	23,732	**22,356**
Total	¥84,285	**¥81,596**

(6) Information according to major customers

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
Honda Motor Co., Ltd. Group	¥439,417	¥378,537

Note: Revenue is recorded for the Japan, Americas, China, and Asia and Europe segments.

6. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Cash and cash equivalents	¥118,758	¥128,647

Note: The balance of "Cash and cash equivalents" in the consolidated statement of financial position and the balance of "Cash and cash equivalents at end of period" in the consolidated statement of cash flows coincide.

7. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Notes and accounts receivable – trade	¥68,994	¥61,359
Others	5,302	6,418
Allowance for doubtful accounts	(2)	(2)
Total	¥74,294	¥67,774

Note: Financial assets among "Trade and other receivables" are classified as financial assets measured at amortized cost.

8. OTHER FINANCIAL ASSETS

The breakdown of other financial assets is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Deposits with maturities of three months or more	¥ 7,365	¥15,650
Short-term loans receivable	2	3
Long-term loans receivable	517	515
Lease receivables	7,047	4,777
Equity instruments	16,016	15,295
Derivative financial assets	67	1
Others	4,820	4,823
Allowance for doubtful accounts	(5)	(5)
Total	¥35,832	¥41,062
Current assets	¥11,541	¥18,596
Non-current assets	24,290	22,466
Total	¥35,832	¥41,062

Notes: 1. Deposits with maturities of three months or more, short-term loans receivable, long-term loans receivable, and lease receivables are classified as financial assets measured at amortized cost.
2. Equity instruments are classified as financial assets measured at fair value through other comprehensive income.
3. Derivative financial assets are classified as financial assets measured at fair value through net profit or loss.

9. INVENTORIES

The breakdown of inventories is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Merchandise and finished goods	¥ 2,381	¥ 2,578
Work in progress	2,605	2,504
Raw materials and supplies	20,188	20,865
Total	¥25,175	¥25,948

10. PROPERTY, PLANT AND EQUIPMENT

(1) Schedule of property, plant and equipment

The following are the changes in the cost, accumulated depreciation and impairment loss, and carrying amounts of property, plant and equipment.

Cost

(Unit: Million yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2017	¥60,913	¥67,493	¥31,842	¥10,903	¥4,111	¥175,265
Acquisition cost	492	1,426	466	—	6,101	8,488
Sales or disposal	(155)	(3,801)	(987)	—	(86)	(5,031)
Reclassification to other account	345	3,740	1,627	79	(6,447)	(654)
Effects of foreign currency translation	(897)	(1,265)	(409)	(66)	(63)	(2,701)
Other	—	—	—	—	—	—
Balance as of March 31, 2018	¥60,699	¥67,593	¥32,539	¥10,917	¥3,615	¥175,364
Acquisition cost	674	1,497	566	0	4,409	7,148
Sales or disposal	(1,356)	(1,668)	(1,552)	(24)	—	(4,602)
Reclassification to other account	1,698	3,224	1,700	119	(6,938)	(194)
Effects of foreign currency translation	592	931	352	94	37	2,007
Other	—	—	23	—	(1)	22
Balance as of March 31, 2019	¥62,307	¥71,579	¥33,629	¥11,107	¥1,122	¥179,746

Accumulated depreciation and impairment loss

(Unit: Million yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2017	¥24,264	¥47,912	¥26,512	¥—	¥—	¥ 98,688
Depreciation	2,438	4,560	2,227	—	—	9,227
Impairment loss	—	70	26	—	86	183
Sales or disposal	(135)	(3,432)	(945)	—	(86)	(4,599)
Reclassification to other account	95	(81)	(33)	—	—	(19)
Effects of foreign currency translation	(328)	(959)	(366)	—	—	(1,654)
Other	(0)	(0)	7	—	—	7
Balance as of March 31, 2018	¥26,334	¥48,069	¥27,428	¥—	¥—	¥101,832
Depreciation	2,343	4,756	2,190	—	—	9,290
Impairment loss	24	6	18	—	—	50
Sales or disposal	(1,298)	(1,573)	(1,485)	—	—	(4,356)
Reclassification to other account	21	(106)	77	—	—	(7)
Effects of foreign currency translation	287	782	333	—	—	1,404
Other	(1)	(1)	20	—	—	18
Balance as of March 31, 2019	¥27,713	¥51,933	¥28,585	¥—	¥—	¥108,231

Note: Depreciation of property, plant and equipment is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Carrying amounts

(Unit: Million yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2017	¥36,649	¥19,580	¥5,330	¥10,903	¥4,111	¥76,576
Balance as of March 31, 2018	34,364	19,524	5,110	10,917	3,615	73,532
Balance as of March 31, 2019	34,594	19,646	5,044	11,107	1,122	71,515

(2) Leased assets

The carrying amounts of leased assets included in property, plant and equipment are as follows.

(Unit: Million yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2017	¥869	¥31	¥195	¥1,097
Balance as of March 31, 2018	709	27	152	890
Balance as of March 31, 2019	622	27	96	746

11. INTANGIBLE ASSETS

(1) Schedule of intangible assets

The following are changes in the cost, accumulated amortization and impairment loss, and carrying amounts of intangible assets.

Cost

(Unit: Million yen)

	Software	Development expenses	Other	Total
Balance as of April 1, 2017	¥4,975	¥13,000	¥2,046	¥20,022
Acquisition cost	190	—	68	259
Increase due to internal development	—	1,092	—	1,092
Disposal	(30)	(347)	(0)	(377)
Effects of foreign currency translation	25	(79)	23	(30)
Other	239	(0)	(133)	106
Balance as of March 31, 2018	¥5,400	¥13,665	¥2,005	¥21,072
Acquisition cost	208	—	140	348
Increase due to internal development	—	1,668	—	1,668
Disposal	(99)	(738)	(588)	(1,426)
Effects of foreign currency translation	(15)	63	(58)	(10)
Other	147	—	405	553
Balance as of March 31, 2019	¥5,642	¥14,659	¥1,903	¥22,205

Accumulated amortization and impairment loss

(Unit: Million yen)

	Software	Development expenses	Other	Total
Balance as of April 1, 2017	¥3,962	¥4,063	¥300	¥ 8,327
Amortization	415	1,892	39	2,347
Impairment loss	—	—	6	6
Disposal	(28)	(347)	(0)	(375)
Effects of foreign currency translation	18	(14)	(5)	(1)
Other	(0)	—	15	14
Balance as of March 31, 2018	¥4,367	¥5,594	¥356	¥10,319
Amortization	435	2,206	(4)	2,636
Impairment loss	—	—	45	45
Disposal	(97)	(738)	(584)	(1,421)
Effects of foreign currency translation	(10)	14	(16)	(12)
Other	(10)	—	569	558
Balance as of March 31, 2019	4,683	7,077	364	12,125

Note: Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Carrying amounts

(Unit: Million yen)

	Software	Development expenses	Other	Total
Balance as of April 1, 2017	¥1,012	¥8,937	¥1,745	¥11,695
Balance as of March 31, 2018	1,032	8,071	1,648	10,753
Balance as of March 31, 2019	959	7,582	1,538	10,080

(2) Development expenses

The breakdown of development expenses is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
R&D expenditures incurred during the period	¥11,986	¥12,709
Reclassification to capitalized development expenses	(1,092)	(1,668)
Amortization of capitalized development expenses	1,892	2,206
Total	¥12,786	¥13,247

12. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Notes and accounts payable – trade	¥51,687	¥46,987
Other	15,575	17,759
Total	¥67,262	¥64,747

Note: Financial liabilities related to "Trade and other payables" are classified as financial liabilities measured at amortized cost.

13. BORROWINGS

The breakdown of borrowings is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)	Average interest rates
Current borrowings	¥ 868	¥ 7	0.00%
Non-current borrowings scheduled for payment within one year	191	150	0.75%
Non-current borrowings	424	75	0.75%
Total	¥1,483	¥232	—
Current liabilities	¥1,059	¥157	
Non-current liabilities	424	75	
Total	¥1,483	¥232	

Notes: 1. Borrowings are classified as financial liabilities measured at amortized cost.
2. "Average interest rates" of borrowings indicate the weighted-average interest rate on the balance of borrowings at the end of FY2019.
3. Repayments of non-current borrowings at the end of FY2019 are due from 2020 to 2021.

14. OTHER FINANCIAL LIABILITIES

The breakdown of other financial liabilities is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Lease obligations	¥2,695	¥1,510
Derivative financial liabilities	3	8
Total	¥2,699	¥1,519
Current liabilities	¥1,269	¥ 773
Non-current liabilities	1,430	745
Total	¥2,699	¥1,519

Notes: 1. Lease obligations are classified as financial liabilities measured at amortized cost.
2. Derivative financial liabilities are classified as financial liabilities measured at a fair value through net profit or loss.

15. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities is as follows.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

	Balance at the beginning of the fiscal year	Recognized through net profit or loss	Recognized through other comprehensive income	Balance at the end of the fiscal year
Deferred tax assets:				
Inventories	¥1,627	¥ 144	¥—	¥1,771
Property, plant and equipment	757	(31)	—	725
Intangible assets	156	13	—	170
Accrued expenses and provisions	2,707	(509)	—	2,198
Net defined benefit liability	220	55	(35)	240
Unused tax losses	—	728	—	728
Other	862	(153)	—	708
Total deferred tax assets	¥6,331	¥ 248	¥(35)	¥6,544
Deferred tax liabilities:				
Property, plant and equipment	¥ 999	¥ (119)	¥ —	¥ 879
Intangible assets	1,887	(240)	—	1,647
Investments in equity instruments	3,675	—	410	4,086
Net defined benefit asset	560	122	146	830
Undistributed earnings of foreign subsidiaries	894	(42)	—	851
Other	2,580	(1,538)	—	1,041
Total deferred tax liabilities	10,598	(1,818)	557	9,336
Net deferred tax liabilities	¥ (4,266)	¥ 2,067	¥(592)	¥(2,791)

Note: The difference between the total amount recognized through net profit or loss and total deferred tax expenses is due to fluctuations in foreign exchange rates.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Balance at the beginning of the fiscal year	Recognized through net profit or loss	Recognized through other comprehensive income	Balance at the end of the fiscal year
Deferred tax assets:				
Inventories	¥1,771	¥ (15)	¥—	¥1,756
Property, plant and equipment	725	(33)	—	692
Intangible assets	170	12	—	182
Accrued expenses and provisions	2,198	(875)	—	1,322
Net defined benefit liability	240	31	(0)	271
Unused tax losses	728	(728)	—	—
Other	708	215	—	924
Total deferred tax assets	¥6,544	¥(1,393)	¥ (0)	¥5,150
Deferred tax liabilities:				
Property, plant and equipment	¥ 879	¥ 102	¥ —	¥ 982
Intangible assets	1,647	(99)	—	1,548
Investments in equity instruments	4,086	—	(718)	3,368
Net defined benefit asset	830	(63)	(14)	751
Undistributed earnings of foreign subsidiaries	851	184	—	1,036
Other	1,041	(29)	—	1,011
Total deferred tax liabilities	9,336	94	¥(732)	8,698
Net deferred tax liabilities	¥(2,791)	¥(1,487)	¥ 731	¥(3,547)

Note: The difference between the total amount recognized through net profit or loss and total deferred tax expenses is due to fluctuations in foreign exchange rates.

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position are as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Deferred tax assets	¥ 2,367	¥ 1,778
Deferred tax liabilities	5,159	5,326
Net deferred tax liabilities	¥(2,791)	¥(3,547)

Deductible temporary differences for which deferred tax assets have not been recognized are as follows. Amounts are presented on a taxable amount basis.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Deductible temporary differences	¥513	¥764

The breakdown by expiration date of unused tax losses and tax credits for which deferred tax assets have not been recognized is as follows. Amounts are presented on a taxable amount basis.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Within 1 year	¥ 41	**¥ —**
Between 1 and 2 years	—	**158**
Between 2 and 3 years	158	**—**
Between 3 and 4 years	—	**—**
Between 4 and 5 years	—	**41**
More than 5 years	74	**28**
Total	¥274	**¥227**

Taxable temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognized are as follows.

Deferred tax liabilities were not recognized as the timing of the reversal of the temporary differences could be controlled by the Group and it was probable that the temporary differences would not reverse in the foreseeable future.

Amounts are presented on an income basis.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Taxable temporary differences	¥114,507	**¥123,612**

(2) Income tax expenses

The breakdown of income tax expenses is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Current tax expense		
Taxable amount for the fiscal year	¥13,271	**¥ 8,544**
Adjustment for prior years	11	**331**
Total current tax expense	¥13,282	**¥ 8,875**
Deferred tax expense		
Accrual and reversal of temporary differences	¥ (1,420)	**¥ 1,263**
Changes in tax rates	598	**—**
Changes in unrecognized temporary differences, etc.	(1,171)	**204**
Total deferred tax expense	¥ (1,993)	**¥ 1,467**
Total income tax expense	¥11,288	**¥10,343**

Reconciliation of the effective statutory tax rates with the average actual tax rates in the consolidated statement of profit or loss is as follows.

(Unit: %)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Effective statutory tax rate	30.1%	**29.9%**
Differences with tax rates applied to foreign subsidiaries	(7.1)	**(7.3)**
Undistributed earnings of foreign subsidiaries	(0.1)	**0.4**
Permanent differences including dividend income	(4.1)	**(7.0)**
Differences due to factors including elimination of intra-group transactions	5.9	**9.3**
Tax credits	(0.7)	**(1.0)**
Changes in unrecognized deferred taxes	(2.4)	**0.5**
Impact of changes in the U.S. tax system	1.6	**—**
Other	(0.5)	**0.2**
Average actual tax rate	22.7%	**25.0%**

16. PROVISIONS

Changes in the amounts of provisions are as follows.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

	Provision for product warranties (Note)	Asset retirement obligations	Other	Total
Balance at the beginning of the fiscal year	¥3,937	¥91	¥13	¥4,042
Increase during the period	1,224	0	21	1,247
Decrease during the period (provision used)	(8)	—	(18)	(26)
Decrease during the period (reversal)	(272)	—	—	(272)
Effects of foreign currency translation	(247)	—	(1)	(249)
Balance at the end of the fiscal year	¥4,633	¥91	¥15	¥4,740
Current liabilities	¥4,633	¥ 7	¥—	¥4,641
Non-current liabilities	—	84	15	99
Total	¥4,633	¥91	¥15	¥4,740

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Provision for product warranties (Note)	Asset retirement obligations	Other	Total
Balance at the beginning of the fiscal year	¥ 4,633	¥91	¥15	¥ 4,740
Increase during the period	—	—	3	3
Decrease during the period (provision used)	(3,826)	(6)	(2)	(3,835)
Decrease during the period (reversal)	(740)	—	—	(740)
Effects of foreign currency translation	204	—	(1)	202
Balance at the end of the fiscal year	¥ 271	¥85	¥14	¥ 371
Current liabilities	¥ 271	¥—	¥—	¥ 271
Non-current liabilities	—	85	14	99
Total	¥ 271	¥85	¥14	¥ 371

Note: In conjunction with a recall by a major customer, a provision for product warranties has been recorded in the amount which the Group is expected to bear with respect to said customer. The amount which the Group is expected to bear has been estimated based on the latest repair information. The timing of the payment will depend on factors including when the payment invoice is received from the major customer. A portion of the amount of the provision for product warranties is expected to be compensated pursuant to an agreement with business partners. The amount to be compensated is estimated to be ¥3,938 million in the year ended March 31, 2018 and ¥3,690 million in the year ended March 31, 2019, which have been included in "Trade and other receivables."

17. POST-EMPLOYMENT BENEFITS

(1) Overview of the post-employment benefit plan adopted by the Group

To prepare for the payment of retirement benefits to its employees, the Company and certain consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans.

The defined benefit plans consist mainly of a contract-type, corporate pension plan which pays out lump-sum payments and annuities based on a points system.

The contract-type, corporate pension plan is managed, pursuant to a defined benefit corporate pension contract entered into by both labor and management, through the entrustment of the management and administration of plan assets to an investment institution.

In addition, the contract sets forth mandatory recalculation of premiums every five years, pursuant to the Defined Benefit Corporate Pension Act, in order to maintain balanced finances into the future.

(2) Defined benefit plan

(i) Reconciliation of defined benefit obligations (assets) with the net defined benefit liability (asset) recorded in the consolidated statement of financial position

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Ending balance of defined benefit obligations	¥ 16,373	¥ 16,758
Ending balance of plan assets	(17,911)	(17,928)
Net amount of defined benefit obligations and assets	(1,537)	(1,169)
Net defined benefit liability	1,267	1,365
Net defined benefit asset	(2,804)	(2,535)
Net amount of liabilities and assets recorded in the consolidated statement of financial position	¥ (1,537)	¥ (1,169)

(ii) Reconciliation of present value of defined benefit obligations

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
Beginning balance of defined benefit obligations	¥15,851	¥16,373
Service cost	1,075	1,181
Interest cost	149	139
Actuarial differences (due to changes in demographic assumptions)	10	(38)
Actuarial differences (due to changes in financial assumptions)	191	118
Actuarial differences (due to adjustments)	11	(117)
Benefits paid	(860)	(906)
Effects of foreign currency translation	(55)	7
Ending balance of defined benefit obligations	¥16,373	¥16,758

Notes: 1. Service cost and interest cost are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
2. Actuarial differences are included in remeasurements of net defined benefit plans in the consolidated statement of comprehensive income.

(iii) Reconciliation of the fair values of plan assets

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
Beginning balance of plan assets	¥16,649	¥17,911
Interest income	157	156
Return on plan assets other than interest	638	4
Contributions from the employer	1,315	740
Benefits paid	(839)	(884)
Effects of foreign currency translation	(10)	0
Ending balance of plan assets	¥17,911	¥17,928

Notes: 1. Interest income is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
2. Return on plan assets other than interest is included in remeasurements of net defined benefit plans in the consolidated statement of comprehensive income.

(iv) Major breakdown of fair values of plan assets

(Unit: Million yen)

	FY2018 (As of March 31, 2018)		FY2019 (As of March 31, 2019)	
	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets
Equity instruments	¥ 8,380	¥ —	¥ 8,532	¥ —
Debt instruments	7,254	—	7,200	—
General accounts	—	1,442	—	1,425
Other	88	745	242	527
Total	¥15,723	¥2,187	¥15,975	¥1,952

(v) Investment policy of plan assets

With respect to its plan assets, the Group upholds the investment policy of maintaining a well-balanced, diversified portfolio comprised mainly of conventional assets within the acceptable boundaries of risk and of aiming for long-term, stable revenue levels that will ensure the performance of its payment obligations.

The Group reviews its investment policy as necessary depending on the financial conditions and the investment environment of the defined benefit plans.

(vi) Significant actuarial assumptions and analysis of sensitivity thereto

Significant actuarial assumptions are as follows.

(Unit: %)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Discount rate	0.6%	**0.4%**

The estimated effects of changes in actuarial assumptions on defined benefit obligations are as follows.

(Unit: Million yen)

		Effects on defined benefit obligations	
	Changes in assumptions	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Discount rate	Rise by 0.5%	¥(851)	**¥(825)**
	Fall by 0.5%	940	**909**

Note: This analysis assumes that all variables other than the discount rate remain fixed.

(vii) Contribution to plan assets in the following fiscal year

The Company plans to contribute ¥683 million to the plan assets in the fiscal year ending March 31, 2020 (April 1, 2019–March 31, 2020).

(viii) Maturity analysis of defined benefit plans

Maturity analysis of defined benefit plans is as follows.

(Unit: Years)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Weighted-average duration	11.4	**10.7**

(3) Defined contribution plans

Amounts recognized as expenses of the defined contribution plans are as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Amounts recorded as expenses	¥778	**¥650**

18. NET ASSETS AND OTHER COMPONENTS OF EQUITY

(1) Management of shareholders' equity

The Group manages its shareholders' equity in order to ensure the stable, continuous payout of dividends while at the same time utilizing it in investments for the development of new technology and the expansion of its business.

The Group uses the equity ratio as the primary indicator in the management of shareholders' equity, which is calculated by dividing "Total equity attributable to owners of parent" by "Total liabilities and equity."

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Shareholders' equity:		
Total equity attributable to owners of parent	¥235,589	**¥255,617**
Total liabilities and equity	351,944	**358,265**
Equity ratio (%)	66.9%	**71.3%**

Note: The Group is not subject to any material restrictions from third parties regarding its shareholders' equity.

(2) Details of capital surplus

Details of capital surplus are as follows.

(i) Legal capital surplus

The Companies Act of Japan (hereinafter "the Companies Act") requires that in the issue of shares, 50% or more of the amount of payment for shares and assets delivered be incorporated into common stock and the remaining amount be incorporated into legal capital surplus. The Companies Act also provides that legal capital surplus may be incorporated into common stock by resolution of a shareholders' meeting.

(ii) Other capital surplus

Changes in ownership interest in subsidiaries that do not involve loss of control are accounted for as capital transactions and amounts equivalent to goodwill and negative goodwill arising from such transactions are recorded in other capital surplus.

(3) Details of retained earnings

Details of retained earnings are as follows.

(i) Legal retained earnings

The Companies Act requires that an amount equivalent to 10% of dividends from retained earnings to be paid be appropriated and set aside as legal capital surplus and legal retained earnings until the total of legal capital surplus and legal retained earnings amounts to 25% of common stock. Such legal retained earnings may be used to compensate for capital deficits. Legal retained earnings may also be reversed by resolution of a shareholders' meeting.

(ii) Other retained earnings

Other retained earnings represent the cumulative amount of profits earned by the Group.

(4) Details of other components of equity

Details of other components of equity are as follows.

(i) Financial assets measured at fair value through other comprehensive income

The difference between the cost of financial assets measured at fair value through other comprehensive income and the fair value at the reporting date

(ii) Remeasurements of net defined benefit plans

Returns on plan assets other than actuarial differences and interest

(iii) Differences on translation from foreign operations

Translation differences arising from the translation of financial statements of subsidiaries prepared in functional currencies other than Japanese yen

(5) Changes in other components of equity

Changes in other components of equity are as follows.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

	Change in fair value of available-for-sale financial assets	Remeasurements of net defined benefit plans	Differences on translation from foreign operations	Total
Beginning balance	¥8,604	¥(115)	¥ (871)	¥7,617
Other comprehensive income	963	294	(3,151)	(1,893)
Ending balance	¥9,567	¥ 179	¥(4,023)	¥5,723

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Change in fair value of available-for-sale financial assets	Remeasurements of net defined benefit plans	Differences on translation from foreign operations	Total
Beginning balance	**¥9,567**	**¥179**	**¥(4,023)**	**¥5,723**
Other comprehensive income	**(1,481)**	**16**	**1,454**	**(10)**
Ending balance	**¥8,085**	**¥195**	**¥(2,568)**	**¥5,712**

(6) Total number of shares authorized to be issued and total number of shares issued

The total numbers of shares authorized to be issued and shares issued were as follows.

(Unit: Number of shares)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Total number of shares authorized to be issued	272,000,000	**272,000,000**
Number of shares issued	68,000,000	**68,000,000**

Note: All shares issued by the Company are common stock with no par value and no restrictions on the shareholders' rights.

(7) Treasury stock

The amount of treasury stock is as follows.

(Unit: Number of shares)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Amount of treasury stock	2,100	**2,275**

Note: The amount of treasury stock increased by 50 shares in FY2018 and by 175 shares in FY2019 due to the purchase of shares constituting less than one unit.

19. REVENUE

(1) Disaggregation of revenue

The Company positions "Japan," "The Americas," "China," and "Asia and Europe" geographically as its four reportable segments and presents revenue from these regions.

Additionally, revenue is further disaggregated into the business segments of motorcycle business, automobile business (seats and interior products), and other business. The relationship between disaggregated revenues and the revenues from each reportable segment is as follows.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Reportable segments				
	Japan	Americas	China	Asia and Europe	Total
Motorcycle business	¥ 4,194	¥ 553	¥ —	¥ 1,757	¥ 6,504
Automobile business	64,684	189,112	83,595	62,478	399,871
(Seats)	56,407	160,638	78,283	57,671	353,002
(Interior products)	8,277	28,473	5,311	4,806	46,869
Other business	1,105	4,501	—	89	5,696
Total	¥69,984	¥194,167	¥83,595	¥64,324	¥412,072

Note: Inter-segment transactions are eliminated by offsetting and only external revenue is presented.

The Group is engaged in manufacturing through motorcycle, automobile (seats and interior products), and other businesses.

The performance obligation of revenue from the manufacturers of finished automobiles, who are the major customers of the Group, is satisfied when the Group delivers the product to the customer, and revenue is recognized at that point in time.

Revenue is measured as amounts net of discounts and other deductions from compensation agreed upon in the contract with the customer.

Compensation for the transactions is received mostly within one year from the fulfillment of the performance obligation and does not include a significant financing component.

(2) Contract balances

Contract balances are as follows.

(Unit: Million yen)

	As of April 1, 2018	**As of March 31, 2019**
Receivables from the contracts with customers	¥68,994	**¥61,359**
Contract liabilities	57	**187**

Receivables from contracts with customers are notes and accounts receivable—trade, and contract liabilities are primarily related to advances received from customers. In the consolidated statement of financial position, receivables from contracts with customers are included in "Trade and other receivables" and contract liabilities are included in "Other current liabilities."

Of the revenue recognized during the fiscal year under review, the amount included in contract liabilities at the beginning of the fiscal year was ¥17 million. In addition, during the fiscal year under review, the amount of revenue recognized from performance obligations satisfied in prior periods was not material.

(3) Transaction price allocated to remaining performance obligations

As there are no significant transactions with contracts with initial expected terms exceeding one year, the Group has applied a practical expedient and does not disclose information on remaining performance obligations. Additionally, among the compensation from contracts with customers, there are no significant amounts not included in the transaction price.

(4) Assets recognized from the costs incurred for obtaining or fulfilling contracts with customers

During the fiscal year under review, assets recognized from the costs incurred for obtaining or fulfilling contracts with customers were not material. In addition, the Group has applied a practical expedient and recognized assets with amortization periods of one year or less, which it would have otherwise recognized, as an expense when incurred.

20. COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major expense items included in the breakdown of cost of sales and selling, general and administrative expenses according to the nature of the cost are as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Depreciation and amortization	¥11,568	**¥11,982**
Employee benefit expenses	74,116	**75,398**

21. OTHER INCOME AND OTHER EXPENSES

The breakdown of other income is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Land and building rent received	¥ 212	**¥ 177**
Gain on disposal of non-current assets	406	**456**
Gain on government grants	3,987	**102**
Other	587	**956**
Total	¥5,192	**¥1,692**

Note: Details of income from government grants are stated in Note 22, "Government Grants."

The breakdown of other expenses is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Loss on disposal of non-current assets	¥199	**¥213**
Impairment loss	189	**69**
Other	199	**134**
Total	¥588	**¥418**

22. GOVERNMENT GRANTS

Major details of government grants are as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Deferred income from government grants	¥ 170	**¥160**
Income from government grants	3,987	**102**

Notes: 1. Deferred income from government grants is recognized under "Other current liabilities" or "Other non-current liabilities" in the consolidated statement of financial position.
2. Income from government grants is recognized under "Other income" in the consolidated statement of profit or loss.
3. Income from government grants in FY2019 comprised mainly government grants arising from the relocation of the Guangzhou Plant, and there are no unfulfilled conditions or other contingencies attached to the government assistance.

23. FINANCE INCOME AND FINANCE COSTS

The breakdown of finance income is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Interest income	¥1,080	**¥1,389**
Dividends income	819	**559**
Foreign exchange gains	261	**421**
Other	0	**0**
Total	¥2,161	**¥2,371**

Notes: 1. Interest income is generated from financial assets measured at amortized cost.
2. Dividends income is generated from financial assets measured through other comprehensive income.

The breakdown of finance costs is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Interest expense	¥152	**¥123**
Other	62	**1**
Total	¥214	**¥125**

Note: Interest expense is incurred from financial liabilities measured at amortized cost.

24. EARNINGS PER SHARE

Basic earnings per share and the basis for estimation are outlined below.

Latent common stock that has a dilution effect is not included.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Income attributable to owners of parent	¥30,115	**¥25,750**
Average number of common shares for the period (1,000 shares)	67,997	**67,997**
Basic earnings per share (Yen)	¥442.89	**¥378.70**

25. OTHER COMPREHENSIVE INCOME

The breakdown of each component of other comprehensive income is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
Components that will not be reclassified subsequently to net profit or loss:		
Remeasurements of net defined benefit plans:		
Gains (losses) during the year	¥ 422	¥ 19
Income tax benefit (expense)	(132)	4
Subtotal	289	23
Equity financial assets measured at fair value through other comprehensive income:		
Gains (losses) during the year	—	(2,081)
Income tax benefit (expense)	—	718
Subtotal	—	(1,363)
Components that may be reclassified subsequently to net profit or loss:		
Change in fair value of available-for-sale financial assets		
Gains (losses) during the year	1,374	—
Income tax benefit (expense)	(410)	—
Subtotal	963	—
Differences on translation from foreign operations:		
Gains (losses) during the year	(2,616)	1,219
Share of other comprehensive income of associates accounted for using the equity method:		
Gains (losses) during the year	47	(95)
Total other comprehensive income, net of tax	¥(1,315)	¥ (215)

26. DIVIDENDS

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 23, 2017	Common shares	¥2,379	¥35.00	March 31, 2017	June 26, 2017
Board of Directors' meeting held on November 1, 2017	Common shares	¥2,583	¥38.00	September 30, 2017	November 27, 2017

(2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 22, 2018	Common shares	Retained earnings	¥2,855	¥42.00	March 31, 2018	June 25, 2018

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 22, 2018	Common shares	¥2,855	¥42.00	March 31, 2018	June 25, 2018
Board of Directors' meeting held on October 31, 2018	Common shares	¥2,855	¥42.00	September 30, 2018	December 3, 2018

(2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 21, 2019	Common shares	Retained earnings	¥2,855	¥42.00	March 31, 2019	June 24, 2019

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities is as follows.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

	Beginning balance	Cash flows	Non-cash transactions: Increase	Non-cash transactions: Foreign currency translation	Ending balance
Current borrowings	¥ 967	¥ (99)	¥ —	¥ 0	¥ 868
Non-current borrowings	321	294	—	—	615
Finance lease liabilities	2,217	(1,351)	1,883	(53)	2,695
Total	¥3,506	¥(1,157)	¥1,883	¥(52)	¥4,179

Note: Non-current borrowings include the non-current borrowings scheduled for payment within one year.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

	Beginning balance	Cash flows	Non-cash transactions: Increase	Non-cash transactions: Foreign currency translation	Ending balance
Current borrowings	¥ 868	¥ (863)	¥ —	¥ 2	¥ 7
Non-current borrowings	615	(390)	—	—	225
Finance lease liabilities	2,695	(1,859)	635	38	1,510
Total	¥4,179	¥(3,113)	¥635	¥41	¥1.742

Note: Non-current borrowings include the non-current borrowings scheduled for payment within one year.

28. NON-CASH TRANSACTIONS

Details of significant non-cash transactions are as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
Acquisition of assets through a finance lease arrangement	¥1,883	¥635

29. SUBSIDIARIES AND AFFILIATES, ETC.

(1) Composition of the corporate group

The composition of the Group is as stated in "1. Corporate Summary (4) State of Subsidiaries and Affiliates" in the Company's annual securities report (in Japanese only).

(2) Matters concerning subsidiaries

The Group does not have significant subsidiaries with non-controlling interests.

(3) Matters concerning affiliates

The Group does not have individually significant affiliates. Matters concerning affiliates which are not individually significant are as follows.

(Unit: Million yen)

	FY2018 (As of March 31,2018)	FY2019 (As of March 31,2019)
Carrying amount of equity interest	¥1,463	¥1,484

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	FY2019 (April 1, 2018–March 31, 2019)
The Group's equity interest in:		
Net income	¥388	¥367
Other comprehensive income	47	(95)
Comprehensive income	435	272

30. FINANCIAL INSTRUMENTS

(1) Details and the extent of risks arising from financial instruments

(i) Policies on the management of financial instruments and risk management

The Group is exposed to various risks arising from financial instruments including credit risk, market risk, and liquidity risk. To manage the exposures to these risks, the Group conducts risk management according to a certain set of policies.

In terms of investments, the Group primarily uses principal-guaranteed time deposits and similar financial instruments, while in terms of the procurement of funds the Group procures its necessary funds through bank loans and similar financial instruments.

The Group enters into derivative transactions to minimize the risk of future fluctuations in exchange rates but strictly adheres to the policy of avoiding such transactions for speculative purposes.

(ii) Credit risk (Risk of a business partner defaulting on its contractual obligations)

Trade and other receivables are exposed to the credit risk of customers.

The Group manages these risks in accordance with its credit management regulations by periodically monitoring whether any customer has gone over its credit limit, which is set for each customer, while also making efforts to identify at an early stage concerns for collection due to deterioration of the customer's financial position and mitigate said risks.

The majority of the Group's trade and other receivables are due from Honda Motor Co., Ltd. and its group companies, whose creditworthiness is high and poses minimal credit risk.

When engaging in derivative transactions, the Group deals exclusively with financial institutions with high credit ratings in order to mitigate credit risk.

The carrying amounts of financial assets after impairment losses presented in the consolidated statement of financial position represent the maximum exposure of the Group to credit risk.

(iii) Market risk (Foreign currency risk)

As the Group conducts its business globally, it engages in foreign currency-denominated transactions and accordingly its profits and cash flows are exposed to the risk of fluctuating exchange rates.

The Group engages in derivative transactions, namely forward exchange contracts, to mitigate such risks in terms of its foreign currency-denominated trade receivables and payables.

In the execution and administration of derivative transactions, the funding division obtains the approval of the person with the decision-making authority in accordance with the internal rules which set forth transaction authority and other matters.

In terms of the financial instruments held by the Group at the end of FY2018 and FY2019, the impact of a 1% appreciation of the Japanese yen against the U.S. dollar and the Chinese yuan on income before tax is as follows.

(Unit: Million yen)

	Impact on income before tax: FY2018 (April 1, 2017–March 31, 2018)	Impact on income before tax: FY2019 (April 1, 2018–March 31, 2019)
1% appreciation of Japanese yen against the U.S. dollar	¥(20)	¥(23)
1% appreciation of Japanese yen against the Chinese yuan	(21)	(19)

Note: This analysis assumes that all variables other than the Japanese yen–U.S. dollar/Chinese yuan exchange rates remain fixed.

(Price fluctuation risks of equity instruments)

The Group holds equity instruments that include the stocks of publicly traded companies with which it maintains business relationships and is thus exposed to the risk of fluctuating market prices of these instruments.

The Group manages such risks by periodically monitoring the fair value of said instruments and the financial condition of its investment targets as well as conducting ongoing reviews of its status of holdings.

In terms of the equity instruments held by the Group at the end of FY2018 and FY2019, the impact of a 1% decline in market prices on other comprehensive income is as follows.

(Unit: Million yen)

	Impact on other comprehensive income: FY2018 (April 1, 2017–March 31, 2018)	Impact on other comprehensive income: FY2019 (April 1, 2018–March 31, 2019)
1% decline in market prices	¥(159)	¥(142)

Note: This analysis assumes that all variables other than the market prices remain fixed.

(iv) Liquidity risk (Risk of not being able to execute payment on the payment date)

While the Group procures necessary funds from bank loans and other means, it is exposed to the risk of not being able to execute payment on the payment date due to deterioration of the fund-raising environment and other factors.

The Group manages said risk by having the Company's accounting division prepare and update fund management plans based on the reports of each division in order to mitigate liquidity risk.

The outstanding balance of financial liabilities by contractual maturity is as follows.

Trade and other payables, short-term loans payable, and derivative financial liabilities have been omitted as their contractual maturities are all less than one year.

Lease obligations are stated in Note 31, "Leases."

Long-term loans payable (including those scheduled for payment within one year)

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Within 1 year	¥191	**¥150**
Between 1 and 5 years	424	**75**
More than 5 years	—	**—**
Total	¥615	**¥225**

(2) Fair value measurement

Fair values are classified into the following three levels according to the extent to which the input information used in the measurement is observable and the materiality of said input.

Level 1: Quoted prices of similar assets and liabilities in active markets

Level 2: Input other than quoted prices included in Level 1 that is observable either directly or indirectly

Level 3: Input including that not based on observable market data

No transfers occurred between Levels 1, 2, and 3 during FY2019.

(i) Method of measuring fair value

(Equity instruments)

Equity instruments are mainly stocks of publicly traded companies and are measured based on the prices quoted by the stock exchanges.

(Derivative financial assets and derivative financial liabilities)

The fair values of the forward exchange contracts are measured based on the prices quoted by the financial institutions.

(Long-term loans receivable)

Long-term loans receivable are measured at the present value of future cash flows discounted by an interest rate that reflects an appropriate indicator such as the yield on Japanese government bonds to which a credit spread has been added.

(Long-term loans payable)

Long-term loans payable are measured at the present value of the total of principal and interest discounted by an interest rate that would be used for a similar loan.

(Financial instruments other than those above)

Financial instruments other than those above are measured at amortized cost but statement thereof has been omitted as their measured carrying amounts approximate their fair values.

(ii) Carrying amounts and fair values of financial instruments

(Financial instruments measured at fair value on a recurring basis)

FY2018 (As of March 31, 2018)

(Unit: Million yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Available-for-sale financial assets:					
Equity instruments	¥16,016	¥15,927	¥—	¥88	¥16,016
Financial assets measured at a fair value through net profit or loss:					
Derivative financial assets	67	—	67	—	67
Financial liabilities measured at a fair value through net profit or loss:					
Derivative financial liabilities	3	—	3	—	3

Note: The amounts from FY2018 are based on ISA 39.

FY2019 (As of March 31, 2019)

(Unit: Million yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income					
Equity instruments	**¥15,295**	**¥14,243**	**¥—**	**¥1,052**	**¥15,295**
Financial assets measured at a fair value through net profit or loss:					
Derivative financial assets	**1**	**—**	**1**	**—**	**1**
Financial liabilities measured at a fair value through net profit or loss:					
Derivative financial liabilities	**8**	**—**	**8**	**—**	**8**

(Financial instruments measured at amortized cost)

FY2018 (As of March 31, 2018)

(Unit: Million yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Loans and receivables:					
Long-term loans receivable (including those scheduled for payment within one year)	¥517	¥—	¥522	¥—	¥522
Financial liabilities measured at amortized cost:					
Long-term loans payable (including those scheduled for payment within one year)	615	—	613	—	613

Note: The amounts from FY2018 are based on ISA 39.

FY2019 (As of March 31, 2019)

(Unit: Million yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Long-term loans receivable (including those scheduled for payment within one year)	¥515	¥—	¥521	¥—	¥521
Financial liabilities measured at amortized cost:					
Long-term loans payable (including those scheduled for payment within one year)	225	—	225	—	225

(3) Offsetting of financial assets and financial liabilities

Information on the offsetting of financial assets and financial liabilities recognized for a single counterparty is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Gross amount of financial assets recognized	¥236,998	**¥245,236**
Offset amount	8,113	**7,751**
Amount of financial assets presented in consolidated statement of financial position	¥228,885	**¥237,484**
Gross amount of financial liabilities recognized	¥ 79,559	**¥ 74,250**
Offset amount	8,113	**7,751**
Amount of financial liabilities presented in consolidated statement of financial position	¥ 71,446	**¥ 66,499**

31. LEASES

(1) Lease as lessee

(i) Minimum total lease payments

The breakdown of the minimum total lease payments (present value) under finance leases is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Within 1 year	¥1,265	**¥ 764**
Between 1 and 5 years	1,268	**711**
More than 5 years	162	**34**
Total	¥2,695	**¥1,510**

Notes: 1. The outstanding balance of minimum total lease payments is included in "Other financial liabilities" in the consolidated statement of financial position.
2. Certain major lease contracts have renewal and purchase options. However, there are no lease contracts with contingent rent, escalation clauses (a provision to increase lease obligations), or specific contractual restrictions (such as restrictions on dividends, additional borrowing, or additional lease contracts).

(ii) Non-cancelable operating leases

The breakdown of the minimum total lease payments under non-cancelable operating leases is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Within 1 year	¥ 320	**¥ 292**
Between 1 and 5 years	612	**604**
More than 5 years	432	**595**
Total	¥1,365	**¥1,492**

(iii) Operating lease payments recognized as expenses during the fiscal year

Operating lease payments recognized as expenses during the fiscal year are as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Operating lease payments	¥502	**¥584**

(2) Lease as lessor

Minimum total lease payments to be received

The breakdown of the minimum total lease payments to be received under finance leases is as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	**FY2019 (As of March 31, 2019)**
Within 1 year	¥3,970	**¥2,805**
Between 1 and 5 years	3,076	**1,971**
More than 5 years	—	**—**
Total	¥7,047	**¥4,777**

Notes: 1. The outstanding balance of minimum total lease payments to be received is included in "Other financial assets" in the consolidated statement of financial position.
2. There are no lease contracts with renewal and purchase options, contingent rent, or escalation clauses (a provision to increase lease receivables).

32. RELATED-PARTY DISCLOSURES

(1) Transactions between the submitting company and related parties

The balances of transactions and receivables/payables between the submitting company and related parties are as follows.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Other affiliates	Honda Motor Co., Ltd.	Sale of the Company's products	¥50,930	Accounts receivable – trade	¥8,522

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Other affiliates	Honda Motor Co., Ltd.	Sale of the Company's products	**¥62,385**	Accounts receivable – trade	**¥9,569**

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

(2) Transactions between the consolidated subsidiaries of the submitting company and related parties

The balances of transactions and receivables/payables between the consolidated subsidiaries of the submitting company and related parties are as follows.

(i) TS TECH USA CORPORATION

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda of America Mfg., Inc.	Sale of the Company's products	¥51,476	Accounts receivable – trade	¥4,650

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda of America Mfg., Inc.	Sale of the Company's products	**¥58,138**	Accounts receivable – trade	**¥5,046**

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

(ii) TS TECH ALABAMA, LLC.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Manufacturing of Alabama, LLC.	Sale of the Company's products	¥48,400	Accounts receivable – trade	¥4,109

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Manufacturing of Alabama, LLC.	Sale of the Company's products	**¥43,926**	Accounts receivable – trade	**¥3,959**

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

(iii) TS TECH CANADA INC.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Canada, Inc.	Sale of the Company's products	¥49,802	Accounts receivable – trade	¥4,527

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Canada, Inc.	Sale of the Company's products	**¥48,169**	Accounts receivable – trade	**¥4,438**

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

(iv) TS TECH (THAILAND) CO., LTD.

For the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Automobile (Thailand) Co., Ltd.	Sale of the Company's products	¥24,209	Accounts receivable – trade	¥3,553

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

For the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(Unit: Million yen)

Type of related party	Name	Nature of related-party transaction	Transaction amount	Account	Outstanding balance
Subsidiaries of other affiliates	Honda Automobile (Thailand) Co., Ltd.	Sale of the Company's products	**¥25,357**	Accounts receivable – trade	**¥4,553**

Note: Business terms and conditions, and policy for the determination of business terms and conditions
Business terms and conditions for the sale of products are determined upon the submission of individual quotes and price negotiations.

(3) Remuneration of key management personnel

Remuneration to the directors and auditors of the Company is as follows.

(Unit: Million yen)

	FY2018 (April 1, 2017–March 31, 2018)	**FY2019 (April 1, 2018–March 31, 2019)**
Basic remuneration and bonuses	¥551	**¥571**

33. CONTINGENT LIABILITIES

The Company provides guarantees to financial institutions on the borrowings by employees. The guarantee amounts are as follows.

(Unit: Million yen)

	FY2018 (As of March 31, 2018)	FY2019 (As of March 31, 2019)
Employees (Company housing and mortgage loans)	¥52	¥46

34. SUBSEQUENT EVENTS

Not applicable other than those previously disclosed.

OTHER

Quarterly information for the fiscal year under review is as follows.

(Unit: Million yen)

Cumulative period	1st quarter	2nd quarter	3rd quarter	4th quarter
Revenue	¥103,692	¥202,340	¥308,254	¥412,072
Income before income tax	10,543	20,010	31,571	41,407
Income attributable to owners of parent	5,584	11,560	20,069	25,750
Earnings per share (Yen)	¥ 82.13	¥ 170.01	¥ 295.15	¥ 378.70

Accounting period	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share (Yen)	¥82.13	¥87.88	¥125.15	¥83.55

Independent Auditor's Report

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 21, 2019

To the Board of Directors of TS TECH Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Kenji Morita

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Kazuyoshi Kuramoto

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yutaka Takeda

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated statement of financial position as of March 31, 2019 of TS TECH Co., Ltd. (the "Company") and its subsidiaries, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2018 to March 31, 2019, and notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TS TECH Co., Ltd. and its subsidiaries as of March 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Non-Financial Data

Environmental

Environmental Accounting

Environmental Conservation Cost (Non-consolidated)

(Unit: Million yen)

		Main Efforts	FY2015		FY2016		FY2017		FY2018		FY2019	
			Investment	Cost	Investment	Cost	Investment	Cost	Investment	Cost	Investment	Cost
Business area cost	Pollution prevention cost	Prevention of air, water, and soil pollution, etc.	7	7	30	5	12	11	34	14	46	10
	Global environmental conservation cost	Prevention of global warming and ozone depletion and other environmental preservation efforts	273	19	153	36	187	38	*1 748	116	*1 615	95
	Resource circulation cost	Recycling, waste treatment and disposal, and water-saving efforts	1	42	3	36	31	53	28	97	11	173
Upstream/downstream cost		Costs generated from purchasing low environmental impact products and raw materials	16	—	19	—	26	—	26	9	38	13
Administration cost		EMS development & operation costs, environmental measurement costs, office interior “greening” and development costs	37	92	56	42	49	54	29	38	24	63
R&D cost		Research and development of new technology with a high positive environmental impact, such as reducing the weight of products, reducing VOCs (not using paints), and developing recyclable materials	—	3,997	—	3,935	—	3,859	—	2,952	—	3,630
Social activity cost		Environmental measures such as nature protection, “greening,” and scenery preservation	—	8	—	9	—	4	—	4	*2 4	4
Environmental remediation cost		Remediation of soil pollution, etc.	—	—	—	—	—	—	—	—	—	—
Total			334	4,165	261	4,063	305	4,019	865	3,230	738	3,988

1) Period covered: April 1, 2018 to March 31, 2019
2) The above figures include portions ascertained by estimation, such as apportionment.
3) Materials related to environmental accounting, such as guidelines and guidebooks published by the Ministry of the Environment of Japan, were referenced when preparing the spreadsheet.
4) Costs do not include depreciation costs.

*1 Global environmental conservation cost includes expenses related to the construction of the new Head Office building.
*2 Social activity cost includes a donation for the aftermath of floods in Japan in 2018.

Economic Effects (Non-consolidated)

(Unit: Thousand yen)

	FY2015	FY2016	FY2017	FY2018	FY2019
Gain on sale of valuables	5,890	5,163	6,587	9,232	8,143
Cost saved by energy conservation	19,119	12,689	8,950	13,093	26,690
Total	25,009	17,852	15,537	22,325	34,833

Material Effects (Non-consolidated)

		FY2015	FY2016	FY2017	FY2018	FY2019
Energy consumption	GJ	214,869	199,561	195,808	204,701	205,251
Water consumption	1,000m³	90	71	78	87	77
CO_2 emissions	t-CO_2	11,341	9,999	9,945	10,341	10,360
CO_2 emissions due to transportation	t-CO_2	1,062	1,946	1,611	1,868	2,108
Total waste output	t	946	1,009	1,174	1,068	1,075
VOC emissions	t	28	33	31	34	50
PRTR emissions	t	8	54	49	4	0

Social

Number of In-House Training Sessions (Non-consolidated)

	FY2015	FY2016	FY2017	FY2018	FY2019
Human rights / diversity training	7	9	8	9	8

In-House Training Sessions: Number of Attendees (Non-consolidated)

(Unit: Persons)

	FY2015	FY2016	FY2017	FY2018	FY2019
Practical training sessions for risk assessment*	28	23	36	22	42
Mental health seminars	62	57	52	78	80

* Seminars held for company employees. We have held “Risk Assessment Training Regarding Specified Chemical Substances” since FY2017 as well.

Training Expenditures (Non-consolidated)

(Unit: Million Yen)

FY2015	FY2016	FY2017	FY2018	FY2019
68.9	80.1	61.4	76.6	70.0

Training Expenditures per Employee (Non-consolidated)

(Unit: Yen)

FY2015	FY2016	FY2017	FY2018	FY2019
39,930	46,913	35,958	44,459	40,814

Percentage of Managers Who Are Women (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
1.72	1.73	2.05	2.15	1.90

Percentage of Employees with a Disability (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
2.32	2.38	2.27	2.30	2.37

* Designated employment rate: 2.0%

Percentage of Employees Who Are Non-Japanese (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
0.50	0.66	0.66	0.55	0.66

Number of University Graduates Hired (Non-consolidated)

(Unit: Persons)

FY2015	FY2016	FY2017	FY2018	FY2019
46	49	56	52	50

Number of Employees Who Leave Within 3 Years of Hiring (Non-consolidated)

(Unit: Persons)

FY2015	FY2016	FY2017	FY2018	FY2019
5	3	5	1	0

Turnover Rate Within 3 Years of Hiring (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
10.9	6.1	8.9	1.9	0.0

Non-Financial Data

Major Personnel Data (As of March 31; Full-time employees only) (Non-consolidated)

		FY2015	FY2016	FY2017	FY2018	FY2019
Number of employees by gender	Male	1,541	1,529	1,529	1,543	1,531
	Female	186	180	181	180	185
	Total	1,727	1,709	1,710	1,723	1,716
Average years of service	Male	16.2	15.8	15.9	16.0	16.3
	Female	14.3	14.1	14.4	15.1	15.1
	Total	16.0	15.6	15.7	15.9	16.2

Percentage of Annual Paid Vacation Taken (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
99.8	99.4	99.4	96.6	98.3

Percentage of Employees Using Half-Day Vacations (%) (Non-consolidated)

(Unit: %)

FY2015	FY2016	FY2017	FY2018	FY2019
33.2	35.7	54.9	64.2	56.7

Industrial Accident Circumstances [Industry average]

(Unit: %)

	FY2015	FY2016	FY2017	FY2018	FY2019
TS TECH's frequency rate	0.00 [1.06]	0.00 [1.06]	0.00 [1.15]	0.51 [1.02]	0.25 [1.20]
TS TECH's severity rate	0.00 [0.09]	0.00 [0.06]	0.00 [0.07]	0.00 [0.08]	0.00 [0.10]

Frequency rate: Expresses the frequency of accident occurrences as the number of deaths and injuries due to industrial accidents per million hours worked
Severity rate: Expresses the degree of severity of an accident as the number of working days lost per thousand hours worked. However, this is limited to industrial accidents causing one or more days of lost working days.

Number of Social Contribution Activities Conducted (Consolidated)

(Unit: Activities)

FY2015	FY2016	FY2017	FY2018	FY2019
—	—	—	258	277

* 38 locations worldwide

Number of Social Contribution Activities Conducted in FY2019

(Unit: Activities)

	Japan (Non-consolidated) 9 locations	Americas 14 locations	China 7 locations	Asia and Europe 8 locations	Total 38 locations
Economic assistance	29	68	25	15	137
Social contribution activities	49	54	26	11	140
Total	78	122	51	26	277

Social Contribution Activity Expenditures (Non-consolidated)

(Unit: Thousand yen)

FY2015	FY2016	FY2017	FY2018	FY2019
64,303	51,812	50,290	46,768	50,019

Number of Patents Held

	FY2015	FY2016	FY2017	FY2018	FY2019
In Japan	757	724	770	787	968
Outside of Japan	501	474	441	481	543
Total	1,258	1,198	1,211	1,268	1,511

Number of Divisions in Which Our Seats Were Recognized in a U.S. Seat Quality and Satisfaction Survey

FY2015	FY2016	FY2017	FY2018	FY2019
2	2	2	4	1

Improvement Initiatives (Consolidated)

	FY2015	FY2016	FY2017	FY2018	FY2019
Number of participating teams	636	620	594	466	489

Dialogue with Stockholders and Investors

	FY2015	FY2016	FY2017	FY2018	FY2019
General Meeting of Shareholders: Number of attendees	318	373	405	386	441
Events for individual investors: Number of attendees	0	78	487*	573*	88
IR / SR interviews: Number of companies (Including small meetings and conference calls)	474	427	239	254	229

*Exhibited at the Nikkei IR / Individual Investor Fair

External Recognition

Index Rankings

	FY2015	FY2016	FY2017	FY2018	FY2019
JPX-Nikkei Index 400	○	○	○	○	○
Morningstar Socially Responsible Investment Index (MS-SRI)	○	○	○	○	Calculation concluded at end of FY2018
MSCI Japan ESG Select Leaders Index	—	—	○	○	—
SNAM Sustainability Index	—	—	—	○	—
Toyo Keizai ESG Company Ranking	—	80th out of 1,325 companies	75th out of 1,408 companies	92nd out of 1,413 companies	130th out of 1,501 companies
Toyo Keizai CSR Company Ranking	114th out of 1,305 companies	99th out of 1,325 companies	127th out of 1,408 companies	147th out of 1,413 companies	167th out of 1,501 companies

Number of ISO-Certified Group Companies

	FY2015	FY2016	FY2017	FY2018	FY2019
ISO 9001 (Quality management system)	21	20	20	12	11
IATF 16949 (Quality management system)	9	9	19	23	24
ISO 14001 (Environmental management)	24	24	25	26	27
ISO 50001 (Energy management)	—	—	—	—	1

A History of the TS TECH Group

From Producing Work Uniforms to Manufacturing Seats for Motorcycles and Automobiles

TS TECH's predecessor, Teito Fuhaku Kogyo, manufactured work uniforms for Honda, who recognized the quality of our sewing technology and asked us to begin manufacturing motorcycle seats. Honda's Super Cub scooter became a runaway hit and our production system expanded. We then began to manufacture lightweight seats for racing motorcycles, developing technologies early on to make seats lighter.

We later made seats for the Honda T360 pickup truck, which marked the start of TS TECH's full-edged manufacture of seats for automobiles. From then on, the scale of our operations grew steadily.

Seat for the original Honda Super Cub

Honda T360 seat

Overseas Expansion: Early Establishment of a Manufacturing Base in North America

TS TECH first expanded its business outside of Japan in 1977, setting up a production subsidiary in Nebraska, U.S.A. to manufacture motorcycle seats locally for Kawasaki.

We later began production for Honda. A series of orders for automobile seats and leisure vehicle seats came in from American automakers, and the scale of local production was expanded. Today, the Group has production centers in Japan, the Americas, Europe, China, and other parts of Asia.

Aiming for Incomparable Quality and Achieving World-Class Quality

In order to compete alongside the world's mega-suppliers, in the early 2000, TS TECH first set its goal of achieving world-class quality. Under the slogan at the time, "Incomparable Quality," we set out to not only improve production efficiency and quality through the installation of facilities such as jig lines, but also to change people's way of thinking about manufacturing. More recently, TS TECH has been rated as the No. 1 supplier by vehicle size class in a seat quality and satisfaction survey conducted by an American research firm.

Seat Arrangements Created Using Mechanical Design Technology

The 1990s saw a minivan boom. The interior was seen as a space to enjoy spending one's time, generating demand for more comfortable seats. We then began a multi-pronged pursuit of comfort. One result of this pursuit was seat arrangement technology. We employed structural design technologies and a wealth of expertise to develop arrangements with various kinds of usability. TS TECH's designs have earned a solid reputation among European automakers, who have long been leaders in the industry.

1996 Honda Step WGN
Swivel seats in face-to-face mode

Overcoming Adversity to Build a Structure for High Revenue

As the scale of TS TECH's business has expanded, the impact of external factors has also grown. We were impacted by the financial crisis of 2008, as well as the Great East Japan Earthquake in early 2011 and severe flooding in Thailand in late 2011—both of which caused a suspension of plant operations.

In response to such adverse conditions, we significantly boosted development and production efficiency through measures such as the introduction of automated technology into production lines. This forms the basis for our current high revenue structure.

Automated facilities

1960
Established Tokyo Seat Co., Ltd.
Took over the motorcycle seat business from predecessor Teito Fuhaku Kogyo Corporation

1963
Began producing automobile seats

1977
Expanded operations to North America

1994
Expanded operations to Asia

1996
Expanded operations to South America

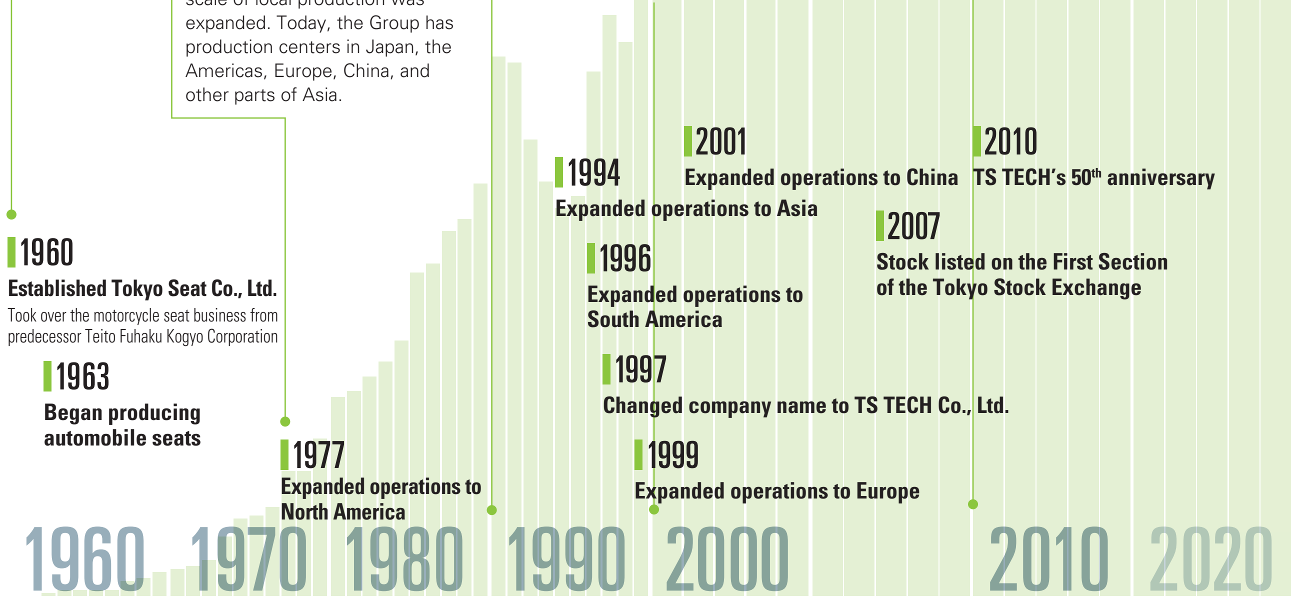
1997
Changed company name to TS TECH Co., Ltd.

1999
Expanded operations to Europe

2001
Expanded operations to China

2007
Stock listed on the First Section of the Tokyo Stock Exchange

2010
TS TECH's 50th anniversary



Sales Trends

The Year in Review (April 2018–March 2019)

April 27
Financial results announcement and results briefing for the fiscal year ended March 2018

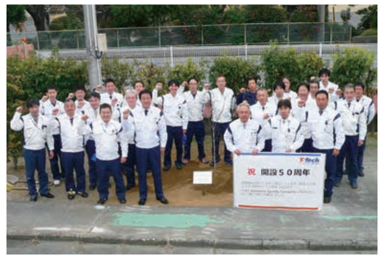
June 22
72nd Annual General Meeting of Shareholders

July 31
Financial results announcement for the first quarter of the fiscal year ended March 2019

October 31
Financial results announcement and results briefing for the second quarter of the fiscal year ended March 2019

December 11
Ceremony held to commemorate the 50th anniversary of the Hamamatsu Plant

The plant began operations in 1968 with production of motorcycle seats for Yamaha Motor Co., Ltd. A commemorative ceremony and tree planting marked the plant's 50th anniversary.



January 31
Financial results announcement for the third quarter of the fiscal year ended March 2019

March 8
Plant tour for individual investors

Plant tour for individual investors at the Saitama Plant

2018 April | May | June | July | August | September | October | November | December | **2019** January | February | March

April 26 Philippines
Received a quality and delivery award at a purchasing conference organized by Honda Cars Philippines, Inc.

August
One of 50 companies selected for the Tokyo Stock Exchange's 7th Corporate Value Improvement Award

November 2
Received an award in the Higher Wages for Persons with Disabilities category* at the Inclusive Tochigi Award ceremony

* Higher Wages for Persons with Disabilities category: Recognizes businesses that actively work to procure goods from places of business that support the employment of persons with disabilities and enable them to live independently in their communities.

September, December
Information sessions for individual investors

December 6–8
Exhibited automobile component prototypes that utilize natural, eco-friendly materials at EcoPro 2018

17% lighter (versus conventional materials)

Image of CNF-reinforced resin material

* Reference exhibit at the Kyoto University/Kyoto Municipal Institute of Industrial Technology and Culture booth

January 1
TS TECH's Code of Conduct revised

January 11 China
Received outstanding cost and quality awards at a purchasing conference co-organized by Honda Automobile (China), Co. Ltd.

March 12
All business locations in Japan obtained ISO 50001 certification

March 15
Announced research findings at the China Automotive Seating Summit 2019

* Photo provided by organizer

Integrated Report Review

Mariko Mishiro

Representative Director of RIDEAL

Ms. Mishiro is an expert on integrated reporting. After graduating from a master's program at Waseda University, she worked for Ernst & Young ShinNihon (Now Ernst & Young ShinNihon LLC) before going independent in 2011. She provides services that include integrated report consultations, integrated report reviews, and stakeholder dialogue advice. She also holds seminars related to integrated reporting at general business corporations, financial organizations, and universities both in Japan and overseas. From 2011 to 2013, Ms. Mishiro worked on developing an international disclosure framework (International Integrated Reporting Framework) for corporate reporting as a technical manager at the International Integrated Reporting Council (IIRC). She is a certified public accountant in the United States and an Audit & Supervisory Board Member for DRAFT Inc.

An Engaging Look at TS TECH's Characteristics— Through Continuous Improvements to Information Disclosure

I believe that listed companies must show a commitment to making ongoing improvements to their information disclosure rather than simply disclosing information just once. TS TECH has refined its integrated report over the past three years by narrowing its focus each year. As part of its ongoing improvements, I interviewed the company about both the content of this report and its creation process from the perspective of an integrated approach.

An integrated report is a tool to deliver a "value creation story" to important stakeholders. The report clarifies the key elements of this story, namely 1) the source of value creation, 2) the corporate culture that underpins the strength of governance, 3) policies to address environmental and social issues, the company's stance on these issues, and the degree of earnestness with which it approaches them, and 4) weaknesses and risks. These are important materials that enable the reader to see things from management's perspective. I think TS TECH's characteristics are especially evident in its "values" of safety, the environment, and attractiveness, as well as its designation of the technology and employees that make it possible to provide value, its global manufacturing bases, and its profitability rate that exceeds the industry average as "important capital." Moreover, TS TECH's approach to governance is not just a formality. I was struck by the way in which the corporate culture contributes so much to the creation of a foundation for solid governance. For example, the TS TECH Philosophy (Vision Statement, Mission Statement, and Operational Directives) ensures that the entire company shares the same values.

Going forward, I think that TS TECH can augment the content disclosed in its report by 1) strengthening the links between pieces of information and 2) considering the ways in which this report can be utilized.

In strengthening the links between pieces of information, I think it is important to explain how the capital described in the business model was built up during the company's nearly 60-year history. After all, the ways in which the past, present, and future are tied together are important to any story.

Next, after its publication, this report can be used proactively to create opportunities for dialogue with important stakeholders. I would also recommend utilizing the integrated report at executive meetings, Board of Directors' meetings, and internal briefings. By linking them to activities that help the company's overall integrated approach further take root, I think you can take the integrated report and dialogue to new levels.

The real role of an integrated report begins after it is compiled. I think that TS TECH can develop techniques that enable it to share even more of its unique appeal as it continues to improve its information disclosure.

An interview during the review of the integrated report

In the review of this integrated report, views were exchanged with employees in the departments in charge of ESG management and integrated report publication through interviews.

Corporate Data and Stock Information

Corporate Data

(As of March 31, 2019)

Company Name	TS TECH Co., Ltd.
Establishment	December 5, 1960
Head Office	3-7-27 Sakae-cho, Asaka-shi, Saitama 351-0012, Japan
Common Stock	¥4,700,000,000
Corporate Representative	President, Masanari Yasuda
Lines of Business	Manufacture and sale of seats for automobiles; interior trim and interior components for automobiles; motorcycle seats; and motorcycle resin-based parts
Number of Employees	16,859 (Consolidated), 1,716 (Non-consolidated)
Closing of Accounts	March 31
Securities Traded	Tokyo Stock Exchange (First Section)
Main Banks	MUFG Bank, Ltd. / Sumitomo Mitsui Banking Corporation / Saitama Resona Bank, Limited
Main Customers	Honda Motor Co., Ltd. / Honda R&D Co., Ltd. / Honda Trading Corporation / Honda Access Corp. / Suzuki Motor Corporation / Yamaha Motor Co., Ltd. / Kawasaki Heavy Industries, Ltd. / Harley-Davidson, Inc. / PARAMOUNT BED CO., LTD.
Member Organization	Japan Auto Parts Industries Association

Stock Information

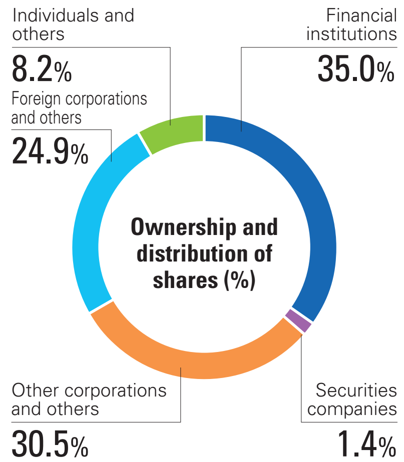
(As of March 31, 2019)

Total Number of Shares Authorized to Be Issued	272,000,000
Total Number of Shares Outstanding	68,000,000
Number of Shareholders	10,305

Major Shareholders (As of March 31, 2019)

	Equity participation	
	Number of shares held (Thousands)	Voting stake (%)
Honda Motor Co., Ltd.	15,360	22.6
Japan Trustee Services Bank, Ltd. (Trust account)	3,305	4.9
The Master Trust Bank of Japan, Ltd. (Trust account)	2,295	3.4
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Pension Trust Account)	2,199	3.2
Sumitomo Life Insurance Company (Standing proxy: Japan Trustee Services Bank, Ltd.)	1,940	2.9
Saitama Resona Bank, Limited	1,720	2.5
Bridgestone Corporation	1,536	2.3
Taiyo Life Insurance Company	1,400	2.1
Okamoto Industries, Inc.	1,376	2.0
Mitsubishi UFJ Trust and Banking Corporation (Standing proxy: The Master Trust Bank of Japan, Ltd.)	1,360	2.0

Notes: 1. Number of shares is rounded down to the nearest thousand.
2. Shareholding ratio is calculated after deducting treasury stock (2,275 shares).



* Treasury stock is included in "Individuals and others"

TS TECH Co.,Ltd.

3-7-27 Sakae-cho, Asaka-shi, Saitama 351-0012, Japan
URL: https://www.tstech.co.jp

VEGETABLE OIL INK

October 2019
Printed in Japan