

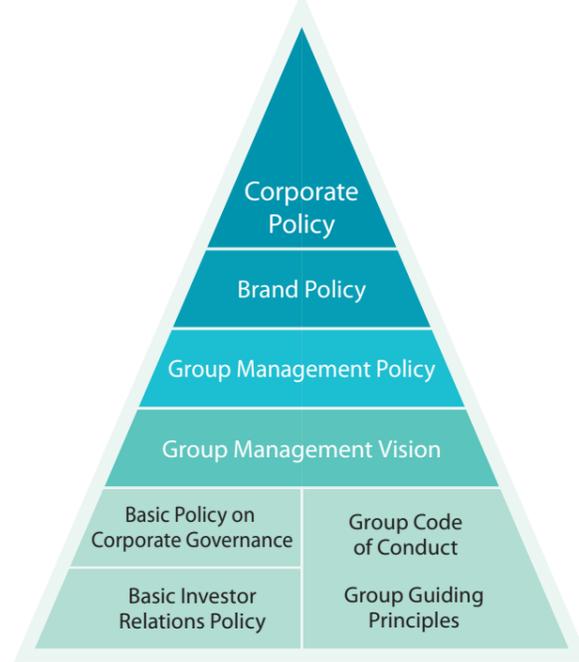


Integrated Report
2019



ANEST IWATA will continue to be a company that benefits people and people's lives, while diligently upholding the company's founding motto of being "trustworthy and sincere" and strive to deliver the highest level of quality, technologies and services.

ANEST IWATA Corporate Philosophy



Corporate Policy

誠心

“Makotono kokoro”
(Trustworthy & Sincere)

Brand Policy

The following marks represent our corporate brand.



Corporate brand promise

ANEST IWATA is a development-oriented company that is consistently vibrant and equipped with innovative technologies. We will leverage these qualities and continue to contribute to the achievement of a prosperous society that is safe, reliable and capable of sustained growth.

Corporate slogan

Active & Newest Technology
The corporate slogan represents the basic IWATA principles of “useful technology, beloved products and a bond of trust” and complements the company name and corporate brand.

The meaning of the name ANEST IWATA

Our founder, Hatsutarō Iwata, taught us to be “Earnest” and “Sincere,” as well as to first and foremost be a person and value our humanity over the company. We coined the name “ANEST” to reflect this teaching and our founding principle, “Makotono kokoro” (Trustworthy & Sincere), which is also our corporate motto.

Group Management Policy

1. We will build a true relationship of trust by always thinking from the customers' perspective and meeting the customers' expectations.
2. We will maintain a global perspective at all times and strive for research and development of innovative technologies that anticipate the changes in the environment.
3. We will provide attractive products and services that meet customer needs with sincerity at appropriate levels of quality and at appropriate prices.
4. We will establish a lively and inclusive corporate culture that values the spirit of challenge, upholds the principles of fairness and equality, and brings out the individuality and capabilities of each employee, as well as a robust corporate structure capable of flexibly withstanding changes, and achieve inner happiness and a prosperous lifestyle.
5. All employees of the ANEST IWATA Group shall respect personal and cultural differences, work together with all stakeholders, and establish a corporate culture that maximizes the individual's creativity and teamwork.

Group Management Vision

To become a company with a 100-year history

1. “We will become a vibrant and innovative development-oriented company capable of providing high-performance and high-quality products and services with sincerity from the customers' perspective.”
2. “We will transition from improvement-based product development focused mainly on cutting costs and internal core technologies to a flexible company capable of steadily tapping into market needs and collaborating with various businesses.”
3. “All employees of the Group will make a concerted effort by aiming to become the No.1 in the world, and will strive to become a “True World-class Company” that maximizes customer satisfaction and continuously creates innovative technology and products.”

To become a “True World-class Company” Management slogan

The Group companies will make a concerted effort (ONE ANEST IWATA) to become the Global Number ONE by providing unique (ONLY ONE) products and becoming Number ONE (No.1) in each market.



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Editorial Policy

ANEST IWATA has issued its first “Integrated Report,” which provides a comprehensive summary of its financial and non-financial information.

The “Integrated Report 2019,” intended for our stakeholders including our shareholders and investors, mainly covers ESG information such as corporate governance and initiatives toward human capital, the regional communities and the environment, in addition to management strategies, the strengths of our businesses and a report of operations.

Period covered by the report

The report, basically, covers the fiscal year 2018 (from April 2018 to March 2019) but it also includes reports of activities prior to and after this period.

Organizations covered

The report, basically, covers the ANEST IWATA Group companies in Japan including ANEST IWATA Corporation.

Date of publication

November 2019

Cautionary note regarding forward-looking statements

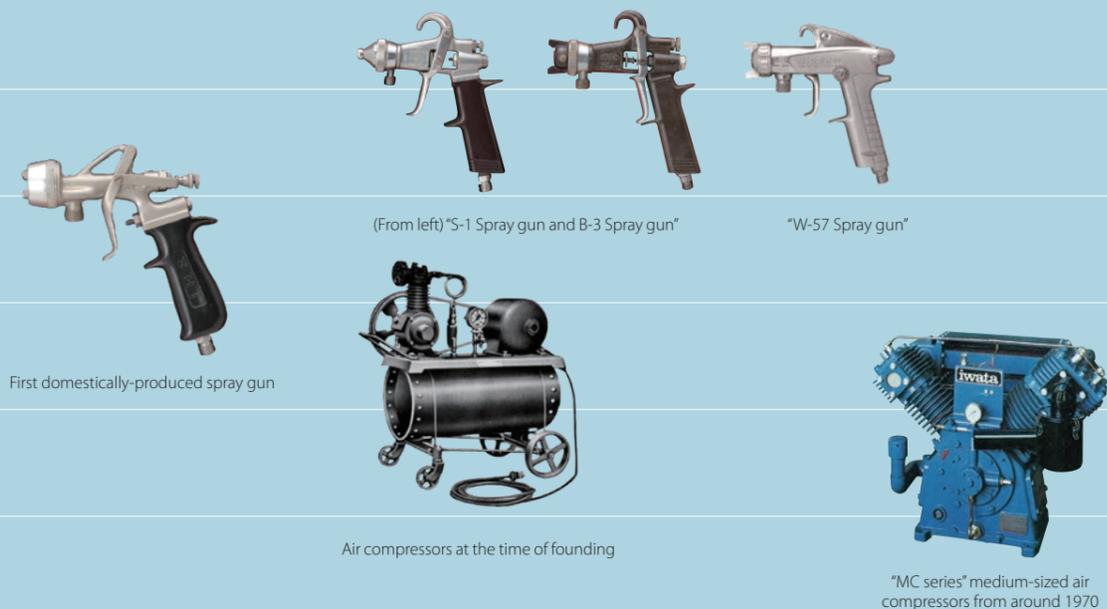
Forward-looking statements contained in this report have been prepared based on information available at the time of publication.

Various external factors, including the global economy, fluctuations in exchange rates, market conditions of the industry and trends in capital expenditures, may impact the Company's business performance. Accordingly, please be advised that actual results may differ from the results contained herein.

The purpose of this report is to provide information to our shareholders and is not intended as a solicitation or a recommendation to invest in the Company's shares or to buy or sell or trade any other securities.

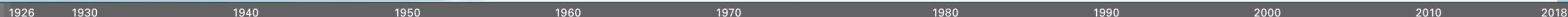
History of Growth

In 1926, the Company was founded under the name, "Iwata Seisakusho," and in 1927 developed the first domestically-produced spray gun and next year the air compressor, which would become the driving source of coating equipment. Subsequently, the Company continued to grow along with spray gun and air compressor, and entered the coating system and vacuum pump markets by leveraging its technology for handling liquids and gases. In 1996, on the 70th anniversary of its founding, the Company, in conjunction with management reforms, changed the company name to "ANEST IWATA." Currently, the Group companies are engaged in initiatives to realize the Group Management Vision and are steadily following the path toward becoming "a company with a 100-year history."



FY2018 Consolidated net sales
38,800
million yen
2018

1926



1926–1940

Launch of Iwata Seisakusho
Encounter with the spray gun

- 1926** "Iwata Seisakusho," the Company's predecessor, was established in Toyosawa-cho, Shibuya-ku, Tokyo
- 1927** Commenced manufacture and sales of the first domestically-produced spray gun modeled after an imported spray gun
- 1928** Commenced manufacture and sales of small-sized air compressors



Four Iwata brothers including the founder

1941–1960

Management structure is reorganized following the war

- 1948** Released the "Type S and B Spray Guns," which were suited for Japanese hands, and established its reputation in the coating industry.
- 1957** Established Iwata Air Compressor Mfg. Co., Ltd. Released the "W-57," and won the support of the automotive coating field.



All employees from around 1950



Head Office: History Lounge

1961–1985

Consolidation and reinforcement of facilities and expansion of operations

- 1961** Listed its stocks in the Second Section of the Tokyo Stock Exchange. Released "W-61," which continues to be popular today.
- 1962** Made full-scale entry into the coating system market.
- 1969** Developed the first domestically-produced two-stage, air-cooled, medium-sized air compressors and entered the medium-sized air compressor market.

1986 to present

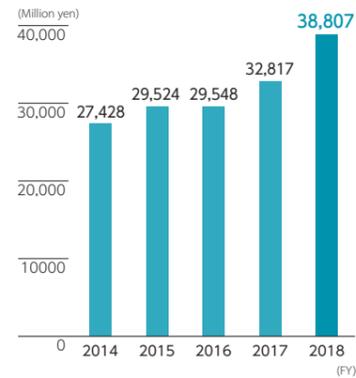
Aiming to become a "True World-class Company"

- 1971** Listed its stocks in the First Section of the Tokyo Stock Exchange
- 1977** Entered the rotary air compressor market
- 1985** Developed the world's first electric, multi-articulated coating robot
- 1987** Commenced full-scale overseas expansion of manufacturing and sales bases in the coating business starting with Taiwan
- 1990** Developed a low-pressure spray gun which cleared the Volatile Organic Compound (VOC) Emission Standards of the state of California, USA, which are known to be the strictest in the world
- 1991** Developed the world's first oil-free scroll air compressor
- 1993** Developed the world's first oil-free scroll vacuum pump and entered the vacuum pump market
- 1996** Changed company name to "ANEST IWATA"
- 2009** Commenced full-scale overseas expansion of manufacturing and sales bases in the air energy business, mainly in China
- 2016** Transitioned to a governance structure of a company with an Audit and Supervisory Committee
- 2017** Acquired Shanghai Screw Compressor Co., Ltd. and made a full-scale entry into the large-sized air compressor market

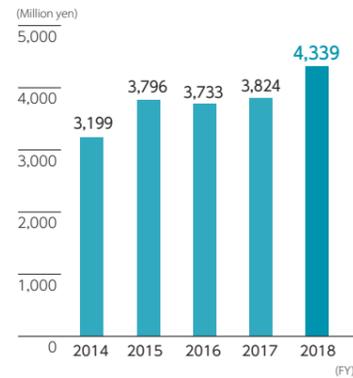
Financial and Non-financial Highlights

Financial Highlights

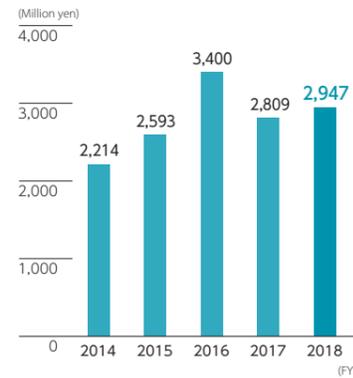
Net Sales



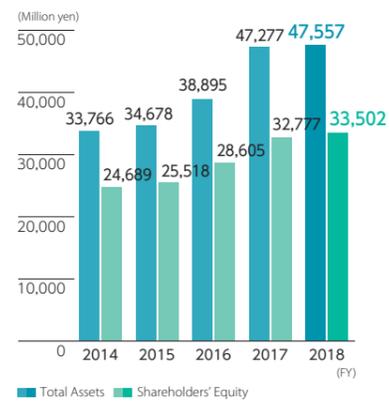
Operating Income



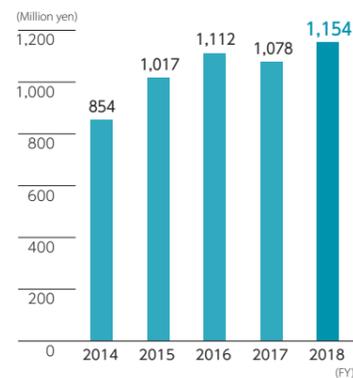
Net Income Attributable to Shareholders of the Parent Company



Total Assets and Shareholders' Equity

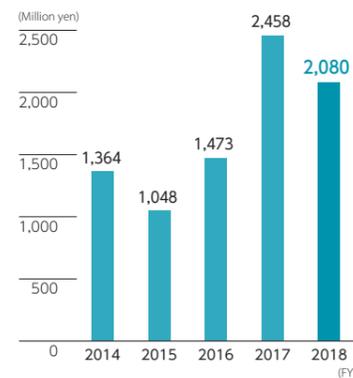


Research and Development Expenses



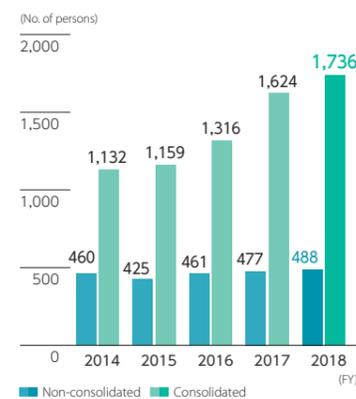
* Research and development expenses represent the total amount of general and administrative expenses and manufacturing expenses relating to research and development.
* Reportable segments are Japan and Asia.

Capital Investments



Non-financial Highlights

Number of Employees



Average service years



* Non-consolidated figures of ANEST IWATA Corporation

CO₂ emission intensity



* As the Company changed the calculation method for CO₂ emission intensity from FY2015, the figures for FY2014 are not shown.

Message from the President

Aiming to become a "True World-class Company"

In May 2019, ANEST IWATA commemorated the 94th anniversary of its founding.

To become a "True World-class Company," we will build an optimal organizational structure and develop human capital in order to meet the customers' needs in the various markets of the world under the principle of "customers first."

ANEST IWATA will continue to be a company that benefits people and people's lives, while diligently upholding the company's founding motto of being "trustworthy and sincere" (*Makotono kokoro*) and strive to deliver the highest level of quality, technologies and services. The "ANEST" of the company name, "ANEST IWATA," is derived from "Active & Newest Technology" and reflects our desire to become "a development-oriented company that is consistently vibrant and equipped with innovative technologies." To achieve this, the employees of the ANEST IWATA Group from around the world are making a concerted effort in their respective fields.

We look forward to your continued patronage and support.

T. Tsubota

Takahiro Tsubota

President, Representative Director
Chief Executive Officer

Interview with the President

We will ensure the satisfaction of all our stakeholders and the sustained growth of the Company.

Q: The new medium-term management plan has started. But, first of all, can you give us a recap of the previous medium-term management plan?

The previous plan targeted net sales of 35.0 billion yen or more, operating profit margin of 12% or higher and ROE of 12% or higher. As a result, in the previous fiscal year, the final year of the plan, net sales increased by 18.3% year-on-year to 38.8 billion yen and operating income increased by 13.5% to 4.3 billion yen. Consequently, both revenue and profits increased significantly and we were able to achieve the target for net sales. Meanwhile, the operating profit margin of 11.2% and ROE of 10.0% slightly undershot the targets. This was due to the amortization of goodwill on M&As which had not been incorporated into the plan, and if we take this into consideration, I believe that, on the whole, we were able to achieve our targets.

Q: What are some of the qualitative achievements?

I think one of our biggest achievements was being able to carry out four M&As during the past three years. Through these

M&As, we were able to acquire technologies, product ranges and sales channels that were not available before. For example, in the air energy business, we acquired medium- to large-sized air compressors, and by putting these products, rather than the small- to medium-sized air compressors which are our strengths, on the Company's existing sales channels, it has allowed us to sell a wide range of products in various countries. Meanwhile, in the massive market of China, we were able to acquire a network with a new distributor and expand the sales channels of our products. We are anticipating the effects of synergy on both of these fronts. In seeking sustained growth, there are limits to what can be achieved through organic growth alone. Therefore, we consider M&As as one of our important growth strategies.

The steady growth of overseas sales is another major achievement. As the Japanese economy reaches maturity, the coating business' share of the domestic market has surpassed 70%. In the air energy business, also, there has been no movement in market share. Therefore, we have been focusing on cultivating the overseas markets where we have a smaller share of the market. As a result, in the previous fiscal year, the ratio of overseas sales to total sales exceeded 55%, increasing approximately 11 percentage points in the past three years.* The global market for air compressors is massive at approximately 1,500 billion yen (the Company's estimates) and our market share is a mere 1 to 2%. Therefore, we believe that there is plenty of room for growth.

*Results translated based on the delivery destination. Increased from approx. 45.5% (FY ended March 31, 2016) to approx. 56.4% (FY ended March 31, 2019).

Q: What are the factors behind the growth in overseas sales?

While the domestic market is one of the world's leading low-end markets, the overseas markets maintain a relatively high price range. This is why we were able to expand our business while securing profitability. I think the fact that we had a number of distinct products was another major factor. Especially, in light of the global concern for the environment, our proprietary technology and know-how became a powerful weapon and we were able to leverage our contributions to a sustainable

M&As

Name of subsidiary	Date of consolidation	Purpose of consolidating the subsidiary
Air compressor: ANEST IWATA Australia Pty. Ltd. (Australia)	January 2017	Acquisition of business in Australia. Maintenance and sales of products of the world's compressor manufacturers. Development of a business model whereby the Company's products are marketed at the time of replacement.
Coating equipment: HARDER & STEENBECK GmbH & Co. KG (Germany)	April 2017	A company engaged in the manufacture and sales of airbrushes with a strong brand presence in Europe (2nd in the World). It will continue sales under own brand. The branding capabilities of the Company's spray gun will be further enhanced.
Air compressor: Shanghai Screw Compressor Co., Ltd. (China)	April 2018	A company engaged in the manufacture and sales of mainly medium- to large-sized air compressors in China. Sales of a product range previously not available to the Company will become possible, while at the same time, sales of the Company's small-sized, oil-free air compressors will become possible (effects of synergy).
Air compressor: ANEST IWATA SPARMAX Co., Ltd. (Taiwan)	July 2018	A company engaged in the manufacture and sales of airbrushes and small-sized air compressors for the medical market in Taiwan. Sales of product range not available to the Company.

*Period covered: The previous medium-term management plan period (from April 2016 to March 2019)

society to create our own business opportunities. For example, in the air energy business, air compressors and vacuum pumps with superior energy-saving effects that do not use lubricating oils have become our strengths. In the medical and automotive fields, being oil-free is a crucial condition for air compressors and we were able to tap into these needs on a global scale. Additionally, in the coating business, we have been able to distinguish ourselves through our expertise in environmentally-friendly, water-based paints. The use of water-based paints that dissolve in water and do not use organic solvents has become widespread overseas, especially in the leading countries of Europe and US, and we have been able to utilize our advanced expertise of atomizing water-based paints with fine mist and paint film.

Q: The Company has also been reinforcing its customized products. What did you hope to accomplish through this move? And what have you accomplished?

The domestic market for general-purpose products is characterized by intense price competition. In the medical, dental and automotive markets, on the other hand, we have been able to increase profits by providing customized products in line with each customer. Therefore, securing profits through high value-added products that capture the cus-

tomers' needs has also become an important growth engine for the Company. And going forward we intend to carry out overseas what we are doing now in Japan.

Q: What kind of capital investments were carried out this year?

We built a new automated assembly line for oil-free scroll air compressors at our Fukushima Factory. As more business opportunities present themselves globally, we will continue to proactively make capital investments in automated assembly and automated processing lines in order to increase our production capacity. Additionally, the Air Energy Division and the Coating Division have established respective R&D centers at the Head Office. We have conceived a plan to strengthen our collaboration with various customers including competing manufacturers and the R&D centers will serve as open facilities that will be required for such a plan.

Q: Can you tell us about the new medium-term management plan? How do you view the market environment assumed in the plan?

As the future of the global economy becomes increasingly uncertain with Brexit and the trade dispute between US and China, among others, companies are beginning to take a wait-and-



see attitude toward capital investments and it is a fact that the Company is also working on a somewhat conservative assumption. However, given that, despite the large market share of the Company's product in Japan, globally there is plenty of room for growth, we believe that by introducing a wide range of products and stepping up our customized products we will be able to maintain a certain level of growth even if the economy starts to slow down.

Q: Can you tell us about the specific policies for your activities and numerical targets?

The Company, upholding the slogan of "Think Globally, Act Locally" (Understand the market globally and capture customer needs regionally and locally), will continue to expand its market share and increase its profitability by proactively expanding overseas, reinforcing its customized products to specific markets such as the medical and automotive markets, and promoting environmentally-friendly products. In the fiscal year ending March 31, 2022, the final year of the plan, we are targeting net sales of 47.0 billion yen or more, an operating profit margin of 10% or higher and ROE of 10% or higher.

Q: How is the new plan different from the previous medium-term management plan?

There are no major differences in the basic direction of the plan. Nevertheless, if the previous plan is understood as the preparation period, then we are aware that it will be more important

than ever to produce concrete results under the new plan. For example, in the coating business, the product range is broad and development takes time. Because the previous plan focused on these aspects, the growth of the highly-profitable coating business appeared to be slightly lackluster. However, under the new plan, new products will be released, which are expected to contribute to performance. Given the fact that a certain level of replacement demand is being generated by the launch of new products, especially in the markets where we have a relatively large share, we will capture each opportunity and steadily improve our performance.

Q: On the other hand, what, if any, are the factors that inhibit growth?

The shortage of human capital is a major issue. Although we are known as a unique company, it is becoming increasingly difficult to attract the necessary talent in our recruiting activities. Currently, we are proactively stepping up our local recruiting activities at our Fukushima and Akita Factories. The environment is also conducive to recruiting activities, with the many schools in the vicinity of those factories. We also hope to build a solid global HR system including our "Global Challenge System, which will allow employees hired overseas to build their careers in Japan. We will also aggressively invest in human capital. Particularly, as we have entered an age of global movement of human capital, we will need to transition into a flexible and skill- and achievement-oriented HR system, including head-hunting, in order to recruit human capital with

advanced business skills.

On the other hand, I think that maintaining lifetime employment is also important. All our employees are regular, full-time employees. Consequently, having our employees work for a long time on the assumption of lifetime employment is not only the Company's social responsibility but also an essential strategy for companies such as ours to survive. Therefore, we will value loyalty and motivation by providing a rewarding work environment, including improvements through "workstyle reforms."

Q: What is your main focus in corporate governance?

I have two main concerns. The first point is to have a rigorous checking function, and the other is the selection of Outside Directors. Of the nine Directors on the Board of Directors, five, i.e. the majority of the Directors are Outside Directors, and most of the Outside Directors have had experience as corporate managers of listed companies. They not only maintain a strict stance toward governance but also provide us with a wealth of ideas, which can be extremely helpful. For example, when an M&A is on the agenda, they conduct rigorous checks from all possible perspectives. Furthermore, as many of them are well aware of the difficulties and key points of PMI (post-merger integration) after the execution of the M&A, they will accurately identify the matters that are likely to become issues and conduct active discussions on countermeasures.

Q: What is perceived to be the biggest issue in terms of corporate governance?

The problem of succession and risk management in the context of global management are perceived as issues in corporate governance. The fostering a successor, in particular, is a pressing problem for me. "Who will become the successor" has the same implications as "What will the next ANEST IWATA be like?" Consequently, we have been discussing this issue from such a perspective with the Outside Directors, and the Nominating/ Compensation Committee has also been held about five times a year. Furthermore, how to effectively make the internal control functions work, including the internal controls of overseas subsidiaries, has become a major issue especially be-



cause the Company, despite being a medium-sized company, is proactively expanding overseas. Experience has taught me that the most important thing in the management of overseas subsidiaries is to visit the local offices twice a year without fail and directly speak to the staff. We believe that asking specific questions, such as, "How has the financial status changed from the previous visit?" and "What are the reasons for such a change?" is the most effective way of risk management as well as acting as a deterrent.

Q: How will you utilize your cash reserves going forward?

Under the new medium-term management plan, also, we plan to proactively invest in human capital, R&D, overseas expansion and our mainframe systems. Subsequently, it is important that any surplus funds are returned to the shareholders. In the final year of the new plan, we are aiming for a dividend payout ratio of 35%. Therefore, we plan to realize an increase in dividends both as a result of medium- to long-term growth in profits and by raising the dividend payout ratio.

Q: Finally, do you have a message for the shareholders and the investors?

The Company is not yet well known by the general public and the Company's stocks do not yet have sufficient liquidity. I hope to carry out various measures to improve such a situation. However, the most important thing is to become a company that can satisfy all its stakeholders based on the philosophy of "sampo yosi" (Good for the seller, good for the buyer, and good for society), I feel that by doing so, the Company will be able to realize sustained growth. Going forward we look forward to your continued support from a long-term perspective.

The Group will make a concerted effort under "ONE ANEST IWATA," to further develop the "Global Number ONE" position of the ANEST products

"ONLY ONE" products

To become a "True Development-oriented Company" with a 100-year history that continues to provide high-performance and high-quality products

- From the improvement of existing products and derivatives to the development of new products that match market needs
- Flexible product development by collaborating with various players
- Product development that consistently creates innovative technology and products



"NUMBER ONE" share

Target market = Global / niche market
Acquire the No.1 market share through stable and sustained growth

- Give the highest priority to customer satisfaction and provide customized quality and functions in an optimal manner.
- Grasp the demands of both domestic and overseas customers in a centralized, efficient and optimal manner.
- In the existing markets for general-purpose products, pursue quantitative expansion and a greater market share.



The division provides energy in the form of pneumatic equipment, expanders and vacuum pump equipment that are indispensable to society in an efficient and stable manner. As a comprehensive air energy business, it builds and accumulates expertise, fosters human capital, develops necessary services and promotes product development relating to efficient energy management. The Air Energy Division will aim to become "a comprehensive system engineer of air compressors" based on its accumulated technology and contribute to the realization of a prosperous society.

In terms of the forecast for the fiscal year ending March 31, 2020, in addition to the consistent full-year increases in sales by Shanghai Screw Compressor Co., Ltd. in China, which had begun contributing to the Company's consolidated performance from the fiscal year ended March 31, 2018 and ANEST IWATA SPARMAX CO., LTD. in Taiwan, we expect increases in sales by putting the products of these two companies on the global sales channels which we had been preparing.

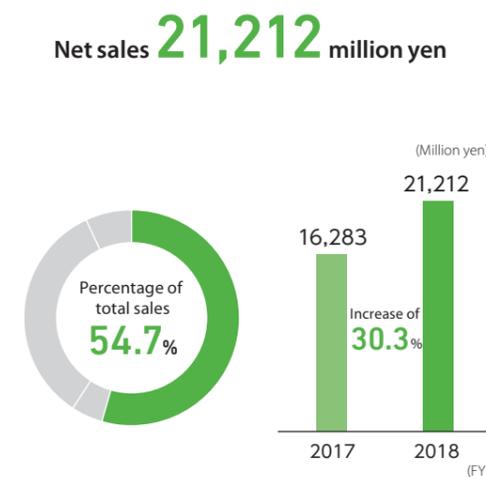
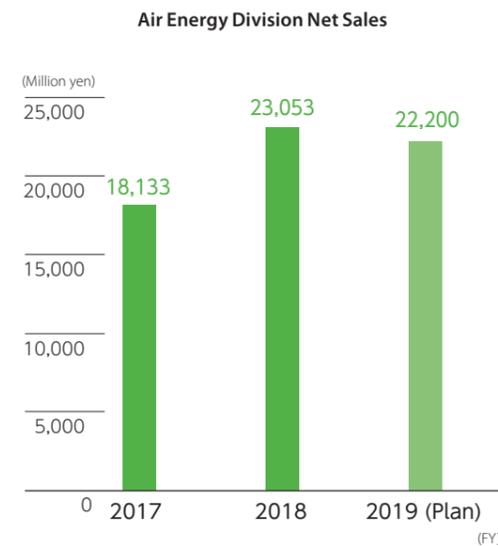
Additionally, we intend to increase sales mainly through concentration in the specified specification markets and the sales of medium-sized air compressors.

Air compressors Air compressors and nitrogen gas generators

In terms of air compressors, sales of oil-free scroll air compressors and medium-sized air compressors increased in Japan reflecting the increase in the proportion of proposal-type sales as a result of our continuing efforts. Overseas, sales of air compressor units and associated equipment for medical applications continued to increase in the emerging countries including India and Brazil, and Asia including China. Similarly, sales of automotive air compressor units for public transportation including electric buses and railway vehicles continued to also increase in areas outside of China, including the US and India.

Furthermore, Shanghai Screw Compressor Co., Ltd., a company engaged in the manufacture and sales of screw air compressors in China, which became a consolidated subsidiary at the end of the previous fiscal year, and ANEST IWATA SPARMAX Co., Ltd., a subsidiary engaged in the manufacture and sales of airbrushes and small-sized air compressors for medical applications in Taiwan, have been performing strongly and contributed to the growth of the Group.

Net sales for air compressors as a whole totaled 21,212 million yen, representing a 30.3% increase year on year.



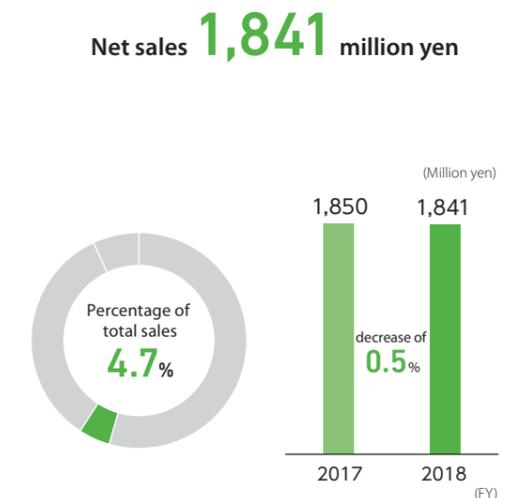
Vacuum pump equipment Oil-free scroll vacuum pumps

In terms of vacuum pump equipment, sales of oil-free scroll vacuum pumps for the general industrial market have gained a foothold through the utilization of sales channels in Japan and promotions that took advantage of trade shows and industrial publications. Meanwhile, overseas sales continued to struggle due to the decrease in demand among our customers in the US and Europe, namely the equipment manufacturers and OEM partners.

Net sales for vacuum pump equipment as a whole came to 1,841 million yen, representing a 0.5% decrease year on year.



Oil-free vacuum pump unit



FY ended March 31, 2019 Topics

Expanded product range through M&As

- Coverage of air compressors from large-sized compressors through Shanghai Screw Compressor Co., Ltd. (China) to ultra-small compressors through ANEST IWATA SPARMAX Co., Ltd. (Taiwan).

Increase in sales of air compressor units for electric buses and railway vehicles and expansion of coverage area

- In addition to the continued coverage of Japan and the US, coverage was expanded mainly to China as well as India and Europe.

Increase in sales of medical air compressors and associated equipment and expansion of coverage area

- Coverage mainly in Japan, as well as the emerging countries including India and Brazil, and Asia, mainly ASEAN and China

Automated assembly line of oil-free scroll air compressor bodies completed

- Supplying large orders will become possible while strengthening cost-competitiveness.

In terms of vacuum pump equipment, development of large-volume exhaust unit and increased sales for manufacturing processes in Japan



(Left) Air compressor made by Shanghai Screw Compressor Co., Ltd.



(Right) Air compressor made by ANEST IWATA SPARMAX Co., Ltd.



Trade fair for the medical sector



Fukushima Factory: Automated assembly line

The Businesses of ANEST IWATA

Business Overview **Coating Division**

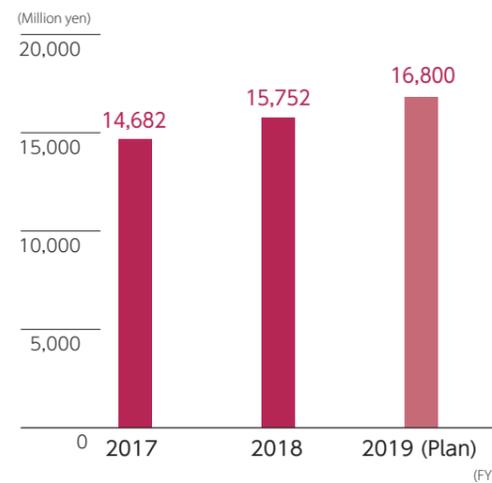


The Coating Division aims to become a world-class coating manufacturer with optimal paint film technology that will satisfy the customers around the world. We will provide not only coating equipment and other hardware but also intangibles such as coating and applying methods and atomizing technology while at the same time further pursue "higher efficiency, an improved work environment and the conservation of the global environment."

In terms of the forecast for the fiscal year ending March 31, 2020, we expect to launch new products that are even more aligned to the market and expand our sales on the global market.

Furthermore, we are aiming to increase orders for coating facilities in the industrial coating market in Japan, Asia, and North America.

Coating Division Net Sales

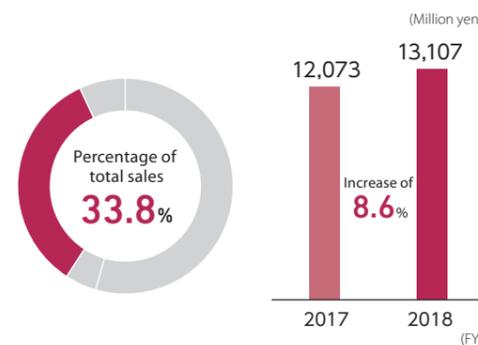


Coating equipment Spray guns, electrostatic coating equipment, paint supply equipment, and liquid application equipment

In terms of coating equipment, sales in Europe increased thanks to our continued collaboration with automotive refinishing paint manufacturers and our focused activities to acquire certification for specific coating and to conduct various promotions. Sales also increased in China, where we worked to gain true recognition of our brand through the launch of models suitable for the region. Additionally, in countries around the world where our activities in the industrial coating market were not sufficient, including Japan, we narrowed down our targets, drafted measures to suit each region and commenced a portion of our activities. In terms of liquid application equipment, which is a part of coating equipment and which handles liquids other than paints, we continued our sales promotion activities and increased sales around the world, mainly in spray guns for food-related liquids for the bread and confectionary markets and liquid feeding units.

Net sales for coating equipment as a whole totaled 13,107 million yen, representing an 8.6% increase year on year.

Net sales **13,107** million yen

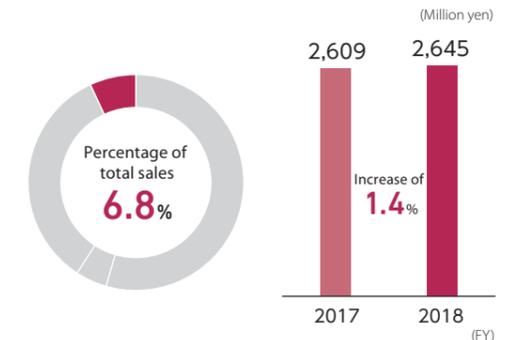


Coating systems Automated coating systems, coating plants, coating robots, environmental equipment, and coating booths

In terms of coating systems, the domestic market was in between facility renewals and consequently did not demonstrate significant growth. In the overseas markets, on the other hand, sales increased due to the delivery of coating systems to automobile parts manufacturers in North America and China and woodwork manufacturers in India. Additionally, in Japan, the Coating Solution Center, which is capable of measuring the effects of adopting coating systems for customers considering the adoption of such systems and proposing applications according to each market, was established, and preparations for activities in the next fiscal year have been completed.

Net sales of coating systems as a whole totaled 2,645 million yen, representing a 1.4% increase year on year.

Net sales **2,645** million yen



FY ended March 31, 2019 Topics

- **Collaboration with automotive refinishing paint manufacturers mainly in Europe and Japan**
 - Development and sales of color clear coating spray guns, etc.
- **New product development**
 - Development and market launch of coating booths with enhanced maintenance qualities
 - Development of automatic spray guns with manifold specs to be mounted on robots
- **EA coating technology that ensures 100% coating efficiency by spraying highly-charged atomized particles without compressed air**
 - Seeking next-generation business models through trade shows in Japan, among others
- **Opening of the Coating Solution Center which allows customers to try out different coatings**
 - Proposals of applications for the different types of equipment used in each market, and deliberation of coating methods together with the customers considering the introduction of the systems



Dedicated hand spray gun for (color clear coating) automotive refinishing paint



Automatic spray gun with manifold specs for mounting on robots



Coating Solution Center



Wet-type coating both with enhanced maintenance qualities

The Businesses of ANEST IWATA

Quality Assurance and Intellectual Property Management

In our relentless pursuit of customer satisfaction, we are striving to “build and update our quality assurance system,” “carry out initiatives to maintain and enhance quality,” and “respond to complaints and comments from our dealers, distributors and customers and resolve problems.” Also, as an integral part of quality assurance, we are working to appropriately handle intellectual property as important management assets.

Basic Approach to Quality

As indicated in the “ANEST IWATA Corporate Philosophy,” we recognize the enhancement of quality of the products and services handled by the Group to be a significant management issue.

ANEST IWATA has established a number of regulations including the “Quality Manual” for the maintenance and

Quality Policy

- 1 We recognize the paramount importance of maintaining and enhancing product quality.
- 2 The quality management system is fundamental to our corporate management.
- 3 We will satisfy the demands of the market.
- 4 We will continuously improve the effectiveness of the quality management system.
- 5 We will endeavor to contribute to the reduction of production cost.

enhancement of quality. The “Quality Policy” and the “Quality Slogan” are articulated in the “Quality Manual,” and the “Quality Policy,” in particular, is revised in a flexible manner by undergoing a management review by the President each year and a policy is determined based on the optimal solution that aligns with the situation of each year.

Quality Slogan

Our quality goal = Customer satisfaction

Quality Management System

The overall framework for quality management comprises a QMS Promotion System with the Board of Directors at the top with the involvement of the President, the Chief Quality Management System Officer, and various committees including the Quality Assurance Committee.

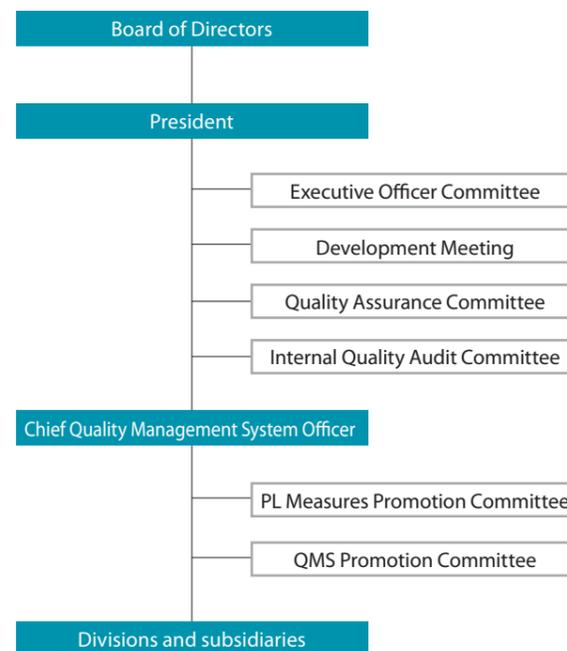
The Company is engaged in QMS activities based on the ISO9001: 2015. A Quality Assurance Department serves as the secretariat and a Quality Audit Committee has been established to conduct quality audits. And any problems discovered in the course of such audits are solved by the Quality Audit Committee. In addition, the Company undergoes certification assessments by a third party once a year.

Going forward the company intends to prepare and deliberate the establishment of a global quality assurance system that also includes the overseas bases, based on the “ANEST IWATA Corporate Philosophy.”

Acquisition of ISO 9001 Certification

Location	Initial registration date	Transition to ISO 9001: 2015
Akita Factory	October 27, 1993	March 27, 2018
Fukushima Factory		

QMS Promotion system



Initiatives Toward Quality Enhancement

The Company gathers data on costs incurred as a result of complaints and disposal costs of non-conforming products on the production site, as proprietary “failure costs.” Failure costs by month or in cumulative amounts compared to the annual targets set for each product may be grasped at a glance. The results with accompanying comments by the Chief Quality Management System Officer are disclosed internally each month.

The Company also inputs the daily sales reports of all domestic sales staff in the SFA* and the time required to deal with

*SFA, acronym for Sales Force Automation. A sales support system that utilizes databases.

complaints has also been translated into cost and reflected in the data.

Since FY2016, the reduction of failure costs has been our greatest mission and we have been implementing detailed initiatives to this end. Going forward we will not only continue these initiatives but also promote the mission of reducing complaints, by upholding the theme of “how our customers view our products.”

A “Survey on Customer Satisfaction” was Conducted

Previously, the Company, in seeking the opinions of the customers using its products, had sent out questionnaire surveys by mail but starting from 2018 it has commenced the “Survey on Customer Satisfaction,” in which the major domestic dealers, servicing dealers and system manufacturers are directly interviewed.

Each question was evaluated on a scale of 1 to 5, and the results of the interviews were analyzed by dividing the replies into vertical and horizontal scales based on Q (Quality), C (Cost) and D (Delivery/response) items and items relating to products, parts, order receipt, delivery/response, services, etc. and compiled into materials that will be used in the Company’s

businesses going forward. In addition to interviewing our customers, we asked the same questions to our relevant staff from a self-evaluation perspective, and have been measuring the gap between the replies of the two parties.

The usability and faults of the products, the skills of the sales staff including product knowledge, and the issues relating to logistics and packaging, which were revealed as a result of this survey will be summarized and utilized in future operations, while at the same time subcommittees to deliberate each issue will be established and the results will be presented to the Board of Directors and utilized in the drafting of management strategies.

Responding to Comments and Complaints

The Quality Assurance Department responds to complaints from the dealers and distributors who supply the Company’s products, via the Company’s branches, sales offices, representative offices or the Head Office serving as contacts.

Additionally, the Company has established a “PL emergency measure flow,” in preparation for extremely serious complaints in violation of the PL Act (Product Liability Act) or which could seriously impact the market or the customers.

In such an event, the Quality Assurance Department promptly will report to the President and convene the PL Measures Promotion Committee, and ultimately make a report to the Quality Assurance Committee.

The Company is also involved in other initiatives including informing customers of maintenance methods on its website, as necessary.

Intellectual Property Management

As stated in the Group Guiding Principles, the Group strives to appropriately handle its intellectual property while respecting the intellectual property of third parties.

An example of the Group’s utilization of its intellectual property rights is the initiatives being taken by the Group to offer the inventions and the rights, which have been achieved through research and development with universities, as licensable patents to companies interested in their commercialization.

Number of patent applications: Past results

Over **1,200** patents in Japan and overseas

The Foundations that Support the Businesses Corporate Governance

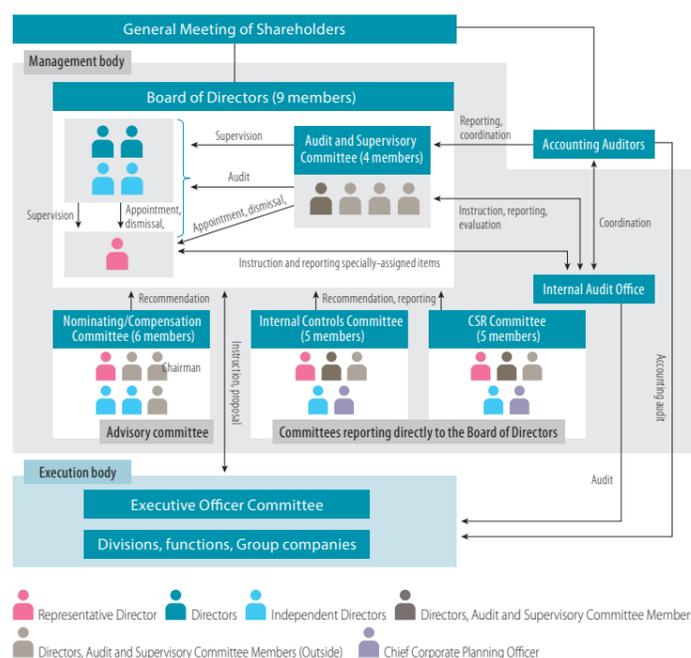
ANEST IWATA strives to realize its sustained growth and the maximization of its corporate value. To this end, the Company recognizes that it is imperative that upon considering the perspectives of its stakeholders including the shareholders, the customers, the business partners, the employees, and the regional communities, it increases the flexibility of its management, enhances transparency, reinforces the oversight over management and raises the effectiveness of its corporate governance.

Corporate Governance Structure

The Company operates as a company with an Audit and Supervisory Committee. It has also established, as non-statutory advisory panels for the Board of Directors, the Nominating/Compensation Committee, as well as the Internal Controls Committee and the CSR Committee to assist the Board of Directors. In order to ensure flexible decision-making in response to the changing business environment, the Company has also adopted the corporate officer system.

The Company, recognizing the enhancement of corporate governance to be a management priority, has proactively appointed Independent Directors with diverse expertise and insight, in addition to having Directors who are Audit and Supervisory Committee Members conduct supervision and audits in a timely and appropriate manner, thereby ensuring the fairness and transparency of management. Through these initiatives, the Company ensures the enhancement of corporate value and its sustained growth for each one of its stakeholders.

Governance Structure (Diagram)



Board of Directors

The Board of Directors comprises nine Directors (including five Independent Directors), of whom four are Directors who are Audit and Supervisory Committee Members (including three Independent Directors). The Board of Directors is convened at least once a month to make decisions on company management and to receive reports on the status of business execution, as well as to monitor and supervise the execution of duties by the Representative Directors and Corporate Officers. The number of board members shall not be more than ten, and the dismissal of board members shall be by special resolution of the General Meeting of Shareholders. The Company has also established an Executive Board to facilitate prompt business execution.

Audit and Supervisory Committee

The Audit and Supervisory Committee comprises four Audit and Supervisory Committee Members (including three Independent Directors), and, in principle, is convened once a month. The Audit and Supervisory Committee Members, in accordance with the Audit Policy and the Audit Plan, which have been drafted by the Audit and Supervisory Committee, attend important meetings including the Executive Officer Committee, review various documents and the minutes of meetings, periodically exchange opinions with the Directors and employees, while reinforcing the quality of audits by holding periodic audit meetings with the accounting auditor, the Internal Audit Department and the Audit and Supervisory Committee. The Internal Audit Department is an organization within the management system in which dedicated staff members assist the Audit and Supervisory Committee Members. Expenses incurred in the course of audits by the Audit and Supervisory Committee Members, including the decision on whether or not advance payments should be made, shall be determined at the discretion of the Audit and Supervisory Committee.

Executive Officer Committee

The Executive Officer Committee comprises eleven members (including the Representative Director and two Directors who serve concurrently as Corporate Officers) appointed by the Board of Directors and is convened at least once a month. The Executive Board promotes business execution based on

the management policy resolved by the Board of Directors in an expeditious manner, by ensuring the effectiveness and efficiency of operations and the reliability of financial reporting, and in compliance with applicable laws and ordinances and internal rules.

Nominating/Compensation Committee

The Nominating/Compensation Committee, a non-statutory advisory committee of the Board of Directors, comprises six members including the Representative Director and the five Independent Directors and is chaired by an Independent Director. The Nominating/Compensation Committee makes recommendations regarding the nomination of the Representative Director and Directors, the revisions/abolition of the regulations on the compensation of the Representative Director and Directors, and the evaluation of the Representative Director and the Directors who are not Audit and Supervisory Committee Members.

Internal Controls Committee

The Internal Controls Committee, a non-statutory committee reporting directly to the Board of Directors, comprises five members including Representative Director, three Directors and the Chief Corporate Planning Officer. It is chaired by the Representative Director and the secretariat is served by the Chief Internal Audit Officer. The Internal Controls Committee drafts the basic policy on internal control, the policy on the development of the internal control system, the corporate governance policy, and other policies and provides reports on their implementation status to the Board of Directors on a quarterly basis.

CSR Committee

The CSR Committee, a non-statutory committee reporting directly to the Board of Directors, comprises five members including three Directors and Chief Corporate Planning Officer. It is chaired by the person in charge of corporate planning and the secretariat is served by the Corporate Planning Department. The CSR Committee makes recommendations and reports regarding risk management, compliance matters, management of corporate information disclosures, responses to the whistle-blowing system and disciplinary actions to the Board of Directors.

Compliance with the Corporate Governance Code

With regard to the Company's compliance with each principle of the "Corporate Governance Code" set forth by the Tokyo

Stock Exchange, please refer to the "Corporate Governance Report," issued on June 25, 2019.

<https://www.anest-iwata.co.jp/company/corporate-governance.html> (Japanese)

Reasons for the selection of Independent Directors (including Directors who are Audit and Supervisory Committee Members) and status of activities

	Name	Major reasons for selection	Activities in FY2018
Independent Directors	Kazumichi Matsuki	He has abundant business experience in various companies including the manufacturing industry and has deep insight particularly in the legal and compliance fields.	Attended 11 out of 11 Board of Directors meetings.
	Kozo Yoneda	He has been engaged in the management of numerous companies for many years and has a high-level of insight into management.	Attended 14 out of 14 Board of Directors meetings.
Independent Directors who are Audit and Supervisory Committee Members	Kyosuke Oshima	He has been engaged in corporate management in the manufacturing industry for many years as a director and a standing corporate auditor and has a high-level of insight in management.	Attended 14 out of 14 Board of Directors meetings. Attended 15 out of 15 Audit and Supervisory Committees.
	Masashige Takayama	He has abundant experience and broad expertise as a certified public accountant and a tax accountant.	Attended 14 out of 14 Board of Directors meetings. Attended 15 out of 15 Audit and Supervisory Committees.
	Toshifumi Mori	He has been engaged in corporate management both in Japan and overseas and has a high-level of insight in management.	Attended 14 out of 14 Board of Directors meetings. Attended 15 out of 15 Audit and Supervisory Committees.

*Mr. Kazumichi Matsuki was appointed Director at the 72nd Annual General Meeting of Shareholders held on June 22, 2018, and accordingly, his attendance after the said date is stated.

Other activities

- Inspection of the domestic plants and the overseas subsidiaries
- Attendance of the Air Energy Division Global Conference held at the Head Office with the attendance of the presidents of the overseas subsidiaries
- Attendance of ANEST IWATA Academy (Seminar for managers)
- Participation in events sponsored by the unions, etc.

Executive Compensation

Compensation for the Directors of the Company shall be within the limit resolved by the General Meeting of Shareholders and shall comprise a regular, same-amount, monthly salary and a performance-linked compensation (executive bonus) paid once a year, calculated based on the amount of consolidated ordinary profit as a benchmark.

Compensation for Directors (excluding Directors who are Audit and Supervisory Committee Members) shall be determined within the limit approved by resolution of the General

Meeting of Shareholders, by deliberation by the Board of Directors, upon evaluation by the Nominating/Compensation Committee, which is chaired by an Independent Director who is an Audit and Supervisory Committee Member.

Compensation for Directors who are Audit and Supervisory Committee Members shall be determined within the limit approved by resolution of the General Meeting of Shareholders by discussions of the Audit and Supervisory Committee.

Evaluation of Effectiveness of the Board of Directors

Each year, the Company conducts a questionnaire survey on the Directors of the Company regarding the composition and operation of the Board, the provision of information to the Independent Directors and other matters, and the results are tabulated and deliberated at the ordinary meetings of the Board of Directors.

Analysis and evaluation of effectiveness

With regard to the meetings of the Board of Directors held in FY2018, deliberations were held in August 2019. On the whole, the Board was found to be conducting active deliberations, which included the Independent Directors, and functioning sufficiently.

Initiatives toward improved effectiveness

The Board concluded that there was room for improvement regarding the following items. The Board will make these improvements and make further efforts to ensure the effectiveness of the Board of Directors.

- (1) Exhaustive discussions on the important long-term issues toward becoming a company with a 100-year history, and the progress and the issues of the medium-term management plan will be conducted until a certain directionality can be shared by all members.
- (2) With regard to the important issues, discussions for further improvements will be carried out based on the ongoing follow-ups of the implementation status following the deliberations of the Board of Directors.

The Foundations that Support the Businesses Executives

Directors



Takahiro Tsubota
President, Representative Director
Chief Executive Officer
1981 Joined the Company
2001 Director of the Company
2008 President and Representative Director of the Company
Representative Director of ANEST IWATA Korea Corp.
(current position)
2014 President, Representative Director and Chief Executive
Officer of the Company (current position)



Hajime Iwata
Director
Executive Vice President
1988 Joined the Company
2001 Director of the Company
2011 Auditor of the Company
2016 Director who is an Audit & Supervisory Committee
Member of the Company (Internal Standing)
2018 Director and Executive Vice President of the
Company (current position)



Shinichi Fukase
Director
Executive Vice President
1988 Joined the Company
2008 President of ANEST IWATA CAMPBELL K.K.
2010 Corporate Officer of the Company
2019 Director and Executive Vice President of the
Company (current position)



Kazumichi Matsuki
Independent Director
1976 Joined Mitsubishi Corporation
2007 Chairman of the Association of Corporate Legal Departments
2010 Visiting Professor of the University of Tokyo Graduate Schools
for Laws and Politics
2011 Executive officer of Hokuetsu Kishu Paper Co., Ltd. (currently
Hokuetsu Corporation)
2013 Managing Director of Hokuetsu Kishu Paper Co., Ltd.
2016 Director of Dream Incubator Inc. Auditor of SANDEN HOLDINGS
CORPORATION (current position)
2018 Independent Director of the Company (current position)
2019 Outside Director of the Board of Nissha Co., Ltd. (current
position)



Kozo Yoneda
Independent Director
1972 Joined the Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
2001 Executive Officer and General Manager, Corporate Banking Dept. II of Sumitomo Mitsui Banking Corporation
2002 Chairman and CEO of Japan Equity Capital Co., Ltd.
2003 Senior Advisor of Daiwa Securities SMBC Principal Investments Co., Ltd.
2005 President of Hirata Corporation
2012 President and Representative Director of Kinrei Corporation (currently KR FOOD SERVICE CORPORATION)
2015 Independent Director of the Company (current position)
Outside Director of Takagi Co., Ltd. (current position) Managing Director of Three Fields LLC. (current position)
2016 Outside Director of FORLIFE Co., Ltd. (current position)
2018 Outside Director of HOKUETSU METAL LTD.

Directors, Audit & Supervisory Committee Members



Masato Suzuki
Director
1987 Joined the Company
2011 Corporate Officer of the Company
2015 Director of the Company
2016 Executive Vice President of the Company
2018 Director who is an Audit & Supervisory Committee Member of
the Company (standing) (current position)



Kyosuke Oshima
Independent Director
1982 Joined SUNX Limited (currently Panasonic Industrial Devices
SUNX Co., Ltd.)
2000 Director of SUNX Limited
2007 Managing Director of SUNX Limited
2011 Full-time Audit & Supervisory Board Member of SUNX Limited
2015 Outside Director of the Company
2016 Outside Director (Audit & Supervisory Committee Member) of
the Company (current position)



Masashige Takayama
Independent Director
1987 Joined Eiya Audit Corporation (currently KPMG AZSA LLC)
1990 Joined Kyowa Audit Corporation Registered as a certified public
accountant
2007 Senior Partner of Kyowa Audit Corporation (current position)
Senior Partner of Kyowa Tax Corporation (current position)
2012 Audit & Supervisory Board Member of the Company
2013 Consultant of Public Interest Commission, Cabinet Office
(current position)
2015 Auditor of National Museum of Nature and Science (current
position)
2016 Outside Director (Audit & Supervisory Committee Member) of
the Company (current position)



Toshufumi Mori
Independent Director
1968 Joined Mitsubishi Corporation
1993 Vice President of Mitsubishi Corporation (Europe, Africa and the
Middle East)
1995 Vice President and Group COO of Mitsubishi International
Corporation
2000 Joined Mitsubishi Paper Mills Limited
2004 Senior Executive Officer of Mitsubishi Paper Mills Limited
2007 Representative and Managing Partner of Heidrick & Struggles (Japan)
2012 Advisor of COACH A Co., Ltd. (current position) Outside Audit &
Supervisory Committee Member of the Company
2016 Outside Director (Audit & Supervisory Committee Member) of
the Company (current position)
2018 Partner and Director, Osborn & Mori Partners K.K. (current
position)

Message from the Independent Directors

Kazumichi Matsuki

A number of our products directly contribute to Sustainable Development Goals (SDGs). We are aiming to achieve further growth by paying attention to SDGs in manufacturing and sales processes and to promote corporate culture reforms with the aim of "Decent work," one of the SDGs targets, within the Company. Although most of our products do not come to consumers' attention and are not recognized by society, I hope that we can make ourselves broadly recognized as an SDGs blue-chip company by society.

Kozo Yoneda

"Good products," "Good customers," and "Good staff" are essential for business growth. The Company has a high share in hand spray guns and small-sized, high-efficiency, oil-free air compressors, customers around the world, and diligent and earnest staff. Management under Mr. Tsubota, President of the Company, possesses a deep understanding that the improvement of corporate governance contributes to medium to long-term growth. I believe that a part of an Outside Director's responsibilities is to enhance the appreciation of shareholders for the true value of the Company under these favorable conditions.

The Foundations that Support the Businesses Compliance and Risk Management

Compliance Promotion Structure

The Company promotes initiatives toward compliance with the CSR Committee serving as the formulation, deliberation and decision-making body and the Legal Department as the execution body.

Major initiatives relating to compliance

- **In-house training**
 - Compliance seminars: Held twice a year for management-level employees, covering such topics as harassment prevention and basic knowledge of contracts.
 - Seminar on insider trading prevention: Lectures by lawyers are held once a year for all employees working at the Head Office, Akita Factory and Fukushima Factory.
- **Distribution of Compliance Newsletters**
 - A newsletter on information leakage, the work environment and other topics has been distributed once a month to all employees from FY2019.
- **Distribution of the "Philosophy Book" (English and Chinese versions) summarizing the ANEST IWATA Corporate Philosophy to overseas employees.**
 - It was distributed to employees in Japan in 2017.



Compliance Newsletter

Basic Approach toward the Internal Control System and Establishment Status

The Group, based on its founding motto of being "trustworthy and sincere," will provide high-quality products and services through fair competition with sincerity and at fair prices. We will not only persistently enhance corporate value and strive for the appropriate return of profits to our shareholders but also aim to become a corporate group that contributes and fulfills its

responsibility as a member of society.

As a part of these initiatives, we have set forth a basic policy on internal controls in the "Basic Policy on Corporate Governance," which is a basic component of the "ANEST IWATA Corporate Philosophy."

Basic Policy on Corporate Governance [ANEST IWATA Basic Policy on Corporate Governance](#)

Risk Management

The Group has established the "Risk and Crisis Management Regulations," the "Information Security Regulations" and the "Personal Information Protection Management Regulations" and strives to avoid and reduce the various risks relating to business.

Major initiatives relating to risk management

- **Establishment of the whistle-blowing system, "ANEST IWATA Hotline"**
 - are not received on the hotline but have become concerns for the employees, and responds to them in a timely and prompt manner. The system aims to create a corporate culture which will allow senior management to respond to risks as quickly as possible.
- **Establishment of the "Suggestion Post," a system for making suggestions to the Representative Director**
 - A system where the President personally receives awareness-raising information such as "customer requests, product ideas, the stance of responding to the market, suggestions and problems/improvements" and other everyday matters that
- **Establishment of a Crisis Management Committee**
 - The committee, chaired by the President, is convened in the event of emergencies.

Initiatives toward BCP*

Since the Great East Japan Earthquake of March 2011, the Company, in addition to the fire response manual, which had already been in use, has formulated BCP manuals for each department and factory. This reflects the lessons learned at the time of the earthquake, during which the onsite chain of command failed to function as a result of the absence of persons responsible at

each department.

The criteria for triggering the BCP at the time of natural disasters such as earthquakes, typhoons, and heavy rain and snow are determined and enforced based on the judgment of each location, by taking into account various conditions including the amount of rain and snowfall.

*BCP: Business Continuity Planning

The Foundations that Support the Businesses Human Capital

Capable employees play a leading role in and are indispensable to the sustained growth of the Group. Accordingly, the Company is making efforts to provide a work environment where diverse human capital can continue to play an active role for a long time and a corporate culture that maximizes the individual's creativity and teamwork spirit.

Basic Approach to Human Capital

The Company, as articulated in the Group Code of Conduct, promotes the establishment and maintenance of a safe and sound workplace without discrimination to enable employees to demonstrate their capabilities.

The Company is engaged in various types of human capital

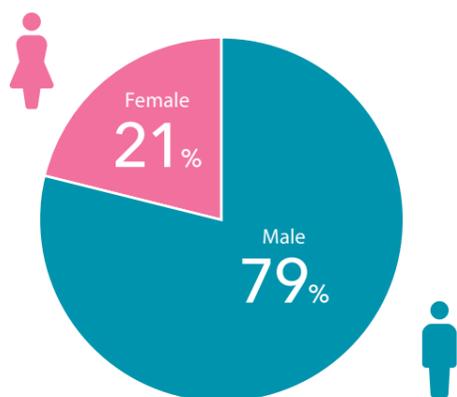
development to foster talent who consistently embraces the spirit of challenges, acts responsibly and is capable of proactive communication, based on its founding motto of being "trustworthy and sincere."

Initiatives toward Diversity

In terms of diversity, our priority issue is the "promotion of women empowerment." Due to the nature of our industry, the percentage of women to total employees tends to be low. On the other hand, we are well aware that in order for the Company to maintain sustained growth it is imperative that all human capital regardless of gender play an active role.

Therefore, as our first step, we commenced training to provide a basic knowledge of diversity and to explain its necessity

Ratio of male to female employees (FY2018)



from FY2018. In February 2019, a participatory seminar for female employees working at the sales offices and their superiors were held under the theme of "Thinking about workstyles for women and the promotion of women empowerment."

39 managers and female employees participated in the seminar. As the seminar was warmly received by the participants, according to a participant questionnaire taken after the seminar, we plan to conduct seminars in a similar format in the future.



Scenes from the seminar

Prevention of Harassment

The Company considers sexual harassment and abuse of authority to be human rights problems and has formulated policies accordingly. The employment rules also prohibit both types of harassment as well as discrimination on the basis of pregnancy, childcare and nursing care. In addition, we have

established consultation counters and are making efforts to educate our employees.

Furthermore, in-house training by the Legal Department including training for newly-appointed managers is conducted on the various types of harassment.

Employment of Persons with Disabilities

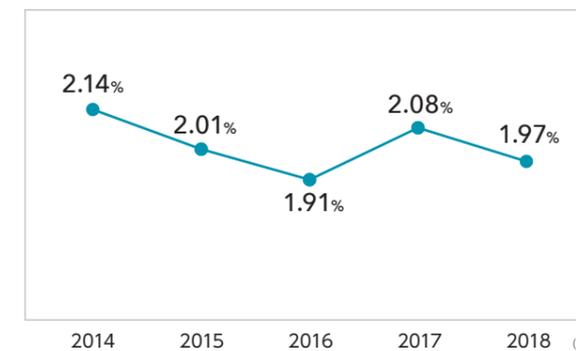
While the Company is providing employment opportunities to persons with disabilities, in reality, it has not led to long-term

employment and many employees with disabilities have resigned. Therefore, building an environment where such persons

are able to continuously work has become an issue.

As a countermeasure, we are exploring the possibility of the in-house development of job coaches, which are usually outsourced to third parties, so that they will become major players in coordinating with outside experts regarding work for persons with disabilities, and the focal point in communications between the head office and the factories. Through these initiatives, we will aim for a work environment where persons with disabilities can work with a peace of mind and raise the statutory employment rate.

Percentage of employees with disabilities for the past 5 years



*ANEST IWATA Corporation (Japan)

Utilization of Elderly Human Capital and the Succession of Technology

Although the Company's mandatory retirement age is 60 years old, employees may continue working until they are 65 years old through the re-employment system. The majority of the employees who reach the retirement of 60 take advantage of this system and continue to work actively. Going forward, as the Japanese population gradually diminishes, the key to a company's survival will depend on how it utilizes elderly human capital. Currently, the Company is reviewing the personnel system of the domestic offices toward 2020 and is considering the postponement of retirement as a part of these reforms.

One example of initiatives to pass down the technology held by our elderly human capital is the "Training School (*Kunren Dojo*)," which began at the Fukushima Factory from FY2017. Machinery for actual use is installed within the factory building and is utilized to pass down the skills of our seasoned skilled workers, as well as teaching skills such as assembly, processing, and wiring to new employees, and to practice for various contests. Given

that many of the factory facilities are being automated and there is an imminent risk of losing the valuable technology based on the wealth of experience of the elderly human capital, we hope to hand down such technology through these activities.



"Fukushima Training School"

"ONE ANEST IWATA AWARD"

The Company has always been aware of the challenge of enhancing communication capabilities and further reinforcing the solidarity within the company. To this end, we launched an internal event called "ONE ANEST IWATA AWARD" from FY2017 for the purpose of becoming familiar with the operations of other departments, which we do not come into contact in the course of our day-to-day work.

The event encourages the enhancement of cooperation and communication skills by having each department form a team to conduct discussions and prepare to give a presentation under a given theme, which is set each year. Through these activities, we hope to firmly establish a new corporate culture as well as the Group Management Policy and the Management Vision within the Company. We plan to

examine the results and continue with these initiatives going forward.



"ONE ANEST IWATA AWARD" Ceremony Held on FY2018

Human Capital Development

The Company has various training programs, including new recruits training, new employee training, and follow-up training, for each stage of the employee's career starting when the employees are first given their job offers. Moreover, after the employee is assigned to a division, specialized training is conducted within the division to raise the employee's skills. At the same time, we support new employees through our OJT system where a dedicated employee offers practical instruction for two years and the Elder system with advisors providing advice on corporate life.

In our training for younger employees, which is held for the purpose of fostering next-generation management-level employees, the employees speak with Corporate Officers to share

the company's history from its founding and the changes in the business, as well as their hopes for the future, while conducting the workshop to come up with their own ideas to solve the issues the company faces as it accumulates its 100-year and eventually its 150-year history.

Management-level employees also receive practical education, in which manager-level employees team up with mid-level employees, and the judge evaluate the managers as they prepare to give a presentation on the theme of "Building a Future Vision of the Group." The managers are given instruction on preparing the materials, the actual presentation as well as the follow-ups after the presentation and the actual materialization of the project, and evaluated during the series of processes.

Life-work Balance

As part of providing a pleasant work environment, we are improving our employees' benefits program.

The number of days of paid leave has been changed from FY2018 and significantly increased to 20 days for employees with three years of service or more. Additionally, the reduced work schedule has been extended from 3 days per year to 5 days, and one hour of reduced work is now equivalent to two hours. For example, since FY2017, employees are allowed to set different types of hours such as half-holiday in the morning +

1-hour break and half-holiday in the afternoon + 1-hour break. The Company allows all reduced work schedules by employees who request them for childcare and nursing care until the child graduates elementary school or until the time nursing care is no longer needed.

Furthermore, if an employee had to leave his or her job under unavoidable circumstances for childcare or nursing care, the Company provides a system which allows for reinstatement of the employee.

Employees taking childcare leave, nursing care leave and reduced work schedules

	FY2014	FY2015	FY2015	FY2017	FY2018
Number of employees using the childcare leave system	4	2	4	3	1
Number of employees using the nursing care leave system	0	0	0	0	1
Number of employees using reduced work schedules	—	—	—	6	6

Occupational Safety

The Company is focused on its occupational safety activities based on the principle of "Safety First (Safety shall have priority overall)." To promote these activities, an in-house Occupational Safety Committee has been established to conduct safety patrols of the head office and the factories on a monthly basis, mainly by committee members together with the safety managers of each location and the executives of the labor unions. During these patrols, detailed checks are made of the potential risks of danger lurking at the production and experiment sites

at every stage.

We also adhere to the content of the occupational health and safety management system, "OHSAS 18001," and conduct self-inspection of the Akita and Fukushima



Safety Patrols

Factories by mutually shuffling the members of each factory.

In the event of an industrial accident, the Company responds in accordance with the pre-determined, "Disaster Response Flow." The flow consists of submission of a report on the disaster within 48 hours of its occurrence, after initial actions including life-saving

and the prevention of secondary disaster have been taken, and subsequently the examination of the content by the Disaster Analysis Committee.

Additionally, we conduct fire drills using actual fire extinguishers, CPR training, and other emergency drills twice a year.

Occupational Safety Initiatives at the Factories

At the Fukushima Factory, the "Safety School (*Anzen Dojo*)" was established in 2018 to raise employee awareness toward safety within the factory building. At this facility, employees, upon ensuring

their safety, can actually experience the types of potential dangers which could occur when working on the site. We hope the employees utilize this experience in their work going forward.

Physical and Mental Support

The Company provides both physical and mental support so that employees can remain healthy and work energetically.

The head office has a medical office, served by an industrial physician twice a month and a public health nurse twice a week. The industrial physician and public health nurse provide not only occupational health and safety but also meticulous health management and support through interviews on the prevention of lifestyle diseases, quitting smoking, and mental

healthcare, among others.

At the Akita and Fukushima Factories, the industrial physician comes once a month and the public health nurse comes twice a week to provide health management and support, similar to the head office. Additionally, a lecture on health support by the industrial physician of the head office is given once a year. The lecture for FY2018 was conducted in January 2019 and televised to each factory.

Providing Opportunities for Communication

In June 2016, the Company built a Communication Lounge inside the head office premises, as part of workstyle reforms and reforms of the corporate culture, so that all employees, who are the source of corporate activities, will further embrace rich and creative ideas and be highly motivated. This space is used at lunchtime and at breaks, as well as for meetings during work hours, small gatherings, internal events, and self-improvement activities in the mornings and evenings. The workplace has

been given new life, as the employees are given the opportunity to leave their own desks and mingle with the members of the other departments.

In 2017, the cafeterias at both the Akita and Fukushima Factories were also renovated and are being proactively utilized as places of communication for the employees and also as places to welcome customers and members of the local community.



Multi-purpose Communication Lounge at the head office



The cafeteria of the Akita Factory based on the concept of the "warmth of wood"



The cafeteria of the Fukushima Factory in the image of a sports bar (Name: F6 Lounge Yabuki Rokkaku Cafeteria)

The Foundations that Support the Businesses Cooperation with the Regional Communities (Social Contribution Activities)

The Group, aware of being a member of society, aims to become a creative company that benefits society. The following are major social contribution activities promoted by the head office and the Fukushima and Akita Factories as part of these activities.

Approach to Social Contribution

The Company believes that “making safe and secure products,” “providing even more attentive service to its customers,” and “connecting technology to the future” are essential in order to continue contributing to society through its business activities. To this end, an awareness by each manufacturing and sales employee that ANEST IWATA products are contributing to society, as well as improvements in product quality and technological innovations, is essential. We believe that by regularly raising the awareness of social contribution and applying it to every aspect

of operations from the development of more efficient new products down to innovations in packaging materials, we will be able to contribute to better “manufacturing” and ultimately to the realization of a sustainable society.

Furthermore, in the regions where the head office, factories, and offices are located, ANEST IWATA believes that promoting a business that is rooted in the community and achieving co-existence and co-prosperity is the true form of social contribution.

Head Office: Social Contribution Activities through Business

In FY2018, the Air Energy Division launched the “Business Identity Project,” in an effort to reinforce the brand and build “the essence of Air Energy.” This project promotes activities under the themes of 1) Promoting the unification of product design, 2) Social contribution, 3) Reinforced promotion, including exhibiting at tradeshows, etc. and 4) Human capital development.

In February 2019, as part of our “Social contribution” activities, battery-powered tire pumps marketed by the subsidiary, ANEST IWATA COMPRESSOR Corporation, were donated to 69 special elderly nursing homes through the Yokohama City Council of Social Welfare. These tire pumps are equipped with lights and sockets, which will allow them to be used as emergency lighting equipment and power sources in the event of a disaster, as well as tire inflators for wheelchairs.

In FY2019, we plan to expand the scope of these activities from the City of Yokohama (FY2018) to Akita and Fukushima

Prefectures, where the Company’s factories are located. We are constantly deliberating what we can do by leveraging our unique strengths and planning to further expand our activities.



Meeting with the Kouhoku Ward Council on Social Welfare

Akita Factory: Also as a Place for Regional Exchanges

The Akita Factory made plans to “build a communication space that also served as a cafeteria” in conjunction with the renovation of its old cafeteria. Subsequently, in 2017, we opened our new cafeteria, which was based on the concept of the “warmth of wood.”

The new cafeteria not only serves as a recreational area for the employees but also functions a place to connect with the members of the community, for example by being used during the factory visits by the local elementary, junior high and industrial high school students.

Major Social Contribution Activities of the Akita Factory

- Conducted factory visits for elementary, junior high and industrial high school students and persons with disabilities
- Accepted high school student interns, and provided work experience to junior high students and persons with disabilities
- Co-sponsored the All Japan Fireworks Competition, which was held in Daisen City where the Akita Factory is located
- Co-sponsored local regional sports fairs
- Conducted once-a-year cleanups of the areas surrounding the factory

By using this space, we hope to strengthen our relationships with the members of the community and enhance the



Experiencing paint application using the spray gun

motivation of the employees going forward.



Factory visit by a nearby industry high school

Fukushima Plant: Introducing Products and Technology through Events

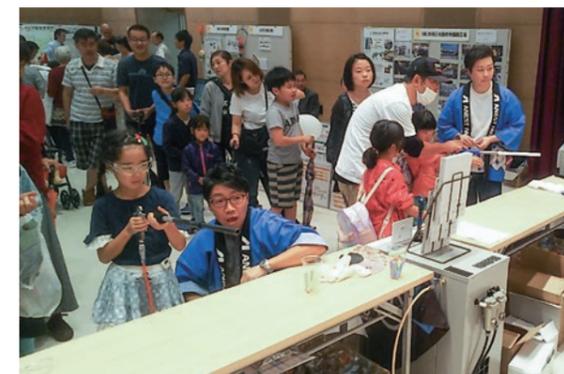
The Fukushima Factory proactively participates in the events of Yabuki-machi, Fukushima Prefecture, where the factory is located.

Among these activities, in the “Project for Children’s Exchanges at the Three Greatest Frontiers of Japan,”^{*1} the Fukushima Factory conducted factory visits and events to educate and enlighten the children about its technology, as well as making an appeal for the air energy business promoted by its factory

through the “Vacuum experiment shows” and “Air shooting gallery,” among others.

Similar efforts were made at the “Yabuki-machi Frontier Festival,”^{*2} in which the Fukushima Factory has been taking part since 2017, and warmly received by children and adults of the community alike. In September 2018, the Fukushima Factory participated in this year’s festivities, which were also received well. It plans to continue participating in this event in the future.

The Fukushima Factory launched the “F100 Executive Committee,” as part of initiatives to think about “What kind of factory the Fukushima Factory should be,” ahead of the 100th anniversary of the Company’s founding; and to raise its presence, the appeal of the entire factory, and the employees’ motivation. Going forward, it will continue its activities to ensure that both the region and the factory maintain their ongoing relationship.



*Air shooting gallery” at the Yabuki-machi Frontier Festival

*1: An exchange project between the three municipalities of Kawaminami-cho, Miyazaki Prefecture, Towada City, Aomori Prefecture, and Yabuki-machi, Fukushima Prefecture, which were cited as having made considerable achievements in the national large-scale development project in the Post-war Frontier History, published by the former Ministry of Agriculture and Forestry.

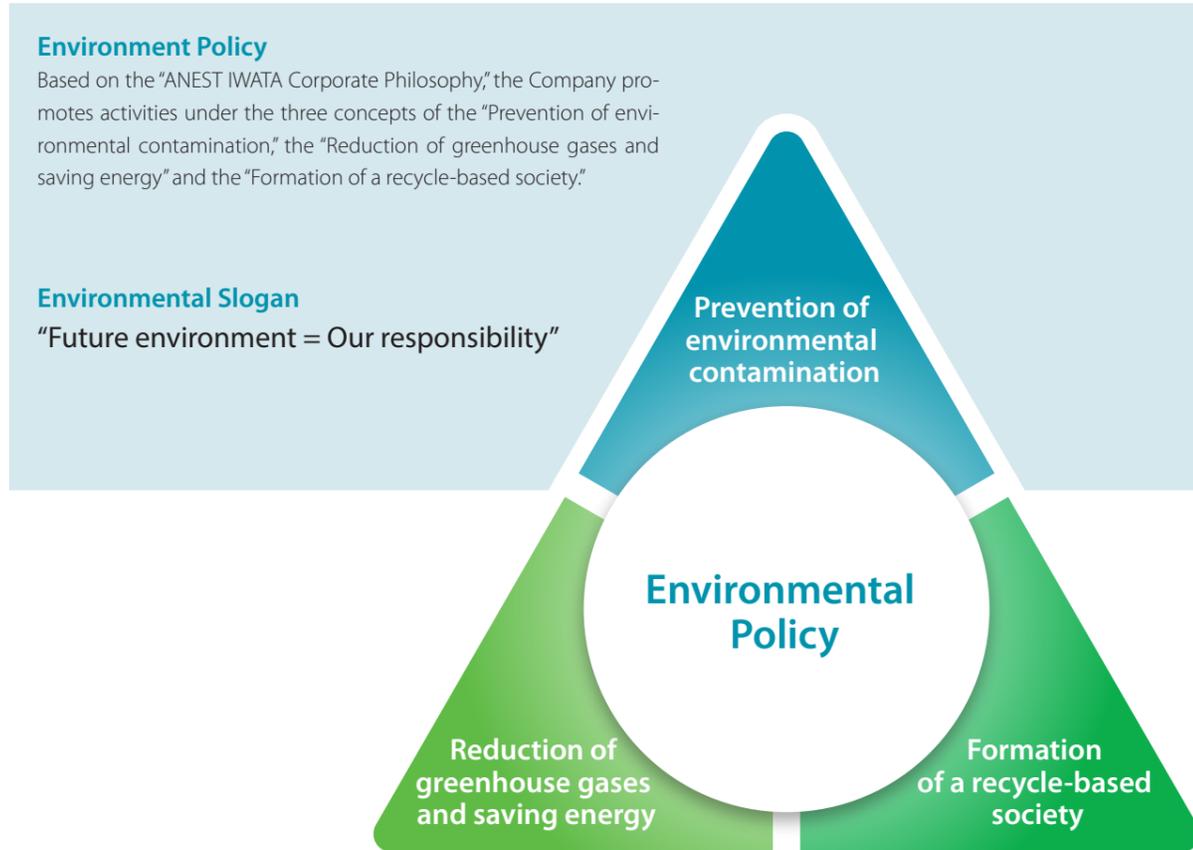
*2: Yabuki-machi’s largest celebration with tens of thousands of visitors where companies and organizations relating to the local industry, education, culture, etc. and even government agencies gather to demonstrate the appeal of the rejuvenated Yabuki-machi’s efforts toward reconstruction, and have visitors gain a hands-on awareness and understanding of the area.

Major Social Contribution Activities of the Fukushima Factory

- Exchanges with local residents using the newly-renovated cafeteria as a communication space (For example, by using it as the venue for thank-you parties for the local soccer team)
- Conducted joint new employee training with the participating companies of the “Yabuki Business Forum,” which use the communication space
- Accepted high school student interns
- Conducted regional cleanup activities of the areas surrounding the factory and the downtown areas twice a year
- Displayed products at the Yabuki-machi tourist information office and displayed posters at Yabuki Station
- Conducted PR activities for the Company’s products to the companies of Yabuki-machi

The Foundations that Support the Businesses
The Environment

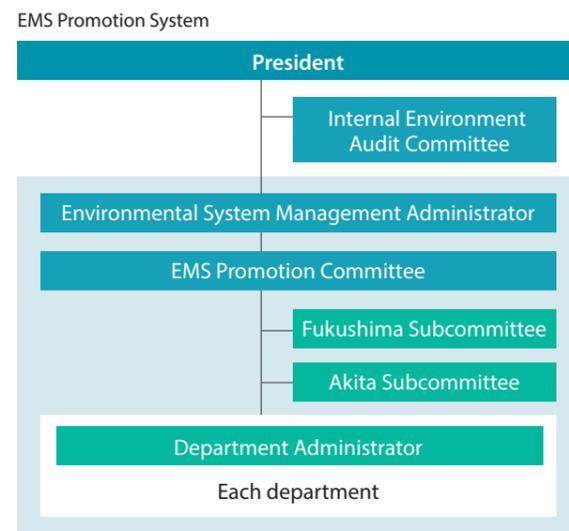
ANEST IWATA strives to live in harmony with the earth environment, while effectively utilizing the Environmental Management System (“EMS”) to promote the protection of the environment through product development and other business activities.



Environmental Management System

The Company considers the protection of the environment as one of its priority management issues. In Japan, the Group, as a whole, shares a common environmental policy, sets objectives and targets and operates an Environmental Management System (EMS).

To this end, we are making efforts for ongoing improvements by engaging in EMS activities that utilize the ISO 14001: 2015.



Environmental Education

The Company carries out environmental education programs regarding environmental management for its employees in accordance with an annual plan.

Major environmental education programs implemented in FY2018

Name of education program	Applicable employees	Implementation period	Number of participants	Details
EMS Education	New employees	April and June	33 (April) 24 (June)	Explanation of the Company's EMS. Experiencing environmental initiatives during the on-the-job factory training
Environmental Law Auditor/ Administrator Education	Persons in charge of contacts for environmental laws	May, June, and July	6	Learning about the necessity of environmental measurement and measurement/evaluation methods
Individual EMS Briefings	Managers	June to July	25 departments (June) 32 departments (July)	Departments that were subject to internal quality and environmental audits in the previous fiscal year are familiarized with EMS and review is made as to the results of the previous year's audit
Corrective Measures Education	Person in charge of non-conforming products and complaints	November and December	32	Education on rules of internal corrective measures taken in response to environment-related non-conforming products and complaints, and points to be noted

Major Environmental Issues

The Company has summarized its major environmental policies under the three concepts of the “Prevention of environmental contamination,” the “Reduction of greenhouse gases and saving energy” and the “Formation of a recycle-based

society” and is engaged in activities to remedy these issues. In FY2018, the Company engaged in the following activities. As a result of ongoing improvement activities, we managed to exceed our targets for the reduction of waste emission.

Item	Details	KPIs	FY2018 Results	FY2019 Targets
Prevention of environmental contamination	Prevention of water pollution	Maintain the readings on sewer water within the regulation values at the 3 locations (Head office, Akita Factory, and Fukushima Factory)	All locations: Within the regulation values	Continue to maintain levels within regulation values at all 3 locations
Reduction of greenhouse gases and saving energy	Reduction of energy consumption (weight equivalent)	1% or more year-on-year reduction in energy intensity	0.3% year-on-year increase. Undershot target	1% reduction compared to FY2018 in energy intensity.
	Reduction of CO ₂ emission	1% or more year-on-year reduction in energy intensity	2.3% year-on-year increase. Undershot target	1% reduction compared to FY2018 in energy intensity.
Formation of a recycle-based society	Reduction of waste emission	Reduction below the previous year's levels in energy intensity.	11% year-on-year reduction. Achieved target	Reduction below FY2018 levels in energy intensity.
	Recycling of waste	Maintain a waste recycling rate of 95% or higher at the 3 locations (Head office, Akita Factory, and Fukushima Factory)	99.6%. Achieved target	Maintain or increase the waste recycling rate compared to FY2018

Reduction of Greenhouse Gases and Saving Energy

The Company strives to reduce all energy consumption and has been reducing the emission of greenhouse gases (CO₂) and contributing to the prevention of global warming.

The Company has set forth the “Energy Management Regulations” and promotes energy-saving activities centering on the reduction of electricity consumption. Specifically, we are continuously implementing measures including enhanced efficiency, the reduction of human error, and the reduction of air leaks through layout changes and the consolidation of the worksite, and making efforts to reduce energy consumption including electricity consumption.

This year’s energy consumption increased 6.5% year on year, or a 0.3% increase in energy intensity and CO₂ emission increased 8.8% or 2.3% in carbon intensity. This was mainly due to the increase in production and the introduction of new production facilities.

Reduction of Waste

At all our domestic locations, we promote the 3Rs (Reduce, Reuse and Recycle) and maintain a waste recycling rate of 95% (target) or higher. In product development and manufacturing, also, we are striving to make products and systems that will be easy to dispose of or recycle for our customers based on the concept of the 3Rs.

In FY2018, waste emission came to 865 tons, which represented a 5.2% year-on-year decrease despite the increase in production.

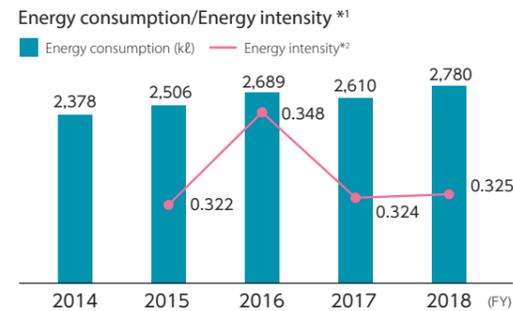
Furthermore, all the major domestic locations have set 95% or higher as the target recycle rate. We have continued to achieve this target each year since FY2010, and in FY2018, we managed to reduce waste emission by 5.2% compared to the previous fiscal year and achieved a recycling rate of 99.6% at the head office, Akita Factory and Fukushima Factory.

Initiatives to Protect the Environment at the Offices and Business Locations

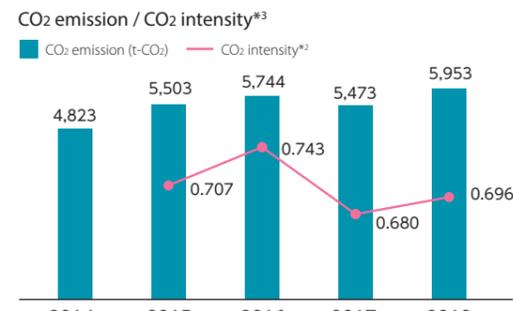
At the head office, we are thoroughly sorting our waste and converting them into valuable resources based on the waste reduction plan promoted by the government.

Particularly, as waste cannot be recycled unless it is thoroughly sorted, we have established a “Recycle Center” in the head office premises, where waste is gathered, sorted and managed.

Additionally, internal documents are circulated digitally and employees are being taught the correct way to sort waste.



*1. Energy intensity by crude oil equivalent (kℓ) / monetary amount of production (millions of yen)
*2. Figures for FY2014 are not stated as the Company changed its way of calculating energy intensity from FY2015.



*3. t-CO₂ / monetary amount of production (millions of yen)



Head Office Recycling Center

Environmentally-friendly Products

Air Energy Business

With the Potential for Creating “New Energy”

The “EcoLuce,” a steam power generating device, is a compact power generator that uses the excess steam from boilers. We are proposing the use of this product which uses a previously-unused energy source, as a product with the potential to create “new energy.”

The device was made compact by utilizing the Company’s proprietary scroll* technology. It is currently under development for use by factories that are aiming to become environmentally-friendly and customers of various sizes and industries that deal with steam.



Steam power generator, “EcoLuce”

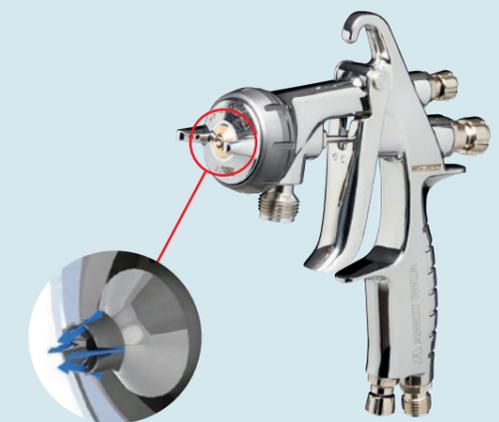
* The method in which one scroll of a pair of scrolls is secured and the other scroll is allowed to revolve, thereby reducing the volume of the compression chamber and compressing the air

Coating Business

Enhancing Work Efficiency while Being Environmentally-friendly

We incorporated the Company’s technology for “atomizing paint using as little energy as possible” into the paint nozzles at the tip of the spray guns, and realized a greater rate of transfer compared to conventional products, thereby reducing the volume of paint used and enhancing work efficiency.

The use of environmentally-friendly paint has also been on the increase in recent years. The newly-launched “WS-200 Series” ensures both a high-quality coating finish that adapts to various types of paints and the reduction of the environmental burden within the painting process.



New Air-assisted Spray Gun, “WS-200 Series”
(The encircled portion is the paint nozzle)

Explanation of Financial Condition and Operating Results

1. Analysis of Financial Condition (As of March 31, 2019)

Assets

Current assets were 26,021 million yen (up 2.1% from the previous consolidated fiscal year), mainly due to an increase of 1,562 million yen in "Cash and deposits." Non-current assets were 21,536 million yen (down 1.2%), mainly due to a decrease of 221 million yen in "Land," as a result of sales associated with the relocation of the Kanto branch to the premises of the head office. As a result, total assets stood at 47, 557 million yen (up 0.6%).

Liabilities

Current liabilities were 9,956 million yen (down 7.6%), mainly due to a decrease of 564 million yen in "Notes and accounts payable-trade." Long-term liabilities were 4,098 million yen (up 10.2%), mainly due to an increase in lease obligations (non-current) included in "Other," as a result of an increase in capital investments. As a result, total liabilities stood at 14,054 million yen (down 3.1%).

Net Assets

Net assets were 33,502 million yen (up 2.2%), mainly due to an increase of 2,071 million yen in "Retained earnings," due to an increase in net income attributable to owners of parent. Equity capital, which is calculated by subtracting the non-controlling interests from net assets, stood at 29,901 million yen, increasing the shareholders' equity ratio by 1.5 percentage points to 62.9%, from 61.4% at the end of the previous consolidated fiscal year.

2. Cash Flows (For the year ended March 31, 2019)

Cash and cash equivalents ("Cash") for the current consolidated fiscal year were up 2,166 million yen from the end of the previous consolidated fiscal year at 9,858 million yen (up 28.2%) at the end of the current consolidated fiscal year.

Cash Flows from Operating Activities

Operating activities resulted in a cash inflow of 4,848 million yen (up 18.8%), an increase of 768 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 379 million yen in "Depreciation."

Cash Flows from Investment Activities

Investment activities resulted in a cash outflow of 551 million yen (down 84.2%), a decrease of 2,933 million yen from the end of the previous consolidated fiscal year, mainly due to a decrease of 1,724 million yen in "Payments for investments in capital."

Cash Flows from Financing Activities

Financing activities resulted in a cash outflow of 1,848 million yen (up 177.3%), an increase of 1,181 million yen from the end of the previous consolidated fiscal year, mainly due to an increase of 622 million yen in "Repayments of long-term loans payable" and an increase of 213 million yen in "Payments for investments in capital of subsidiaries not resulting in change in scope of consolidation."

3. Operating Results (For the year ended March 31, 2019)

In the current consolidated fiscal year, the global economy continued its basic trend of economic expansion mainly in the United States where capital investments and personal consumption remained strong due to the effects of tax cuts and other factors. However, since the latter half of the year, increasing uncertainty has prevailed with the trade dispute between the United States and China and the economic slowdown in China, as well as Brexit and the political unrest in Europe. The Japanese economy, while not immune to these global trends, has remained strong in terms of personal consumption and capital investments, due to the favorable employment environment and the rising demand for labor-saving.

Under such a business environment, the Group, in its final year of the mid-term business plan, continued its business activities aiming to become a "True World-class Company," and therefore achieved the highest net sales, operating income, and ordinary income since its founding, and managed to maintain a two-digit ROE for six consecutive terms. At the same time, the Company formulated its new mid-term business plan, and commenced activities for even greater growth.

In terms of air compressors, sales of oil-free scroll air compressors and medium-sized air compressors increased in Japan reflecting the increase in the proportion of proposal-type sales as a result of our continuing efforts. Overseas, sales of air compressor units and associated equipment for medical applications continued to increase in the emerging countries including India and Brazil, and Asia including China. Similarly, sales of automotive air compressor units for public transportation including electric buses and railway vehicles continued to increase in areas outside of China, including the US and India.

Furthermore, Shanghai Screw Compressor Co., Ltd., a company engaged in the manufacture and sales of screw air compressors in China, which became a consolidated subsidiary at the end of the previous fiscal year, and ANEST IWATA SPARMAX Co., Ltd., a subsidiary engaged in the manufacture and sales of airbrushes and small-sized air compressors for medical applications in Taiwan, have been performing strongly and contributed to the growth of the Group.

In terms of vacuum pump equipment, sales of oil-free scroll vacuum pumps for the general industrial market have gained a foothold through the utilization of sales channels in Japan and promotions that took advantage of trade shows and industrial publications. Meanwhile, overseas sales continued to struggle due to the decrease in demand among our customers in the US and Europe, namely the equipment manufacturers and OEM partners.

In terms of coating equipment, sales in Europe increased thanks to our continued collaboration with automotive refinishing paint manufacturers and our focused activities to acquire certification for specific coating and to conduct various promotions. Sales also increased in China, where we worked to gain true recognition of our brand through the launch of models suitable for the region. Additionally, in countries around the world where our activities in the industrial coating market were not sufficient, including Japan, we narrowed down our targets, drafted measures to suit each region and commenced a portion of our activities. In terms of liquid application equipment,

which is a part of coating equipment and which handles liquids other than paints, we continued our sales promotion activities and increased sales around the world, mainly in spray guns for food-related liquids for the bread and confectionary markets and liquid feeding units.

In terms of coating systems, the domestic market was in between facility renewals and consequently did not demonstrate significant growth. In the overseas markets, on the other hand, sales increased due to the delivery of coating systems to automobile parts manufacturers in North America and China and woodwork manufacturers in India. Additionally, in Japan, the Coating Solution Center, which is capable of measuring the effects of adopting coating systems for customers considering the adoption of such systems and proposing applications according to each market, was established, and preparations for activities in the next fiscal year have been completed.

As a result, for the current consolidated fiscal year, net sales amounted to 38,807 million yen (up 18.3% from the previous consolidated fiscal year); operating income was 4,339 million yen (up 13.5%); ordinary income was 4,701 million yen (up 8.0%), and net income attributable to parent company shareholders was 2,947 million yen (up 4.9%).

4. Performance Forecast for the Upcoming Year

Performance forecasts for the fiscal year ending March 31, 2020 as of the date of issue of this report are as follows.

Net sales: 39,000 million yen (up 0.5% from the current consolidated fiscal year)

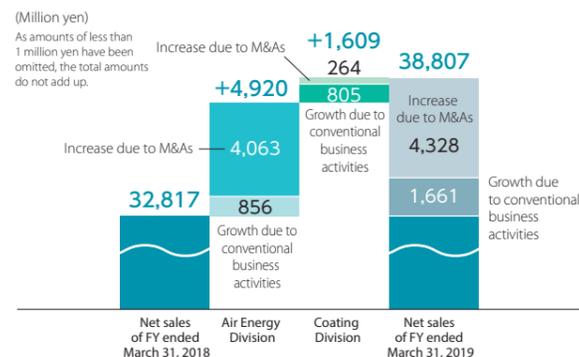
Operating income: 3,800 million yen (down 12.4%)

Ordinary income: 4,000 million yen (down 14.9%)

Net income attributable to owners of parent: 2,400 million yen (down 18.6%)

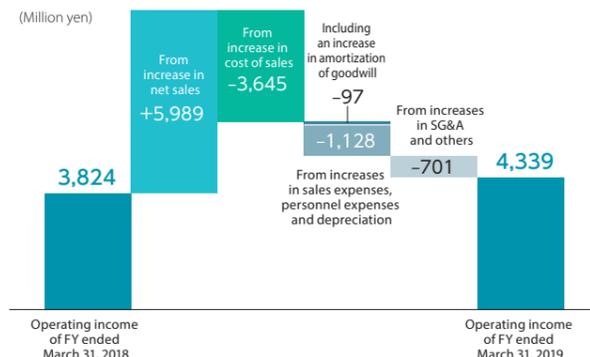
(Assumed exchange rates) 1 USD = 105 JPY, 1 Euro = 115 JPY, and 1 Yuan = 15.5 JPY

Net Sales Factor Analysis (FY ended March 31, 2019)



*Attributable to the consolidation of Shanghai Screw Compressor Co., Ltd., which is engaged in the manufacture and sales of screw air compressors in China and ANEST IWATA SPARMAX Co., Ltd., which is engaged in the manufacture and sales of small-sized air compressors; and an affiliate accounted for under equity method in Italy becoming a subsidiary

Operating Income Factor Analysis (FY ended March 31, 2019)



*The impact on operating income due to exchange rate fluctuations during the same period resulted in an increase of 30 million yen.

Performance Forecast for the FY Ending March 31, 2020

(Million yen)	FY ended March 31, 2020	Percentage	FY ended March 31, 2019	Percentage	Increase/decrease	Percentage change
Net sales	39,000	100%	38,807	100%	1,193	3.1%
Operating income	3,800	9.7%	4,339	11.2%	61	1.4%
Ordinary income	4,000	10.3%	4,701	12.1%	99	2.1%
Net income attributable to owners of parent	2,400	6.2%	2,947	7.6%	153	5.2%
Average exchange rate	FY ending March 31, 2020 Forecast		FY ended March 31, 2019 Results			
(Against USD)	¥105.00		¥110.43			
(Against Euro)	¥115.00		¥130.42			
Dividends	FY ending March 31, 2020 Forecast		FY ended March 31, 2019 Results			
Amount	¥24		¥22			
Payout ratio	32.3%		31.2%			

*For the full year, the strong yen against the dollar and the strong yen against the euro resulted in decreases of 15 million yen in ordinary income, respectively.

Consolidated Balance Sheets

	(Thousands of yen)	
	As of March 31, 2018	As of March 31, 2019
ASSETS		
Current assets		
Cash and deposits	9,225,287	10,787,387
Notes and accounts receivable - trade	7,624,339	7,336,396
Securities	500,000	—
Merchandise and finished goods	3,876,983	3,914,313
Work in process	918,367	873,703
Raw materials and supplies	2,138,244	2,231,808
Other	1,373,957	1,065,432
Allowance for doubtful accounts	(176,820)	(187,458)
Total current assets	25,480,360	26,021,583
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,670,490	10,376,487
Accumulated depreciation	(5,280,625)	(5,138,609)
Buildings and structures, net	5,389,865	5,237,877
Machinery, equipment and vehicles	7,804,403	7,297,478
Accumulated depreciation	(5,001,288)	(4,740,931)
Machinery, equipment and vehicles, net	2,803,114	2,556,546
Land	2,358,609	2,137,302
Leased assets	1,640,456	2,330,835
Accumulated depreciation	(836,217)	(987,630)
Leased assets, net	804,238	1,343,204
Construction in progress	218,671	522,237
Other	2,361,406	2,388,584
Accumulated depreciation	(1,897,310)	(1,928,287)
Other, net	464,095	460,296
Total property, plant and equipment	12,038,594	12,257,465
Intangible assets		
Goodwill	1,588,301	1,688,080
Software	343,079	169,019
Other	1,603,542	1,461,736
Total intangible assets	3,534,922	3,318,836
Investments and other assets		
Investment securities	4,617,239	4,238,656
Long-term loans receivable	62,648	23,665
Deferred tax assets	816,946	957,769
Net defined benefit asset	516,384	574,630
Long-term time deposits	25,165	11,786
Other	196,433	164,130
Allowance for doubtful accounts	(11,095)	(10,725)
Total investments and other assets	6,223,722	5,959,913
Total non-current assets	21,797,240	21,536,214
Total assets	47,277,600	47,557,798

	(Thousands of yen)	
	As of March 31, 2018	As of March 31, 2019
LIABILITIES AND NET ASSETS		
Current liabilities		
Notes and accounts payable - trade	4,769,153	4,204,616
Short-term loans payable	1,396,347	1,399,568
Current portion of long-term loans payable	371,380	1,201
Lease obligations	138,489	205,039
Income taxes payable	604,634	500,515
Provision for bonuses	628,046	646,434
Provision for directors' bonuses	83,896	91,759
Provision for product warranties	235,007	203,503
Other	2,552,044	2,703,490
Total current liabilities	10,778,999	9,956,130
Non-current liabilities		
Long-term loans payable	75,897	270,892
Lease obligations	754,657	1,194,754
Deferred tax liabilities	401,135	295,098
Retirement and severance benefits	2,401,451	2,239,742
Other	87,720	98,282
Total non-current liabilities	3,720,861	4,098,770
Total liabilities	14,499,860	14,054,901
Net assets		
Shareholders' equity		
Capital stock	3,354,353	3,354,353
Capital surplus	1,324,472	1,117,838
Retained earnings	23,307,605	25,378,817
Treasury shares	(5,387)	(5,393)
Total shareholders' equity	27,981,043	29,845,616
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	863,484	527,387
Foreign currency translation adjustments	416,156	(200,006)
Remeasurements of defined benefit plans	(254,633)	(271,402)
Total accumulated other comprehensive income	1,025,007	55,978
Non-controlling interests	3,771,688	3,601,303
Total net assets	32,777,739	33,502,897
Total liabilities and net assets	47,277,600	47,557,798

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Thousands of yen)

Consolidated Statements of Income	For the year ended March 31, 2018	For the year ended March 31, 2019
Net sales	32,817,481	38,807,259
Cost of Sales	18,384,433	22,030,151
Gross profit	14,433,047	16,777,107
Selling, general and administrative expenses		
Sales commission	425,257	499,904
Packing and transportation expenses	797,510	899,922
Directors' compensations, salaries and allowances	3,632,013	4,250,915
Provision for bonuses	333,260	385,894
Provision for directors' bonuses	83,896	91,759
Retirement benefit expenses	47,334	100,832
Welfare expenses	857,115	1,036,612
Rent expenses	402,421	427,794
Provision for product warranties	216,660	187,672
Provision of allowance for doubtful accounts	17,151	35,566
Other	3,795,935	4,520,769
Total selling, general and administrative expenses	10,608,557	12,437,642
Operating income	3,824,490	4,339,464
Non-operating income		
Interest income	47,433	52,557
Dividend income	64,339	68,941
Foreign exchange gains	115,984	—
Insurance income	6,112	67,842
Share of profit of entities accounted for using equity method	201,468	317,548
Other	145,177	152,255
Total non-operating income	580,514	659,144
Non-operating expenses		
Interest expenses	24,947	80,244
Foreign exchange losses	—	85,135
Retirement benefit expenses for prior periods	—	111,359
Other	27,695	20,569
Total non-operating expenses	52,642	297,308
Ordinary income	4,352,361	4,701,300

(Thousands of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Extraordinary income		
Gain on step acquisitions	—	2,697
Gain on sales of non-current assets	2,286	8,689
Insurance income	242,472	—
Gain on liquidation of subsidiaries	—	50,668
Total extraordinary income	244,759	62,055
Extraordinary losses		
Impairment loss	—	69,090
Loss on sales of non-current assets	5,480	29,440
Loss on retirement of non-current assets	20,009	7,063
Dismantlement cost	35,978	27,996
Loss on liquidation of subsidiaries	126,065	—
Litigation settlement	—	49,920
Total extraordinary losses	187,533	183,510
Net income before income taxes	4,409,588	4,579,845
Income taxes - current	1,260,742	1,306,711
Income taxes - deferred	43,679	(70,393)
Total income taxes	1,304,422	1,236,317
Net income	3,105,165	3,343,527
Net income attributable to non-controlling interest	295,246	395,800
Net income attributable to owners of parent	2,809,919	2,947,727

(Thousands of yen)

Consolidated Statements of Comprehensive Income	For the year ended March 31, 2018	For the year ended March 31, 2019
Net income	3,105,165	3,343,527
Other comprehensive income:		
Valuation difference on available-for-sale securities	156,355	(336,096)
Foreign currency translation adjustments	294,573	(830,069)
Remeasurements of defined benefit plans, net of tax	3,556	(16,769)
Share of other comprehensive income of entities accounted for using equity method	(33,098)	(19,488)
Total other comprehensive income	421,386	(1,202,423)
Comprehensive income	3,526,552	2,141,103
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,163,907	1,978,698
Comprehensive income attributable to non-controlling interests	362,644	162,405

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2018

	(Thousands of yen)										
	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	
Balance at April 1, 2017	3,354,353	1,324,472	21,374,203	(5,277)	26,047,751	707,129	222,079	(258,189)	671,019	1,886,713	28,605,483
Changes of items during period											
Dividends of surplus			(876,517)		(876,517)						(876,517)
Net income attributable to owners of parent			2,809,919		2,809,919						2,809,919
Purchase of treasury shares				(110)	(110)						(110)
Change in treasury shares of parent arising from transactions with non-controlling shareholders											—
Net changes of items other than shareholders' equity						156,355	194,077	3,556	353,988	1,884,975	2,238,963
Total changes of items during period	—	—	1,933,402	(110)	1,933,292	156,355	194,077	3,556	353,988	1,884,975	4,172,255
Balance at March 31, 2018	3,354,353	1,324,472	23,307,605	(5,387)	27,981,043	863,484	416,156	(254,633)	1,025,007	3,771,688	32,777,739

For the Years Ended March 31, 2019

	(Thousands of yen)										
	Shareholders' equity					Accumulated other comprehensive income					Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	
Balance at April 1, 2018	3,354,353	1,324,472	23,307,605	(5,387)	27,981,043	863,484	416,156	(254,633)	1,025,007	3,771,688	32,777,739
Changes of items during period											
Dividends of surplus			(876,515)		(876,515)						(876,515)
Net income attributable to owners of parent			2,947,727		2,947,727						2,947,727
Purchase of treasury shares				(5)	(5)						(5)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(206,633)			(206,633)						(206,633)
Net changes of items other than shareholders' equity						(336,096)	(616,163)	(16,769)	(969,029)	(170,385)	(1,139,414)
Total changes of items during period	—	(206,633)	2,071,212	(5)	1,864,573	(336,096)	(616,163)	(16,769)	(969,029)	(170,385)	725,158
Balance at March 31, 2019	3,354,353	1,117,838	25,378,817	(5,393)	29,845,616	527,387	(200,006)	(271,402)	55,978	3,601,303	33,502,897

Consolidated Statements of Cash Flows

(Thousands of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from operating activities		
Net income before income taxes	4,409,588	4,579,845
Depreciation	1,238,657	1,618,117
Amortization of goodwill	170,500	268,347
Increase in allowance for doubtful accounts	5,598	22,394
Increase in provision for bonuses	7,868	22,935
Increase (decrease) in provision for product warranties	7,513	(31,462)
Increase (decrease) in retirement and severance benefits	118,562	(82,805)
Increase in net defined benefit asset	(189,851)	(165,889)
Increase in provision for directors' bonuses	6,406	7,862
Interest and dividend income	(111,772)	(121,498)
Interest expenses	24,947	80,244
Share of profit of entities accounted for using equity method	(118,514)	(254,688)
Loss on sales of property, plant and equipment	23,202	27,813
Impairment loss	—	69,090
Litigation settlement	—	49,920
Loss on step acquisitions	—	(2,697)
Decrease (increase) in notes and accounts receivable - trade	(13,397)	96,371
Increase in inventories	(50,773)	(180,122)
Decrease in notes and accounts payable - trade	(377,273)	(503,777)
Other	(84,674)	716,375
Subtotal	5,066,586	6,216,377
Interest and dividend income received	112,105	121,498
Interest expenses paid	(24,947)	(80,244)
Proceeds from subsidy income	406,300	—
Income taxes paid	(1,480,331)	(1,409,605)
Net cash provided by operating activities	4,079,713	4,848,026
Cash flows from investing activities		
Payments into time deposits	(649,259)	(1,464,247)
Proceeds from withdrawal of time deposits	498,712	2,030,531
Purchase of property, plant and equipment and intangible assets	(1,858,233)	(1,508,227)
Proceeds from sales of property, plant and equipment	14,117	426,676
Purchase of intangible assets	(58,277)	(112,191)
Proceeds from sales of intangible assets	—	13,121
Proceeds from sales of investment securities	—	91,050
Proceeds from redemption of investment securities	634,251	500,000
Payments of loans receivable	(1,125)	(820)
Collection of loans receivable	5,178	39,102
Payments for investments in capital of subsidiaries and associates	(1,976,305)	(252,014)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(313,239)
Payments for transfer of business	(86,586)	—
Other	(8,083)	(1,491)
Net cash used in investing activities	(3,485,612)	(551,750)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	220,653	(62,288)
Repayments of lease obligations	(145,508)	(172,703)
Proceeds from long-term loans payable	312,780	528,990
Repayments of long-term loans payable	(59,495)	(682,344)
Purchase of treasury shares	(110)	(5)
Purchase of treasury shares of subsidiaries	—	(77,548)
Payments for investments in capital of subsidiaries not resulting in change in scope of consolidation	—	(213,851)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(137,451)
Cash dividends paid	(876,581)	(877,163)
Cash dividends paid to non-controlling interests	(118,211)	(153,832)
Net cash used in financing activities	(666,474)	(1,848,200)
Effect of exchange rate changes on cash and cash equivalents	86,250	(281,774)
Net increase in cash and cash equivalents	13,877	2,166,299
Cash and cash equivalents at beginning of the period	7,678,657	7,692,535
Cash and cash equivalents at end of the period	7,692,535	9,858,835

Global Network (As of March 31, 2019)

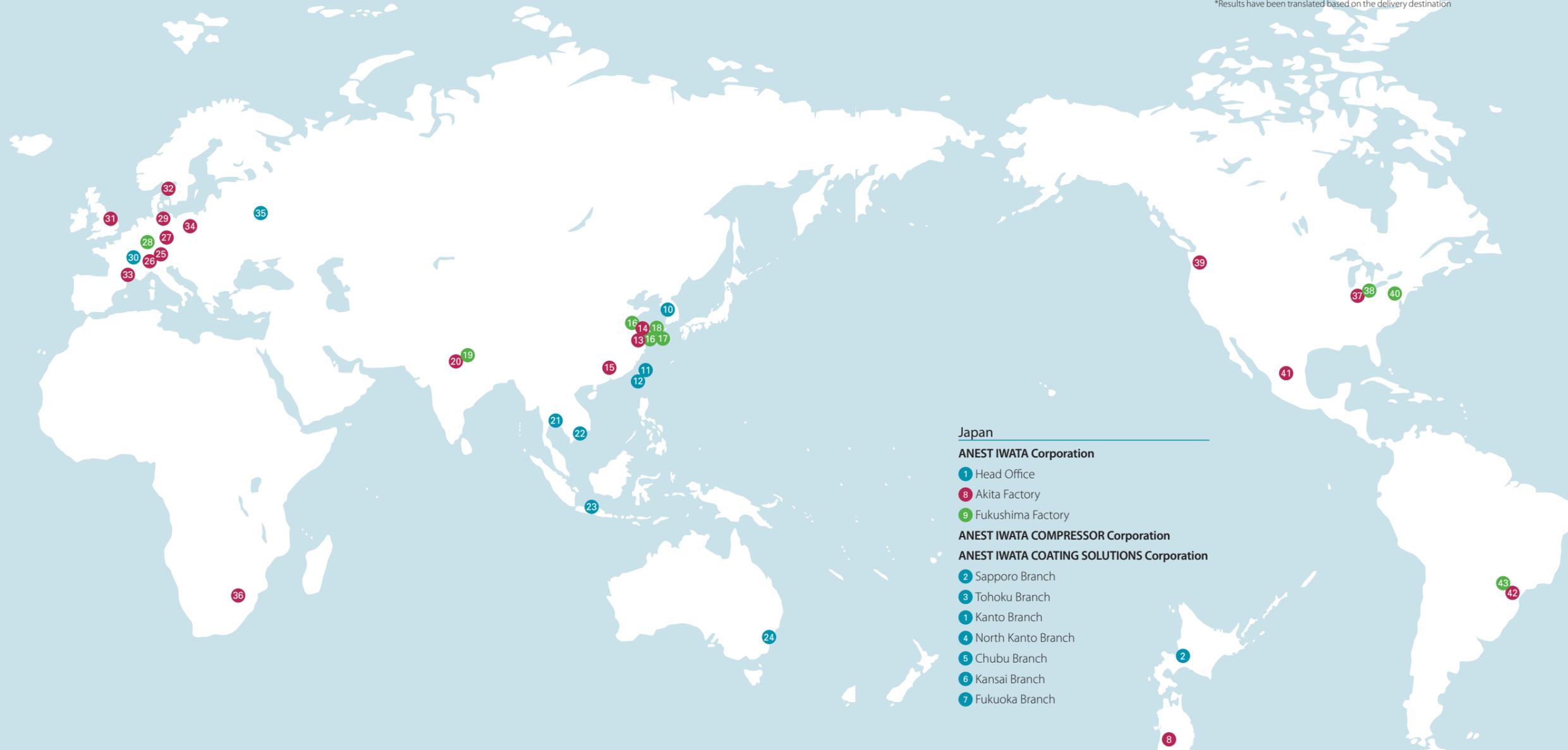
Starting from the late 1980's, the Group has made full-entry into the overseas market by establishing bases in Asia, followed by North America and Europe. Currently, we manufacture and sell our products in 22 countries and regions around the world. Our overseas sales have grown considerably, accounting for 56.4%* of total sales. As the markets continue to expand in each area, we are dedicated to providing high-quality products that match various market needs.

43 bases in **21** countries and regions

Ratio of overseas sales to total sales: **56.4%**

- Air Energy Division / Coating Division
- Air Energy Division
- Coating Division

*Results have been translated based on the delivery destination



Japan

ANEST IWATA Corporation

- 1 Head Office
- 8 Akita Factory
- 9 Fukushima Factory

ANEST IWATA COMPRESSOR Corporation

ANEST IWATA COATING SOLUTIONS Corporation

- 2 Sapporo Branch
- 3 Tohoku Branch
- 1 Kanto Branch
- 4 North Kanto Branch
- 5 Chubu Branch
- 6 Kansai Branch
- 7 Fukuoka Branch

Europe

- 25 ANEST IWATA STRATEGIC CENTER S.R.L.
- 26 Anest Iwata Italia s.r.l.
- 27 ANEST IWATA Deutschland GmbH
- 28 ANEST IWATA Europe GmbH
- 29 HARDER & STEENBECK GmbH & Co.KG
- 30 ANEST IWATA France S.A.
- 31 ANEST IWATA (U.K.) Ltd.
- 32 Anest Iwata Scandinavia AB
- 33 ANEST IWATA Iberica, S. L.
- 34 ANEST IWATA Polska Sp. Z o.o.

Asia

- 10 ANEST IWATA Korea Corp.
- 11 ANEST IWATA Taiwan Corporation
- 12 ANEST IWATA SPARMAX Co., Ltd.
- 13 ANEST IWATA INDUSTRIAL MACHINERY (JIAXING) COMPANY LIMITED
- 14 ANEST IWATA (SHANGHAI) Corporation
- 15 ANEST IWATA (DONGGUAN) Corporation
- 16 ANEST IWATA FEELER Corporation
- 17 Shanghai Screw Compressor Co., Ltd.
- 18 Shanghai Globe Screw Technology Co., Ltd.
- 19 ANEST IWATA MOTHERSON Pvt. Ltd.
- 20 ANEST IWATA MOTHERSON COATING EQUIPMENT Pvt. Ltd.
- 21 ANEST IWATA SOUTHEAST ASIA Co., Ltd.
- 22 ANEST IWATA Vietnam Co., Ltd.
- 23 PT. ANEST IWATA INDONESIA

Other

U.S.

- 37 ANEST IWATA USA, Inc.
- 38 ANEST IWATA AIR ENGINEERING, Inc.
- 39 ANEST IWATA-Medea, Inc.
- 40 Powerex-Iwata Air Technology, Inc.

Mexico

- 41 ANEST IWATA Mexico, S. de R.L. de C.V.

Brasil

- 42 ANEST IWATA DO BRASIL COMERCIAL LTDA.
- 43 AIRZAP-ANEST IWATA INDÚSTRIA E COMÉRCIO LTDA.

Australia

- 24 ANEST IWATA Australia Pty. Ltd.

Russia

- 35 ANEST IWATA RUS LLC

South Africa

- 36 ANEST IWATA South Africa (Pty) Ltd.

Stock Information

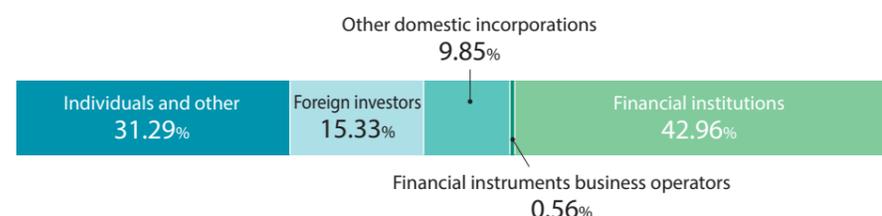
Number of Shares Issued (As of March 31, 2019)

Total number of authorized shares	189,290,000 shares
Total number of shares issued	41,738,841 shares (Excluding 6,664 treasury shares)
Number of shareholders	2,820

Principal Shareholders (As of March 31, 2019)

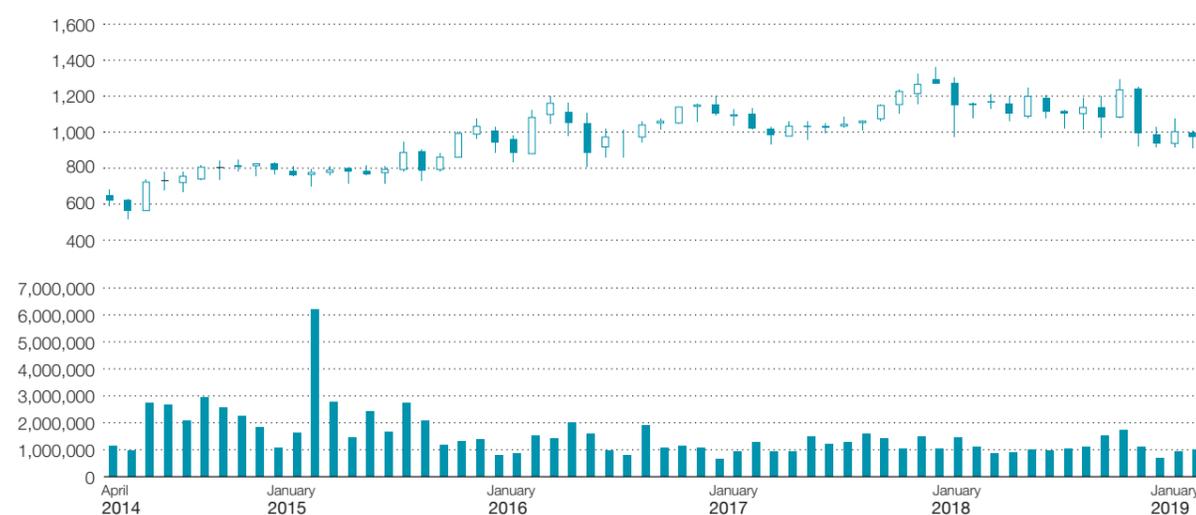
Name	Number of shares owned (thousands)	Ownership percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust account)	3,725	8.9
The Master Trust Bank of Japan, Ltd. (Trust account)	3,096	7.4
The Dai-ichi Life Insurance Company, Limited	2,272	5.4
ANEST IWATA Supplier Shareholding Association	1,841	4.4
ANEST IWATA Customer Shareholding Association	1,761	4.2
Meiji Yasuda Life Insurance Company	1,520	3.6
MUFJ Bank, Ltd.	1,105	2.6
Resona Bank, Limited	1,034	2.5
The Joyo Bank, Ltd.	960	2.3
Taikisha Ltd.	895	2.1

Composition of Shareholders (As of March 31, 2019)



(Note) 1. The shareholding ratio has been calculated by subtracting the number of treasury shares (6,664 shares).
 2. According to a Report of Possession of Large Volume (Change Report) submitted by the Mitsubishi UFJ Financial Group, Inc. (Joint holders: MUFJ Bank Ltd., Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., and MU Investments Co., Ltd.) for public inspection, as of April 16, 2018, it held 3,370,535 shares of the Company's shares as of April 9, 2018. However, as of March 31, 2019, the actual number of shares held by the said company could not be confirmed by the Company and accordingly, it was not included in the above major shareholders.

Stock Prices and Trading Volume (From April 2014 to March 2019)



Corporate Profile (As of March 31, 2019)

Company Name	ANEST IWATA Corporation
Head Office	3176, Shinyoshida-cho, Kohoku-ku, Yokohama 223-8501, Japan
Representative	Takahiro Tsubota, President
Founded	May, 1926
Incorporated	June, 1948
Main Business	Manufacture and sales of air compressors, vacuum pumps, coating equipment, and coating systems
Capital	3,354 million yen
Number of Employees	1,736 (Japan: 616, Overseas: 1,120)
End of Fiscal Year	March 31
Listed Securities Exchange	First section, Tokyo Stock Exchange



Head Office



Akita Factory



Fukushima Factory

Domestic Locations

Branch	Factories
Sapporo Branch	
Tohoku Branch	Akita Factory
Kanto Branch	Fukushima Factory
North Kanto Branch	
Chubu Branch	
Kansai Branch	
Fukuoka Branch	

Consolidated Subsidiaries

Japan

ANEST IWATA COMPRESSOR Corporation
 ANEST IWATA COATING SOLUTIONS Corporation
 Air Engineering Corporation

Europe

ANEST IWATA Deutschland GmbH
 ANEST IWATA Europe GmbH
 HARDER & STEENBECK GmbH & Co.KG
 ANEST IWATA STRATEGIC CENTER s.r.l.
 Anest Iwata Italia s.r.l.
 ANEST IWATA France S.A.
 ANEST IWATA (U.K.) Ltd.
 Anest Iwata Scandinavia AB
 ANEST IWATA Iberica, S. L.
 ANEST IWATA Polska Sp. Z o.o.

Asia

SHANGHAI ANEST IWATA COATING MACHINERY CORPORATION
 ANEST IWATA INDUSTRIAL MACHINERY (JIAXING) COMPANY LIMITED
 ANEST IWATA (SHANGHAI) Corporation
 ANEST IWATA (DONGGUAN) Corporation
 ANEST IWATA FEELER Corporation
 Shanghai Screw Compressor Co., Ltd.
 Shanghai Globe Screw Technology Co., Ltd.
 ANEST IWATA Taiwan Corporation
 ANEST IWATA SPARMAX Co., Ltd.
 ANEST IWATA MOTHERSON Pvt. Ltd.
 ANEST IWATA MOTHERSON COATING EQUIPMENT Pvt. Ltd.
 ANEST IWATA SOUTHEAST ASIA Co., Ltd.
 ANEST IWATA Korea Corp.
 ANEST IWATA Vietnam Co., Ltd.
 PT. ANEST IWATA INDONESIA

Other Regions

ANEST IWATA USA, Inc.
 ANEST IWATA-Medea, Inc.
 ANEST IWATA AIR ENGINEERING, Inc.
 ANEST IWATA Mexico, S. de R.L. de C.V.
 ANEST IWATA DO BRASIL COMERCIAL LTDA.
 AIRZAP-ANEST IWATA INDÚSTRIA E COMÉRCIO LTDA.
 ANEST IWATA Australia Pty. Ltd.
 ANEST IWATA RUS LLC
 ANEST IWATA South Africa (Pty) Ltd.



ANEST IWATA Corporation

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223-8501, Japan

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