

Hisaka Newsletter

The 91st Fiscal Year

From April 1, 2019 to March 31, 2020



Starting a New Mid-Term Business Plan
Promoting Various Measures in Response to
“a Drastically Changing World and Social Issues”

June 2020, President and CEO,
Yoshikazu Takeshita

BUSINESS REPORT

To our shareholders,

Our 91st fiscal year has ended, and we would like to provide an overview report on this fiscal year.

Although the United States had a robust economy this fiscal year, there was a rapidly growing sense of slowdown due to intensifying trade friction between the United States and China and the spread of the new coronavirus pandemic. The Japanese domestic economy maintained its moderate recovery trend, but we are approaching a recession due to factors such as the stagnation of global economic activity. In this economic environment, orders received by our company group reached 31,952 million yen (a 4.2% increase over the previous fiscal year), with orders received progressing favorably for the Heat Exchanger Segment, Valve Segment, and other segments. With large projects in the Process Engineering Segment, and steady progress in orders received for the Valve Segment, net sales reached 32,511 million yen (an increase of 5.1% year-on-year).

In terms of profit, the increase in profitability for the Process Engineering Segment, and other such factors led to an operating profit of 2,274 million yen (an increase of 11.4% year-on-year), with an ordinary profit of 2,573 million yen (an increase of 10.1% year-on-year). With regard to extraordinary profit and loss, while we recorded extraordinary losses for disaster-related expenses and the like in the previous fiscal year, during this fiscal year we recorded gains from the sales of fixed assets, and gains on negative goodwill by our acquiring Komatsugawa Chemical Engineering Co., Ltd. as a subsidiary and the like as extraordinary income. As a result of all these factors, the net profit for the fiscal year attributable to shareholders of the parent company was 2,080 million yen (an increase of 30.3% year-on-year).

We would like to ask all of our valued shareholders for their continued cooperation and support.

Results by Segment

(*Monetary amounts listed herein are those before the elimination of internal transactions.)

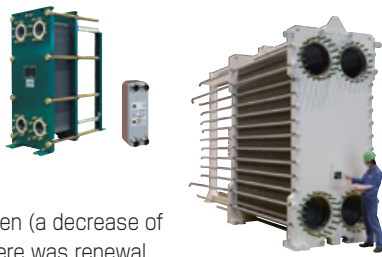
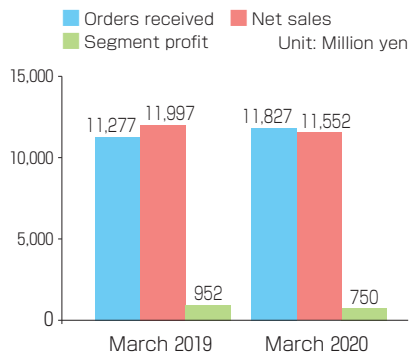
Heat Exchanger Segment

The Heat Exchanger Segment manufactures and sells plate heat exchangers that perform the heating and cooling of fluids, which are essential in various industries.

Orders received reached 11,827 million yen (a 4.9% increase over the previous fiscal year). While orders for industrial equipment and air conditioning performed sluggishly, orders for the Japanese domestic chemicals industry and marine industry progressed favorably, resulting in an increase of orders.

Net sales were 11,552 million yen (a decrease of 3.7% year-on-year). Although there was renewal demand in the Japanese domestic chemicals industry and an abundant order backlog for the marine industry, revenue declined due to a decrease in large-scale projects for power plants and overseas plants.

Due to a decrease in sales, a declining sales ratio for products of relatively good profitability, and valuation loss due to an increasing inventory of raw materials, the segment profit was 750 million yen (a decrease of 21.2% year-on-year).



Process Engineering Segment

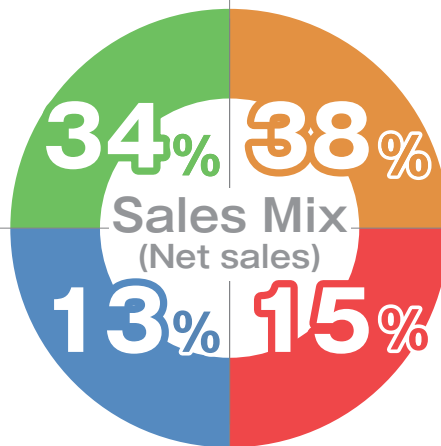
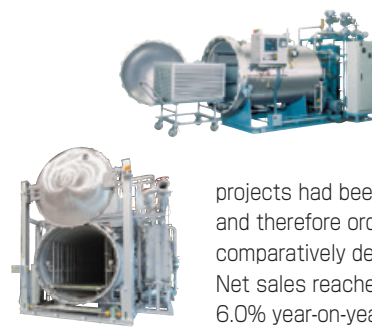
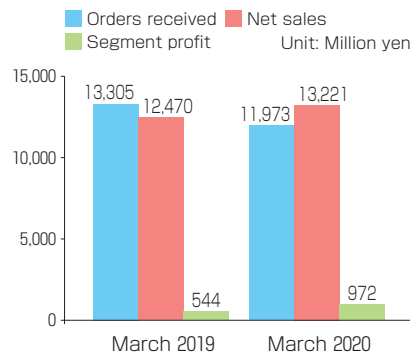
The Process Engineering Segment manufactures and sells cooking disinfecting devices used for retort pouch foods and the like, plus sterilizing devices for pharmaceuticals, and dyeing and finishing devices for fiber products.

Orders received reached 11,973 million yen (a 10.0% decrease from the previous fiscal year). In the pharmaceutical equipment division, orders received for pharmaceutical equipment and maintenance were strong. However, in the food manufacturing equipment division, orders for large-scale

projects had been received in the previous fiscal year, and therefore orders received this fiscal year comparatively decreased.

Net sales reached 13,221 million yen (an increase of 6.0% year-on-year). In the pharmaceutical equipment division, because there were large-scale projects in the previous fiscal year, net sales comparatively decreased. However, in the food manufacturing equipment division, revenue increased due to large-scale projects for the cooked rice plant and dairy products plant.

Due to an increase in net sales and an improved cost structure, the segment profit was 972 million yen (an increase of 78.7% year-on-year).



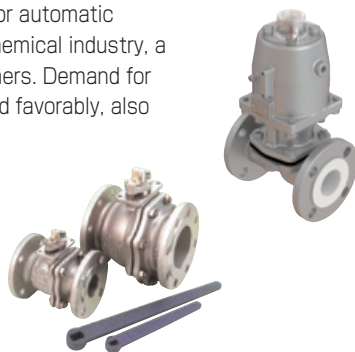
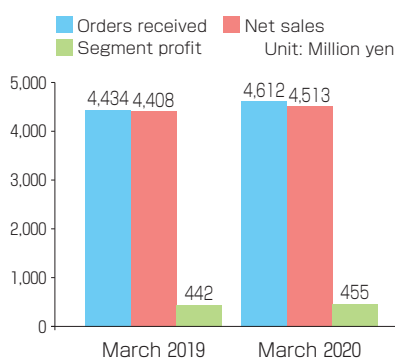
Valve Segment

The Valve Segment manufactures and sells ball valves and the like used in the control of various fluids.

Orders received reached 4,612 million yen (a 4.0% increase over the previous fiscal year). In part due to labor shortages, the demand for automatic valves increased, mainly in the chemical industry, a market for our main sales customers. Demand for the chocolate industry progressed favorably, also contributing to the increase.

The favorable trend in orders received led to net sales of 4,513 million yen (an increase of 2.4% year-on-year).

Due to an increase in net sales, the segment profit was 455 million yen (an increase of 3.0% year-on-year).



Other Segments

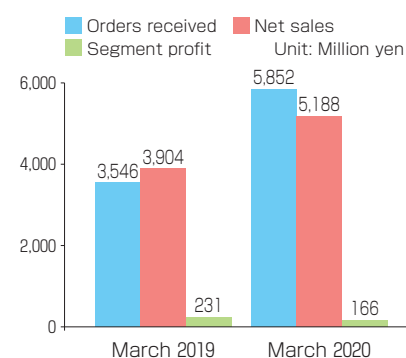
Other segments include operations carried out by both domestic and overseas subsidiaries, and our solar power generation operations which are carried out at the Konoike Plant.

Orders received reached 5,852 million yen (a 65.0% increase over the previous fiscal year). This increase was due to our subsidiary in China receiving orders for large-scale projects for dyeing and finishing equipment, as well as the addition of orders received by Komatsugawa Chemical Engineering Co., Ltd., which

was included in the scope of consolidation from the current fiscal year.

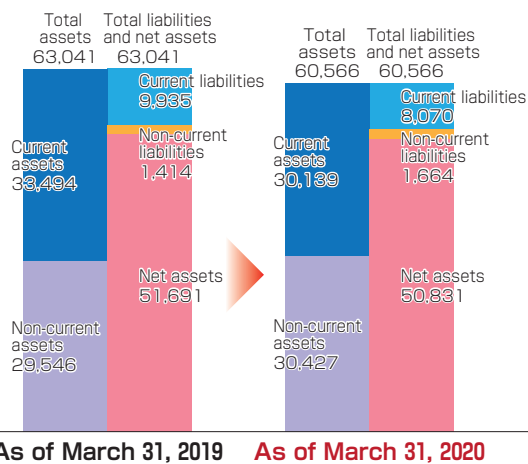
Net sales reached 5,188 million yen (an increase of 32.9% year-on-year). Our subsidiary in Malaysia saw an increase in projects of heat exchangers, and both orders received and net sales at Komatsugawa Chemical Engineering Co., Ltd. contributed to the revenue increase.

While profitability was improved at domestic subsidiaries and our subsidiary in Malaysia, deteriorating performance at our subsidiary in China led to a segment profit of 166 million yen (a decrease of 28.0% year-on-year).



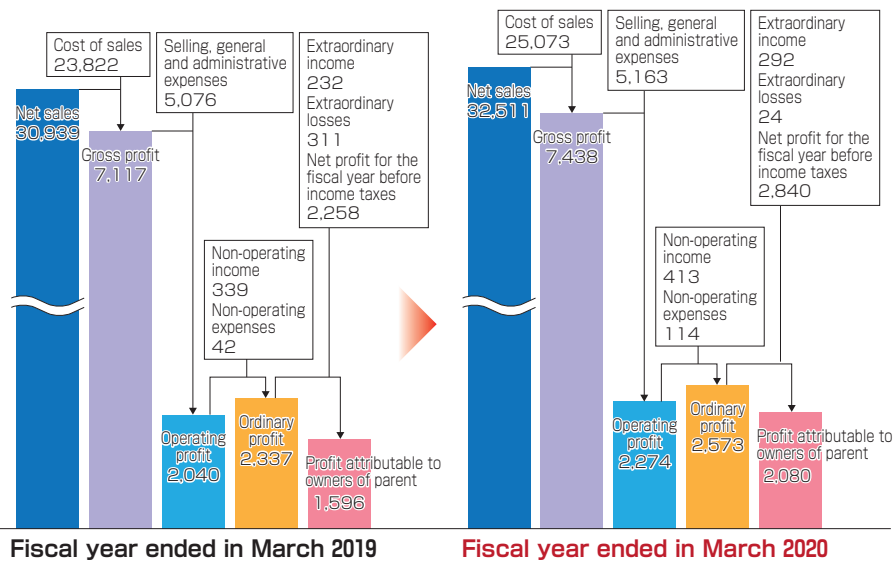
Summary of Consolidated Balance Sheets

Unit: Million yen



Summary of Consolidated Profit and Loss Statement

Unit: Million yen



Topics

G-20

Previous Mid-Term Business Plan Has Ended Starting a New 3-Year Mid-Term Business Plan to Achieve a 10-Year Vision Target

1. Summary of the Previous G-17 Mid-Term Business Plan

With the Previous G-17 Mid-Term Business Plan (FY2017 to FY2019), we used "Change Makes Change (Changing Ourselves to Change That Which is Around Us)" as the slogan for our drive to implement a variety of management strategies. As a result, we were able to achieve medium-term growth, such as achieving our consolidated performance targets for orders received, net sales, and net profit for the fiscal year.

Main Initiatives and Achievements

- Strengthen the pharmaceutical equipment manufacturing and sales business through M&A (Komatsugawa Chemical Engineering Co., Ltd.)
- Establish the Ome Plant in the Kanto Area, to expand the sales area for the Food Manufacturing Equipment Segment, where the market continues to expand
- Acquire commercial land (Ikoma City, Nara Prefecture) and start enhancing the production capacity of the mother plant
- Improve production efficiency through manufacturing innovation activities (HNPS: Hisaka New Production System) and the renovation of mainframe systems
- Create dedicated structure for carrying out activities for creating new business, by establishing the New Business Promotion Department
- Strengthen employee awareness activities for solving social issues and achieving sustainable growth, in the CSR Promotion Division

2. New G-20 Mid-Term Business Plan (FY2020 to FY2022)

(1) 10-Year (FY2029) Vision (Formulated in FY2019)

"Realizing a group of employees contributing to solving social issues by seeking fluid heat and pressure control technologies much higher, wider, and deeper."

Net sales: 50 billion yen Operating profit: 5 billion yen (10.0%)

(2) G-20 Mid-Term Vision and Slogan

Mid-Term Vision "Challenge ourselves to expand business and become a dynamic group of employees"

Slogan "Let's all create new value through new initiatives and actions to achieve the overwhelming presence of a Number One Company!"

3. Shareholder Return Policy

We recognize that the return of profits to our shareholders is one of our most important policies, and have established a "Basic Capital Policy" in the G-20 Mid-Term Business Plan to enhance shareholder returns. We plan to increase dividends for the fiscal year ending in March 2021 by 10 yen over the fiscal year ending in March 2020, to 30 yen (interim dividends of 15 yen and year-end dividends of 15 yen).

[Results of the Previous Mid-Term Business Plan and Targets for the New Mid-Term Business Plan]

(Unit: Millions of yen)

	Reference: Final fiscal year of "G-14" (Period ended in March 2017)	Final fiscal year of "G-17" (Period ended in March 2020)			Final fiscal year of "G-20" (Period ended in March 2023)
		Target	Results	Achievement rate	Target
Orders received	26,594	31,000	31,952	103.1%	35,000
Net sales	25,023	30,000	32,511	108.4%	34,000
Operating profit	1,161	2,400	2,274	94.8%	2,720
Operating profit margin	4.6%	8.0%	7.0%	-1.0pt	8.0%
Ordinary profit	1,374	2,600	2,573	99.0%	2,920
Profit attributable to owners of parent	2,191	1,820	2,080	114.3%	2,000
ROE	4.6%	4.0%	4.1%	+0.1pt	3.8%

Consolidated Results

Unit: Million yen

Fiscal year Category	87th fiscal year interim (Period ended in March 2016)	88th fiscal year interim (Period ended in March 2017)	89th fiscal year interim (Period ended in March 2018)	90th fiscal year (Period ended in March 2019)	91st fiscal year (Period ended in March 2020)
Orders received	25,770	26,594	28,914	30,669	31,952
Net sales	25,393	25,023	26,891	30,939	32,511
Operating profit	1,184	1,161	1,607	2,040	2,274
Ordinary profit	1,532	1,374	1,963	2,337	2,573
Net profit attributable to owners of parent	2,688	2,191	1,927	1,596	2,080
Net profits for this period per share (in yen)	90.04	73.42	64.56	53.48	73.39
Gross assets	58,473	55,616	60,275	63,041	60,566
Net assets	47,191	48,254	51,014	51,691	50,831
Net assets per share (in yen)	1,580.27	1,616.24	1,708.71	1,731.40	1,804.13

Note: "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) etc. have been applied since the start of the 90th fiscal year. Major management benchmarks for the 89th fiscal year have been set applying the corresponding accounting standards retroactively.

Company Profile (Current as of Tuesday, March 31, 2020)

Company name:	HISAKA WORKS, LTD.
Established:	May 1942
Capital:	4.15 billion yen
Number of employees:	Consolidated: 906, Non-consolidated: 620
Head office address:	2-12-7 Sonezaki, Kita-ku, Osaka City
Branch offices and plant:	Tokyo Branch Office (Chuo-ku, Tokyo) Nagoya Branch Office (Nagoya City, Aichi) Kyushu Branch Office (Fukuoka City, Fukuoka) Kitakyushu Branch Office (Kitakyushu City, Fukuoka) Konoike Plant (Higashiosaka City, Osaka) Ome Plant (Ome City, Tokyo)
Major subsidiaries:	MICROZERO CO., LTD. (Tachikawa City, Tokyo) ASAHI INDUSTRY CO., LTD. (Ome City, Tokyo) KOMATSUGAWA CHEMICAL ENGINEERING CO., LTD. (Chiyoda-ku, Tokyo) HISAKAWORKS S.E.A. SDN. BHD. (Malaysia) HISAKA WORKS (CHINA) CO.,LTD. (China)

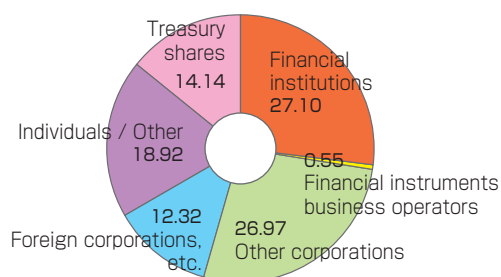
Directors (as of June 26, 2020)

Director, President and Chief Executive Officer	Yoshikazu Takeshita
Director, Senior Managing Executive Officer	Tetsuya Inoue
Director, Managing Executive Officer	Koji Ohta
Director, Managing Executive Officer	Tadashi Iizuka
Director, Managing Executive Officer	Toshiyuki Funakoshi
Director (Outside)	Koji Mizumoto
Director (Outside)	Yuko Tsuno
Corporate Auditor	Mitsugu Nakamichi
Auditor (Outside)	Akira Nakai
Auditor (Outside)	Noriyuki Fujita

Share Status (as of Tuesday, March 31, 2020)

Total number of authorized shares:	129,020,000
Total number of shares issued:	32,732,800
Number of shareholders:	2,986

Shareholding ratio by owner (%)



Major shareholders (Top 10)

Shareholder name	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,273,200	8.08%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,428,100	5.08%
NIPPON STEEL Stainless Steel Corporation	1,400,000	4.98%
Nippon Life Insurance Company	960,770	3.41%
MUFG Bank, Ltd.	912,640	3.24%
Inaba Denki Sangyo Co., Ltd.	910,802	3.24%
TAKUMA Co., Ltd.	642,000	2.28%
Mizuho Bank, Ltd.	612,640	2.17%
STATE STREET BANK AND TRUST COMPANY 505103	602,205	2.14%
SSBTC CLIENT OMNIBUS ACCOUNT	554,733	1.97%

Note: Treasury shares (4,628,426 shares) are excluded.

Shareholders' Memo

Business year	April 1 to March 31 of the following year
Record date for year-end dividends	March 31
Record date for interim dividends	September 30
Annual General Meeting of Shareholders	June every year
Keeper of shareholder register and account management institution for special account	Mitsubishi UFJ Trust and Banking Corporation
Contact information	Mitsubishi UFJ Trust and Banking Corporation, Osaka Securities Agency Division 3-6-3 Fushimimachi, Chuo-ku, Osaka, 541-8502 TEL: 0120-094-777 (Toll-free)
Listed stock exchange	First section of the Tokyo Stock Exchange
Public notice method	Electronic notices Public notice URL: https://www.hisaka.co.jp However, in the event of an accident or other unavoidable event that precludes electronic public notice, notices will be published in the Nikkei newspaper.

(Notice)

- Changes to a shareholder's address, requests for purchases, specifications of a transfer account for dividends, and other such procedures are, in principle, handled at the account management institution (securities firm or the like) where you have opened your account. Please inquire with the securities firm or institution where your account is set up. Please be aware that the keeper of the shareholder register (Mitsubishi UFJ Trust and Banking Corporation) does not handle such inquiries.
- For procedures related to shares registered in a special account, Mitsubishi UFJ Trust and Banking Corporation is the account management institution. Please inquire with the account management institution for special accounts listed to the left (Mitsubishi UFJ Trust and Banking Corporation). The Mitsubishi UFJ Trust and Banking Corporation main and branch offices also accept messages.
- For unreceived dividends, payments can be made at Mitsubishi UFJ Trust and Banking Corporation main and branch offices.