

CKD Report 2020

Integrated Report



CKD

Pioneering the Future with Automation

Having remained ahead of the needs of the times since its inception as a pioneer in automation technology, CKD has developed a variety of products centered on automatic machinery and component products. The technologies for these products have been cultivated and are continuing to evolve in keeping with the times. Boasting an extensive product lineup, CKD possesses a wide range of supporting technologies that extend across industrial fields.

In the years to come, we are aiming to become a total factory automation (FA) worldwide supplier by integrating technologies that have been refined over many years in both automatic machinery and component products.



About This Report

- This publication aims to provide all stakeholders with an understanding of the overall picture at CKD. Published as an integrated report, this report brings together summaries of financial information, such as medium- to long-term management strategies, value creation and business performance as well as non-financial information, including that relating to the environment, society and governance (ESG).
- This edition is based on international integrated reporting frameworks, such as the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI) standards.
- We will use integrated reports as a tool to communicate with our stakeholders to make social contributions through our business, to realize a sustainable society and to improve corporate value.

Communication Tools



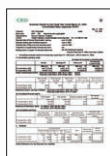
Integrated Report

We compile and publish in areas such as performance highlights, messages from the president, business overviews, strategies and future directions, past performance trends, and financial information.



Securities Report

(Only available in Japanese)
Reports on the quarterly and annual results for the fiscal year.



Materials Related to Business Results

Posts quarterly reports and financial briefing materials.



General Meeting of Shareholders Materials

Contains materials relating to the General Meeting of Shareholders, such as convocation and resolution notices.



Corporate Governance Report

(Only available in Japanese)
Contains the status of corporate governance.



CSR Report

(Only available in Japanese)
Reports on the corporate activities of the CKD Group. Issued as an integrated report instead of the previous CSR Report.



CKD Technical Journal

(Only available in Japanese)
Introduces technical information about the technologies and the results of research and development that have been accumulated over many years through the resolution of challenges and problems related to innovating automation.

Please visit the main communication tools posted under Home > INVESTOR RELATIONS > IR Library on the CKD website.

URL: <https://www.ckd.co.jp/english/ir/>



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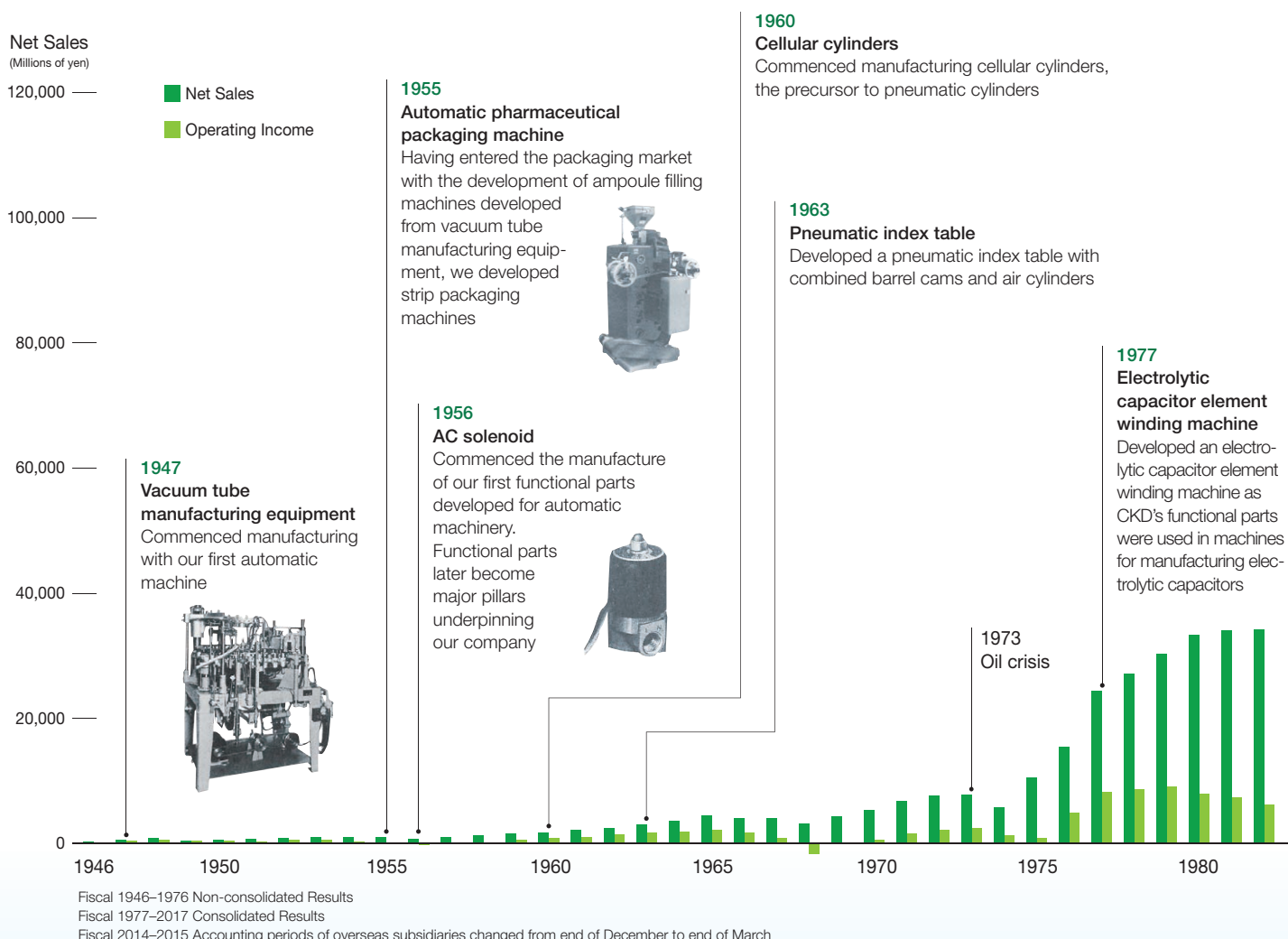
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Disclaimer

Based on information currently available to the Company and certain information deemed reasonable, for example, the forward-looking statements with regard to the business forecasts contained in this report are not something that we as a company guarantee. Furthermore, actual results may differ significantly due to a variety of contributory factors.

Continually Evolving CKD

Having been engaged in the research and development of automation and fluid control technologies for more than 75 years since its inception in 1943, CKD boasts a wide variety of products. These products have penetrated markets widely and are contributing to the realization of an affluent society and the creation of a new era.



Company History

1943

Established as Japan Aircraft Electric Co., Ltd.



1945

Changed company name to Chukyo Electric Co., Ltd.

1960

Established Chukyo Seiki Co., Ltd. in Inuyama City, Aichi Prefecture (renamed as CKD Seiki Ltd. in November 1978)

1961

Plant relocated to Komaki City, Aichi Prefecture



1962

Listed on the Second Section of the Nagoya Stock Exchange

1963

Established Japan Controls Ltd. in Kasugai City, Aichi Prefecture (renamed as CKD Controls Ltd. in January 1978)

1971

Listed on the First Section of the Nagoya Stock Exchange

1979

Changed company name to CKD Corporation

Listed on the First Section of the Tokyo Stock Exchange

1984

Established CKD Precision Ltd. in Yokkaichi City, Mie Prefecture

Established M-CKD PRECISION SDN. BHD. in Malaysia as first overseas subsidiary

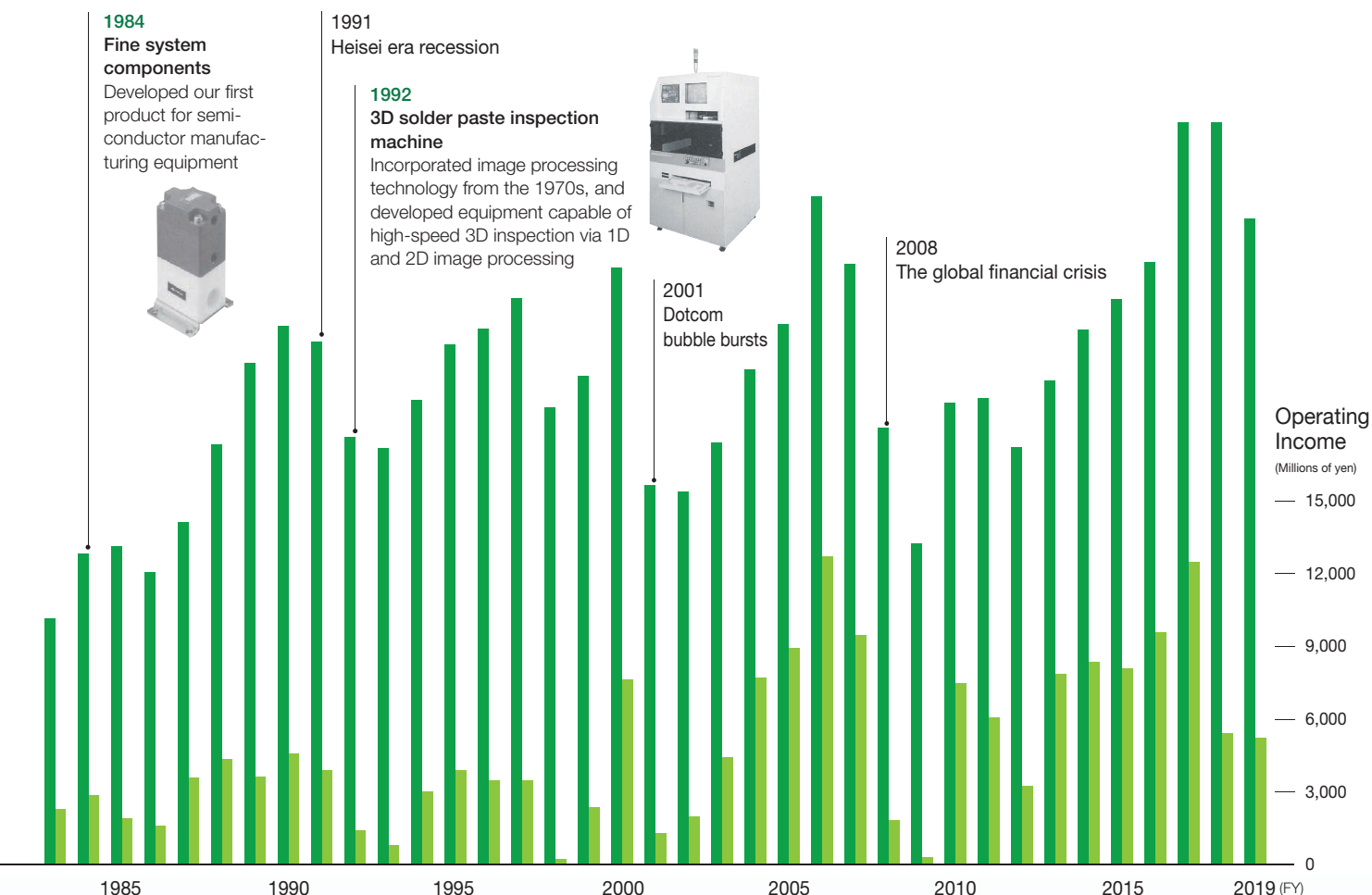


Fiscal 2019–2021 **Fourth Medium-Term Management Plan** Build-up CKD 2021

Fiscal 2016–2018 **Third Medium-Term Management Plan** Challenge CKD 2018

Fiscal 2013–2015 **Second Medium-Term Management Plan** GLOBAL CKD 2015

Fiscal 2010–2012 **First Medium-Term Management Plan** NEW CKD 2012



1985

Established CKD USA CORPORATION



1988

Established CKD THAI CORPORATION LTD.



1989

Established CKD SINGAPORE PTE. LTD.

2001

Established CKD (Shanghai) Corporation in China

2002

Established CKD Korea Corporation in South Korea

2003

Established CKD (China) Corporation

2007

Established TAIWAN CKD CORPORATION

2012

Changed company name to CKD Corporation

Established CKD Field Engineering Corporation as automatic machinery service company

2013

New CKD (China) Corporation plant completed

2014

Established PT CKD TRADING INDONESIA

Established CKD VIETNAM ENGINEERING CO., LTD.

Established PT CKD MANUFACTURING INDONESIA

2015

Established CKD MEXICO, S. de R.L. de C.V.

Established CKD India Private Limited

2016

Established CKD Europe B.V. in the Netherlands as our 14th overseas subsidiary

2017

Integrated CKD Nikki Denso Co., Ltd. business

2018

Opened the "Ohana nursery school," an on-site day care center at the Head Office/Komaki Plant



2019

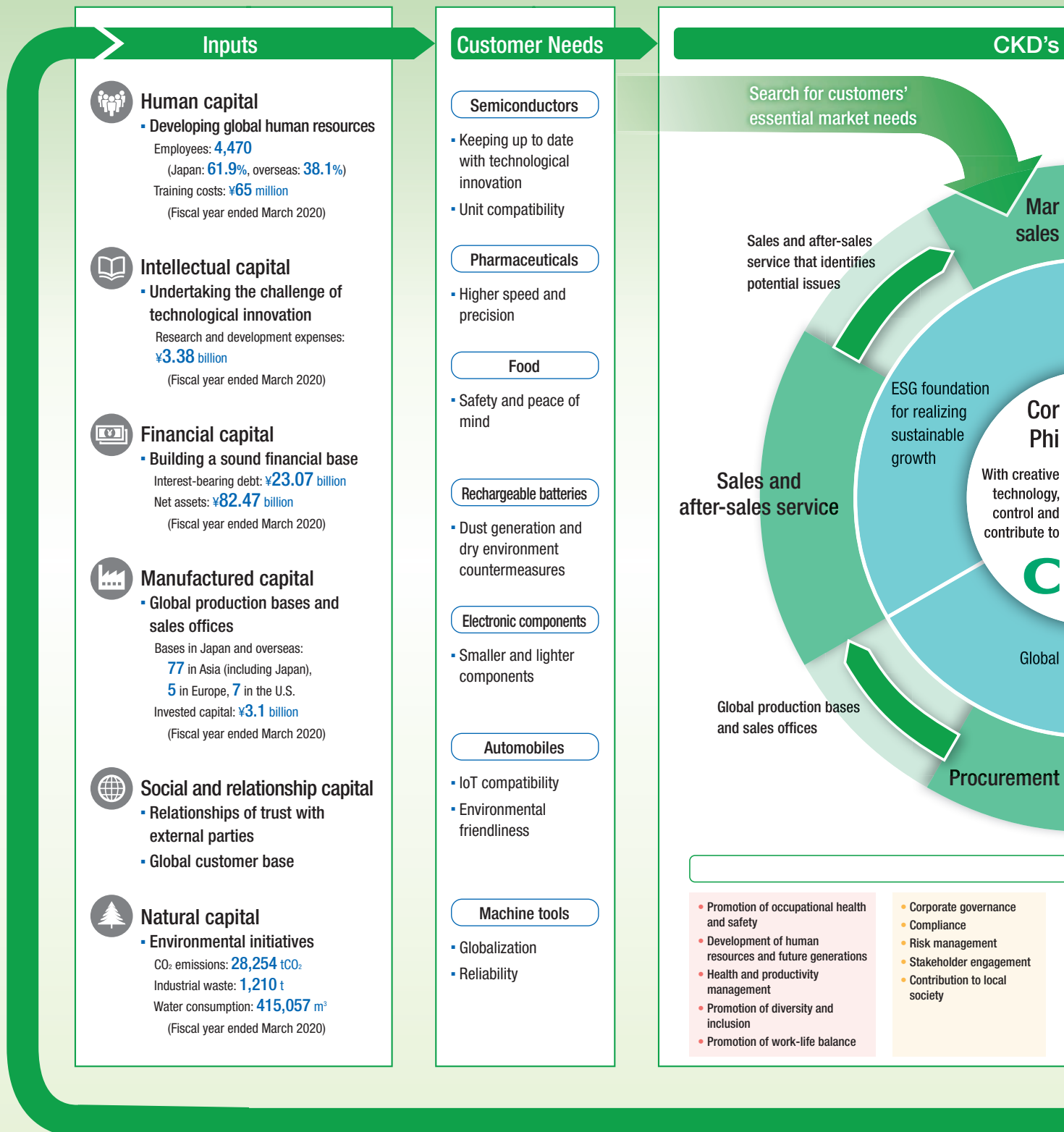
Tohoku Plant completed in Ohira-mura, in Kurokawa district of Miyagi Prefecture



Corporate Value Creation Model

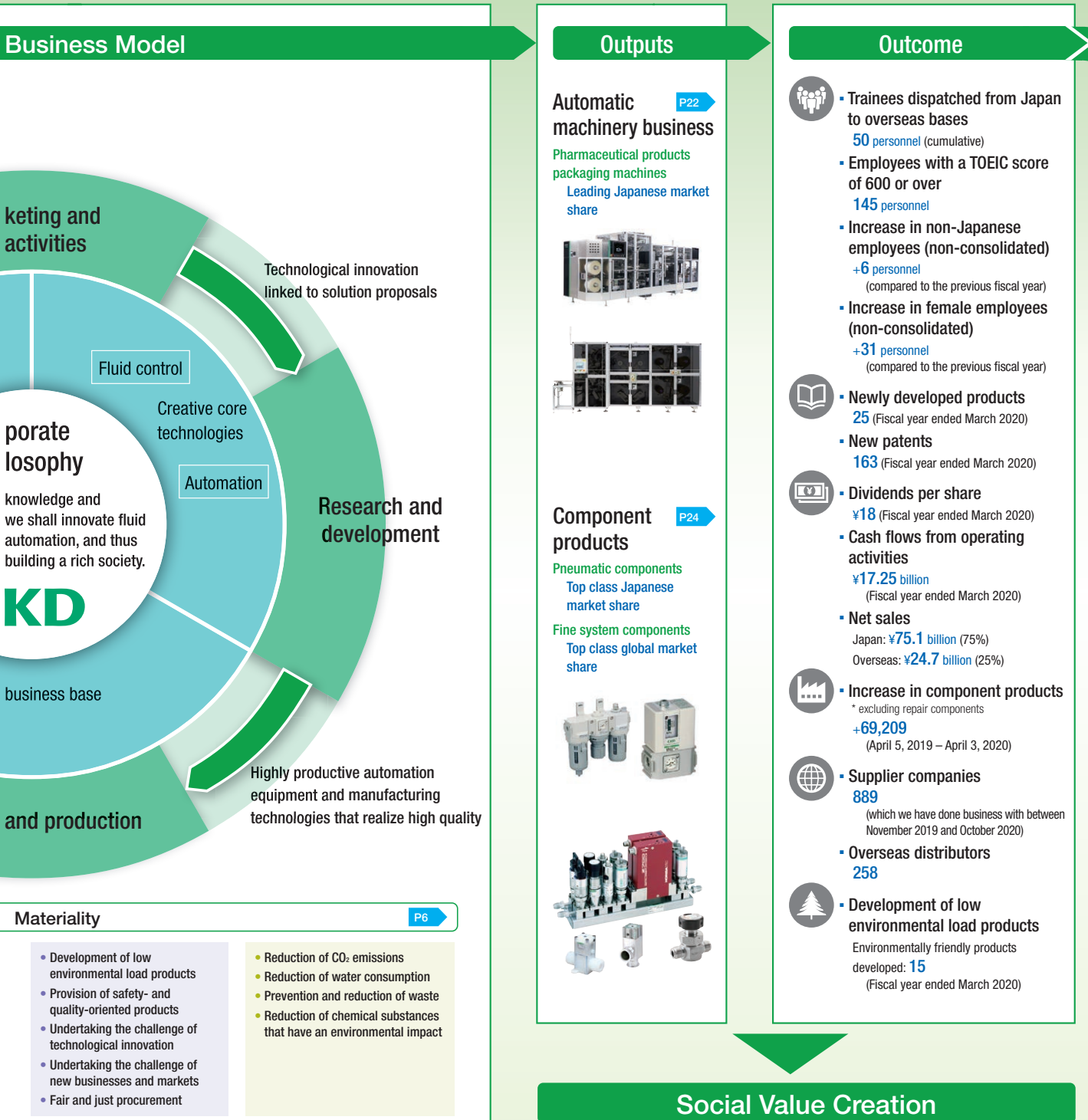
CKD aims to contribute to achieving the SDGs by investing capital in each focus domain and working on technological innovation and value creation to resolve various social issues through its automation and fluid control business domains.

10-Year Vision



Going forward, we will continue to contribute to the realization of an affluent society, as outlined in our corporate philosophy, without disrupting the cycle of social value creation.

GO CKD!

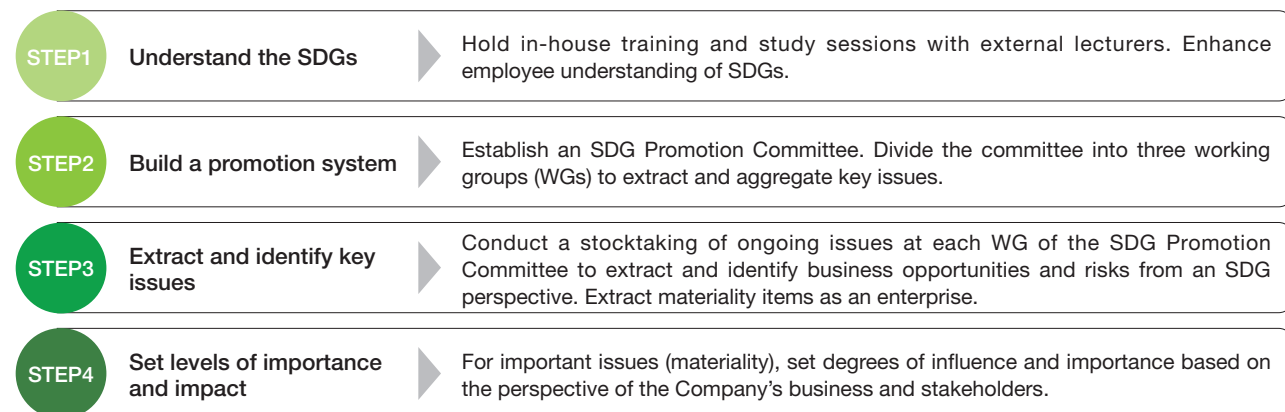


Materiality

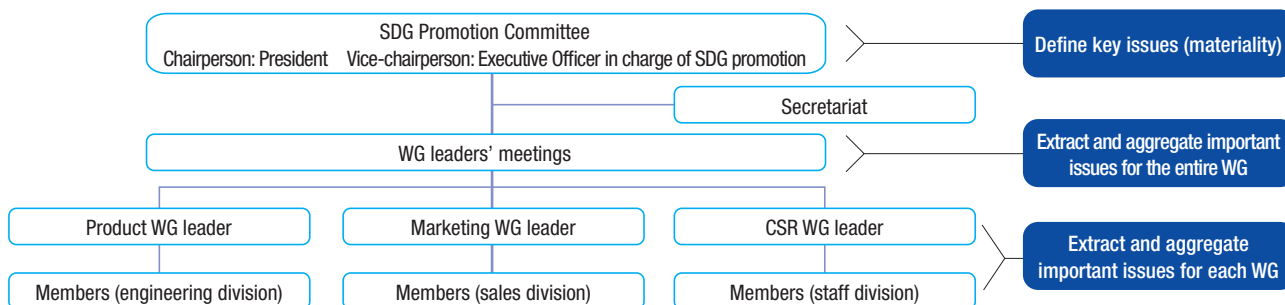
Sustainable Growth and Enhancing Corporate Value

In order to realize sustainable growth and enhance corporate value, we have established an SDG Promotion Committee to identify important issues that should be prioritized. Going forward, we will strive to set target values and KPIs (Key Performance Indicators) for these issues and implement specific initiatives to solve them in order to improve corporate value.

Priority Identification Process

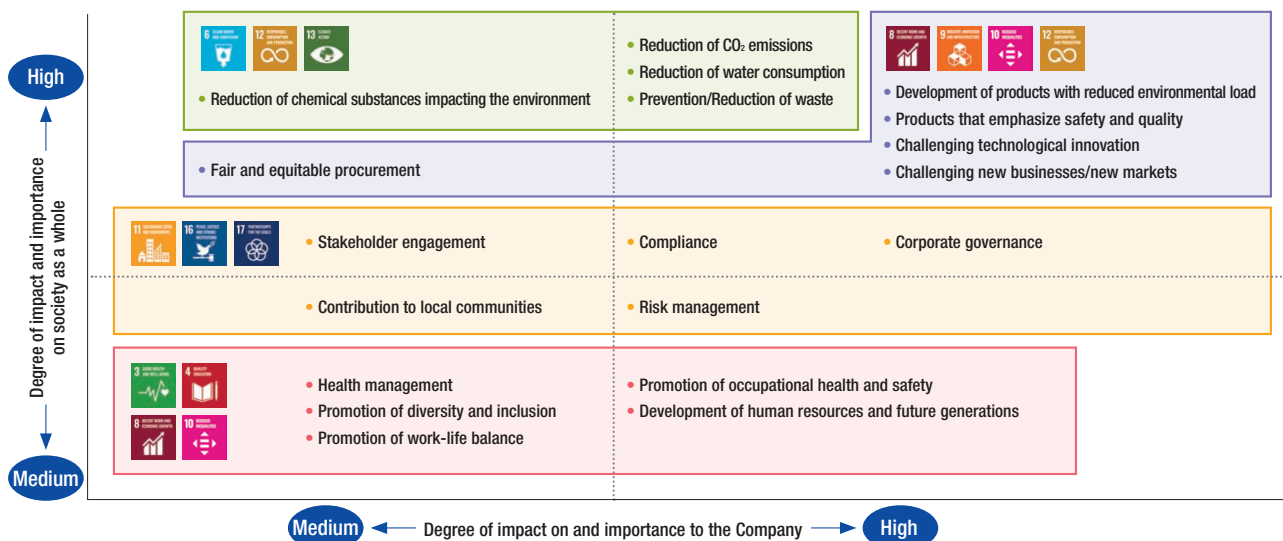


SDG Promotion Committee System Diagram



Materiality Matrix

Business Environment Foundation Society

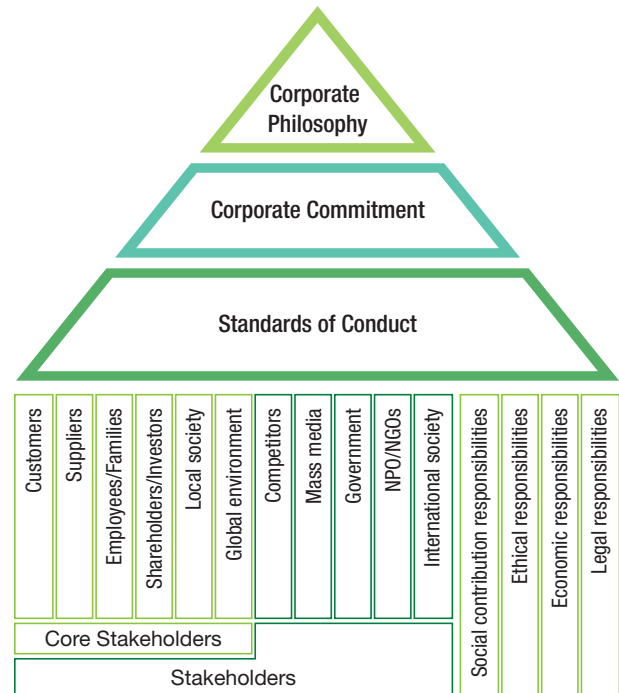


Stakeholder Engagement

Policies and Initiatives

In order to contribute to the realization of a sustainable society through our main businesses based on our Corporate Philosophy, Corporate Commitment, and Standards of Conduct, we appropriately execute the “social contribution responsibilities,” “ethical responsibilities,” “economic responsibilities,” and “legal responsibilities” that we, as a company, must fulfill for our stakeholders.

Within each department, we also utilize communication tools and provide opportunities to communicate with our stakeholders as part of our efforts to gain an understanding among these stakeholders regarding our activities.



Stakeholder Engagement Initiatives

Stakeholders	Primary Dialogue Methods	Primary Responsibilities and Challenges
Customers	<ul style="list-style-type: none"> Inquiry forms and other inquiry contact points Product information provided through websites and social media Plant observation tours, showrooms, seminars, and exhibitions 	We consistently engage our customers with a customer-oriented and modest mindset, prioritize safety, quality, and the environment, and offer products and services that satisfy our customers.
Suppliers	<ul style="list-style-type: none"> Shared procurement policies Production trend briefings Shared quality assurance policies 	We establish principles and basic policies for procurement activities, strengthen partnerships through fair, just transactions with our suppliers, and aim for mutual prosperity.
Employees/ Families	<ul style="list-style-type: none"> In-house publications, intranet Employee awareness surveys Opportunities to converse with top management Internal whistleblowing system Discussions with labor unions Safety and health committee Various training programs 	We aim to create healthy workplaces in which all employees can work safely and with a sense of purpose.
Shareholders and Investors	<ul style="list-style-type: none"> General meeting of shareholders Financial results briefings IR events/Individual meetings IR information website Consolidated reports/Annual reports/Shareholder communications 	We strive to actively disclose information and carry out dialogue in order to ensure transparency.
Local Society	<ul style="list-style-type: none"> Social contribution activities (science classes, forestation activities, etc.) Dispatch of instructors to lectures and educational sites Sharing information through websites and social media 	We aim to be an “open” company that can contribute to local communities and society.
Global Environment	<ul style="list-style-type: none"> Environmental management framework Environmental education Compliance with environmental regulations Development of low environmental load products 	We comply with environmental laws and regulations, work to prevent environmental pollution and reduce CO ₂ emissions, and undertake environmental management activities.

Risks and Opportunities

Mindset on Risk

Our Company defines risks as uncertain events that may affect our business through changes in the external or internal environment. In our aim to become a Total FA Worldwide Supplier and expand our business globally, we view the appropriate management of risk as a vital management issue and have established a committee under the direct control of the Board of Directors to conduct risk management.

Political conditions and market environments change day by day. Natural disasters, the COVID-19 pandemic, and other risks that affect corporate activities become more global and diversified every year. We categorize risks that may affect our business in terms of materiality, organize systems that allow us to respond to each, and review selected risks as necessary. Risks are not always negative factors; some may harbor opportunities for further growth of the Company. We will continue to capture such risks as opportunities and take bold action when appropriate. As we conduct risk management and improve our corporate value through business initiatives, we will work to help bring about a sustainable society.

	Risk Factors	Risks	Responses and Opportunities
Business	Changes in market environment due to political factors	<ul style="list-style-type: none"> Import/export or business restrictions in the semiconductor industry due to the US-China trade friction or Japan-Korea issues that would affect the Company's business, due to our high ratio of semiconductor industry sales 	Responses <ul style="list-style-type: none"> Prompt action to address changes in the market environment Expansion of new core businesses Local procurement overseas and production at multiple bases to comply with import/export restrictions Opportunities <ul style="list-style-type: none"> Increased demand for new capital investment due to decentralized siting of semiconductor production bases
	Product and service quality and liability	<ul style="list-style-type: none"> Burden of compensation for damages and loss of customer trust in the event of personal or property damage due to a product 	Responses <ul style="list-style-type: none"> Reinforcement of the quality assurance structure at all stages, from substances contained in raw materials to shipping inspections Development of IoT-compatible components, preventive maintenance, and long service life products Opportunities <ul style="list-style-type: none"> Increased demand for high value-added products due to an increase in customers who place importance on quality
	Decrease in market prices	<ul style="list-style-type: none"> Decreased profits due to commodification of some products and intensified competitive pricing with competitors in emerging economies 	Responses <ul style="list-style-type: none"> Development of high value-added products that stay ahead of competitors in emerging economies Roll-out of price-competitive products through alliances with other companies
Environment	Climate change and other environment-related risks	<ul style="list-style-type: none"> The impact on business activities due to regulation on the use and emission of greenhouse gases due to increased global environmental issues and from the strengthening of regulations on energy conservation laws Impact on the continuity of the Company's packaging machinery business in the event of delayed response to major transformations in the packaging business due to the global trend away from plastics 	Responses <ul style="list-style-type: none"> Prompt response to new regulations and to the demands placed on companies Prompt switch away from materials containing regulated substances Development of packaging machinery adapted to plastic-free packaging materials Opportunities <ul style="list-style-type: none"> Expansion of business in packaging machinery adapted to plastic-free packaging materials

	Risk Factors	Risks	Responses and Opportunities
Foundation	Compliance	<ul style="list-style-type: none"> Deterioration of corporate image and loss of trust caused by surcharges, fines, other sanctions, suspension of business, etc., due to exposure of graft or violations of competition law or other laws and regulations Loss of social trust due to negligence stemming from insufficient information on overseas laws and regulations at overseas bases with insufficient understanding of legal matters 	<p>Responses</p> <ul style="list-style-type: none"> Enforcement of standards of conduct, and education on compliance for employees Confirmation of information on countries' laws and regulations, and provision of such legal information to Group companies <p>Opportunities</p> <ul style="list-style-type: none"> Improvement of corporate image through reform of mindset and corporate culture to enact improvements without overlooking misconduct
	Information security	<ul style="list-style-type: none"> Dysfunction in internal systems or information leaks due to computer viruses, cyber attacks and associated loss of social credibility Impact on deliveries to business partners caused by suspension of production lines and distribution systems 	<p>Responses</p> <ul style="list-style-type: none"> Thorough security education to combat computer viruses and cyber attacks Strengthening of information security systems <p>Opportunities</p> <ul style="list-style-type: none"> Increased opportunities for dealings with customers by improving social credibility through strengthening of information security systems
	Risks related to overseas bases	<ul style="list-style-type: none"> Impact on financial capital such as impairment when the performance of overseas bases deteriorates due to an unexpected change in business environment Unexpected losses that can arise from inadequacy of management at bases with short history or small-scale locations 	<p>Responses</p> <ul style="list-style-type: none"> Support for overseas group companies to strengthen governance Human resource strategy that has strengthened the development plan for global human resources
	Explosive spread of contagious diseases	<ul style="list-style-type: none"> Impact on deliveries to business partners caused by suspension of operations at domestic and overseas factories or at key supplier factories due to lockdowns, etc. Stagnation of business conditions in key customers' industries due to the prolonged economic downturn, affecting business performance Impact on business performance due to a decrease in conventional face-to-face sales activities 	<p>Responses</p> <ul style="list-style-type: none"> Established a Crisis Management Committee to ensure employees' safety and continuity of business, and to implement measures to prevent infection in collaboration with overseas group companies Strengthening of non-contact support including remote sales and services Strengthened development of sensors and image processing technology for remote control and reduction of labor <p>Opportunities</p> <ul style="list-style-type: none"> Increased demand for automation and labor reduction such as production equipment that does not rely on humans and remote diagnosis and operation of equipment as a measure against the COVID-19 pandemic
	Natural disasters	<ul style="list-style-type: none"> Impact on production activities from earthquakes in the Tokai, Tonankai, and Nankai regions where key production bases are located (Aichi Prefecture and Mie Prefecture) Impact on production activities including suspension of operations by production plants or by business partners due to heavy rain, flood, or other natural disasters 	<p>Responses</p> <ul style="list-style-type: none"> Established a system enabling local procurement at production bases, and decentralization of production bases including expansion of production at the Tohoku Plant Strengthened response capabilities through Business Continuity Plan (BCP)
Society	Securing and training human resources	<ul style="list-style-type: none"> Impact on production activities under a declining birthrate, due to the difficulty of securing labor in Japan for the many production processes that rely on manpower Impact on material procurement due to business succession issues affecting suppliers Impact on new businesses and global activities due to shortages of global human resources and human resources capable of project planning 	<p>Responses</p> <ul style="list-style-type: none"> Promotion of automation at domestic plants and construction of production systems that do not rely on manpower Identification of business partners at risk through supplier evaluations, monitoring of business conditions, and implementation of transaction improvements Human resources strategy incorporating strengthened in-house education, including implementation of a global human resources development plan <p>Opportunities</p> <ul style="list-style-type: none"> Increased demand for automation and reduction of labor on production lines, due to the difficulty of securing labor in Japan

CKD's Foundation to Realize Value Creation

While providing value to society and solutions to social issues through product development based on automation technology and fluid control technology, we aim to achieve sustainable development and enhance corporate value.

Human Capital

Dispatch of trainees from Japan to overseas bases

Cumulative total: 50

(As of September 30, 2020)

Dispatch of trainees from overseas bases to Japan

Cumulative total: 19

(As of September 30, 2020)

Number of non-Japanese employees

1,896

(As of September 30, 2020)

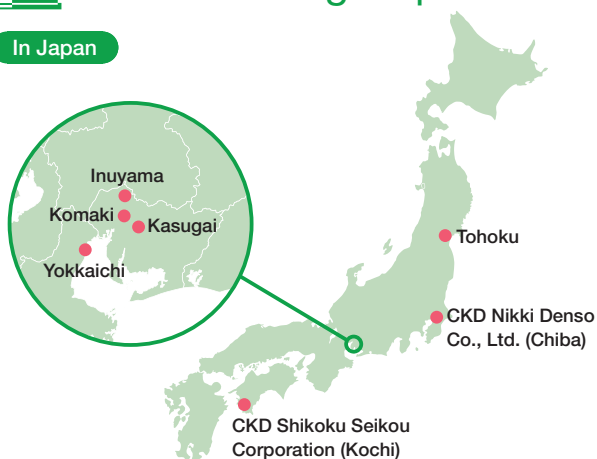
As further progress is made in globalization in the years to come, we will hire diverse human resources and allow them to demonstrate their capabilities to increase corporate competitiveness and bring about value creation. At the same time, a human resource strategy will become essential to maximize our performance as an organization. We will conduct our

overseas trainee system, which promotes the development of global human resources and local staff that form the core of value creation, undertake diversity promotion to encourage the active participation of each and every employee, and engage in increasing the sophistication of our human resources through specialized technical and skill training.



Manufacturing Capital

In Japan



Our main plants in Japan are the three in Aichi Prefecture (in the cities of Komaki, Kasugai and Inuyama) and one plant in Yokkaichi City, Mie Prefecture. Additionally, to strengthen production for the semiconductor market, in which growth in demand is expected over the medium to long term, and to promote BCP (Business Continuity Plan) for products manufactured in the Tokai region, we established our Tohoku Plant (Ohira-mura, Kurokawa-

Overseas



gun, Miyagi Prefecture) in fiscal 2018. Adding Group companies CKD Shikoku Seiko Corporation (Sukumo City, Kochi Prefecture) and CKD Nikki Denso Co., Ltd. (Sakura City, Chiba Prefecture) makes a total of seven production bases.

Overseas, we supply products in a timely manner from production plants in five countries: China, Thailand, South Korea, Malaysia and Indonesia.



Intellectual Capital

Number of patents held (As of March 31, 2020)

1,480

Maintaining departments that specialize in intellectual property, CKD works to further improve corporate value by managing intellectual property for all CKD Group companies and proposing/implementing intellectual property strategies. Our intellectual property strategies involve implementing detailed measures that reflect CKD business strategies based on close collaboration

between intellectual property departments and development/technology departments. In addition, we are establishing a foundation for CKD Group production and sales overseas by increasing overseas patent filings targeting important regions as we expand abroad. As a result, the number of intellectual property rights we hold abroad is increasing annually.



Social and Relational Capital

CKD continues to co-create various forms of value for society through its businesses. To this end, we pursue high quality and safety by providing customers in various industries with controllers and drive components installed in automatic manufacturing equipment as well as automatic equipment including packaging machines.

In addition, we are upgrading systems to meet the various needs of our global customers by establishing facilities worldwide and building an elaborate network in Japan and abroad. The relationship of trust with our customers we have fostered to date not only enable steady operations but also have become a key asset we will develop further going forward.



Natural Capital

Developing Products that Reduce Environmental Burdens

CKD believes that developing products that are more eco-friendly requires consciously formulating targets for environmental burden levels at the planning and development stages. With this in mind, we are developing products that reduce environmental

burdens using our unique Environmental Acceptability Assessment Form*.

* Environmental Acceptability Assessment Form: Evaluates environmental burden levels in four areas—energy conservation, resource conservation, waste, environmental pollution both in terms of customer and internal environments.

Automatic machinery



Pharmaceutical product packaging machines FBP Series



3D solder paste inspection systems VP9000



Food packing machines CFF Series

Component products



Karman vortex flow rate sensor for water FLUEREX WFK2 Series (IO-Link compatible)

Compact Flow Rate Sensor Rapiflow FSM3 Series (plastic body type)

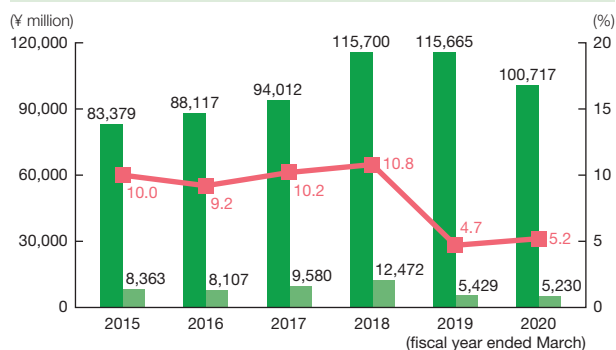


Pilot-operated 3, 5-port valves (4GR Series)

Financial/Non-Financial Highlights

Earnings

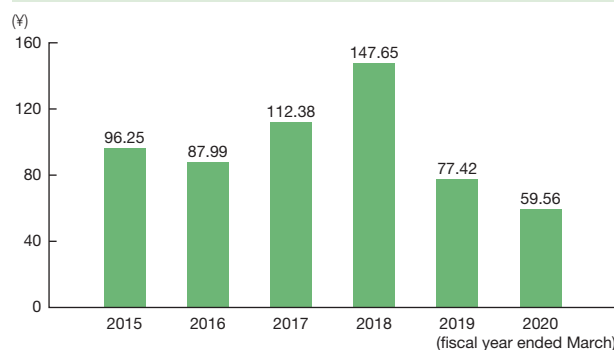
Net sales ¥100,717 million Operating income ratio 5.2%



■ Net sales (Left axis) ■ Operating income (Left axis)
— Operating income ratio (Right axis)

Net sales were ¥100,717 million (down 12.9% year on year) and our operating income ratio was 5.2 points (up 0.5% year on year). In regard to the COVID-19 pandemic, although some of our overseas subsidiaries were impacted by lockdown measures, the effects on the Group's business results and financial situation were limited.

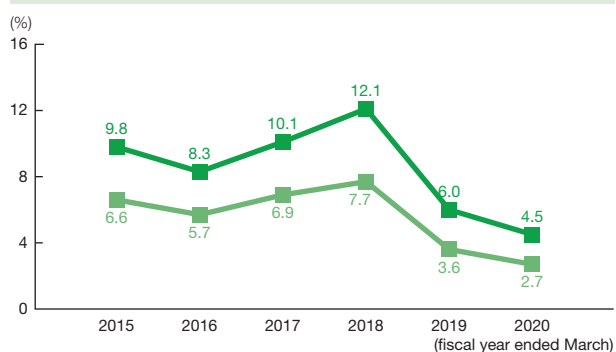
Net income per share (EPS) ¥59.56



In the fiscal year ended March 2020, net income per share (EPS) was ¥59.56 (down ¥17.86 year on year). Our shareholder return policy is to maintain a dividend payout ratio of around 30% and pay dividends twice a year—an interim dividend and a year-end dividend.

Corporate value

ROE 4.5% ROA 2.7%

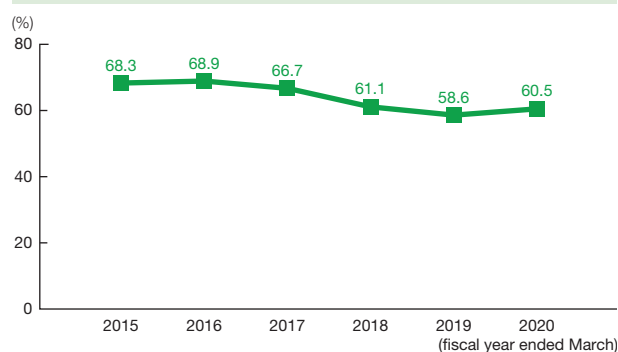


— ROE — ROA

ROE was 4.5% (down 1.5 points year on year) and ROA was 2.7% (down 0.9 points year on year). Our goal is to maintain a stable ROE of 9% or above.

Financial foundation

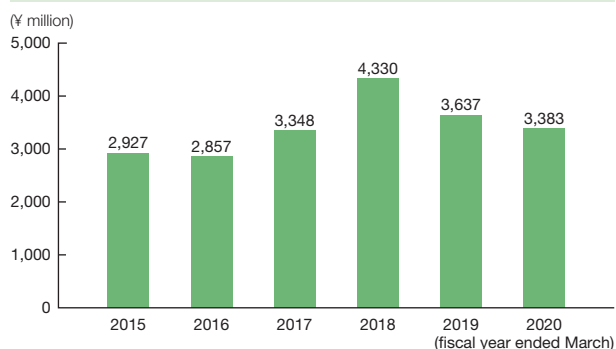
Shareholders' equity ratio 60.5%



Shareholders' equity ratio was 60.5% (up 1.8 points year on year). We aim to maintain a shareholders' equity ratio of 60% or above. In the fiscal year ended March 2020, we achieved a ratio of over 60% by realizing a decrease in inventories, keeping trade payables low, and repaying borrowings.

Research and development

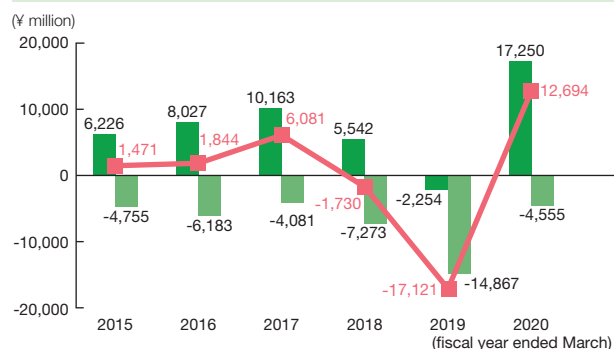
Research and development expenses ¥3,383 million



Research and development expenses for the fiscal year ended March 2020 were ¥3,383 million. This includes fundamental research expenses of ¥367 million which cannot be allocated to specific segments.

Cash flow

Free cash flow ¥12,694 million

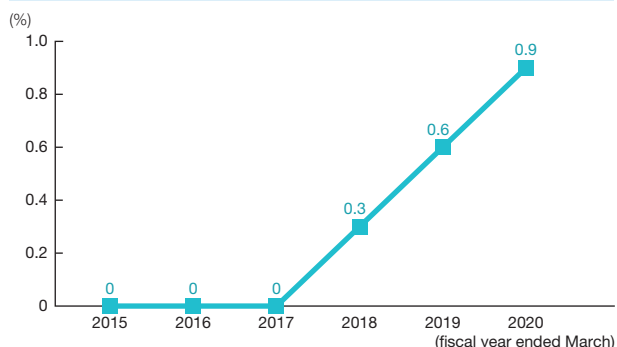


■ Cash flows from operating activities ■ Cash flows from investing activities
— Free cash flow

Operating cash flow for the fiscal year ended March 2020 improved significantly to ¥17,250 million due to the achievement of appropriate inventory levels and maintaining the minimum inventory required. As a result, free cash flow was ¥12,694 million.

Diversity

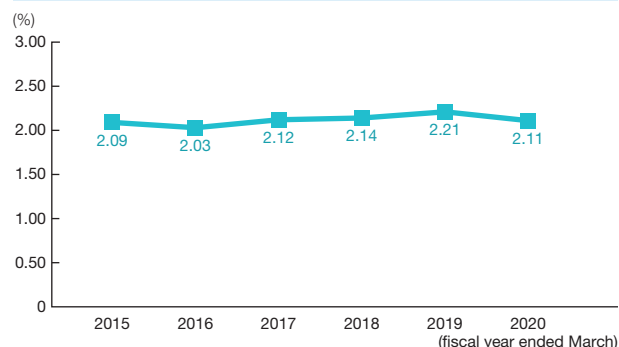
Ratio of female workers in managerial positions* **0.9 %**



* CKD Corporation employees as of March 31

Managerial positions include the total number of employees in section manager positions and positions above section manager (excluding officers). For the fiscal year ended March 2020, the ratio of female workers in managerial positions was 0.9%.

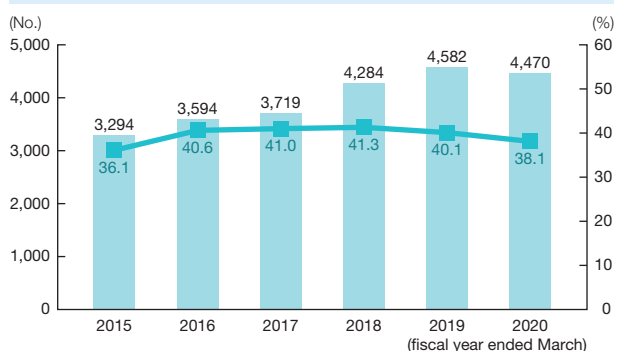
Ratio of disabled employees **2.11 %**



Since April 1, 2018, private sector companies in Japan with 45.5 employees or more are required to have a ratio of disabled employees of at least 2.2%. In the fiscal year ended March 2020, our ratio of disabled employees was 2.11%.

Employees

Ratio of overseas employees* **38.1 %**



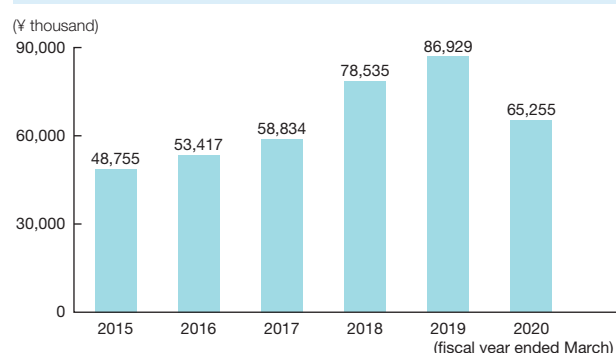
■ Number of employees (Left axis) — Ratio of overseas employees (Right axis)

* Refers to employees of CKD Corporation and its consolidated companies as of March 31 of each year

For the fiscal year ended March 2020, the ratio of overseas employees was 38.1% (down 2 points year on year).

Human resources

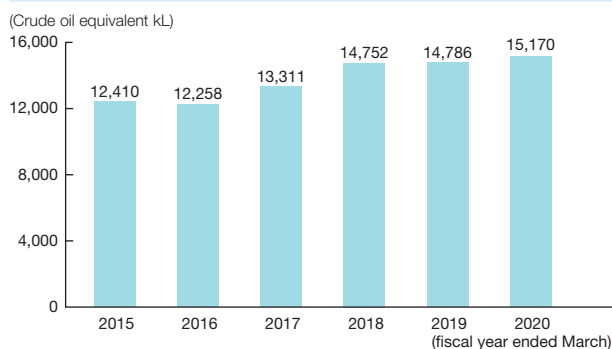
Training costs ¥ **65,255,000**



Training costs for the fiscal year ended March 2020 were ¥65,255 thousand. We carried out training that aimed to raise the skills, technical capabilities, and productivity of each employee based on a level-specified system for all employees.

Environment

Energy usage volume **15,170** crude oil equivalent kL

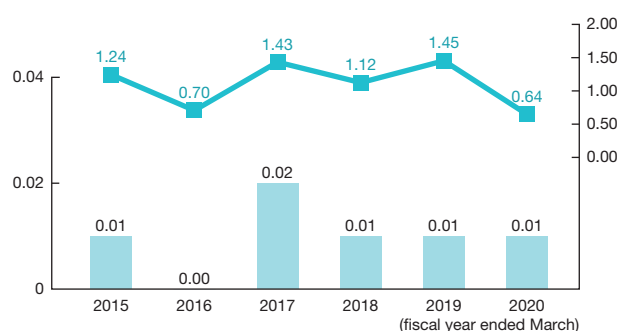


Note: Scope of aggregation: Domestic plants, sales offices

In the fiscal year ended March 2020, the completion of the Tohoku Plant in January 2019 added an increase of 1,702 kL, resulting in a rise of 2.6% overall.

Labor health and safety

Frequency rate*1 **0.64** Severity rate*2 **0.01**



■ Severity rate (left axis) — Frequency rate (right axis)

*1 Frequency rate: The frequency with which accidents occurred, indicated by the number of casualties through industrial accidents per one million hours worked.

*2 Severity rate: The severity of accidents, indicated by the total number of working days lost per one thousand hours worked.

At a Glance

Automatic machinery

Main solutions, products

The automatic machinery segment offers a wide array of products, including packaging machines for medical, pharmaceutical and food products, as well as the image inspection technology equipped on those machines, printed circuit board solder paste inspection machines, manufacturing machines for devices for vehicles that use lithium-ion battery, and other products.

Packaging machines

Pharmaceutical products packaging machines
Medical-use packaging machines
Food packaging machines

Industrial machinery

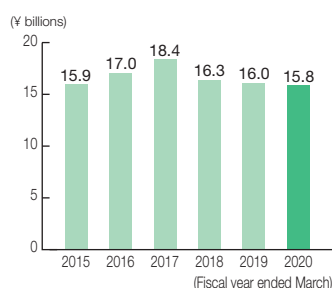
Lithium-ion battery manufacturing machines
3D solder paste inspection machines
Lamp manufacturing equipment

Inspection machines

Blister sheet and foreign material inspection machines for pills

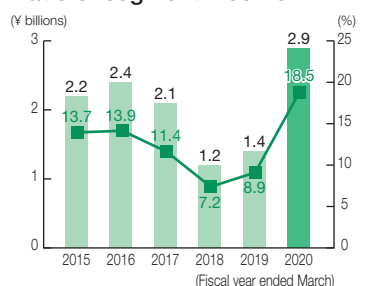


Net sales



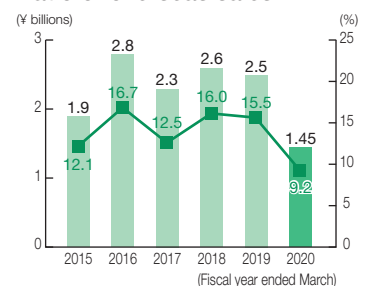
Segment income

Ratio of segment income



Overseas sales

Ratio of overseas sales



Component products

Main solutions, products

The component product segment consists of a diverse lineup of products, including pneumatic components and drive units equipped on automatic production equipment for a variety of industries, fluid control components used for semiconductor and medical processes, and other products.

Pneumatic control components

Directional switching valves

Pneumatic auxiliary components

Refining and pressure adjusting components
Sensor components

Electric motion components

Direct drive motors
Electric actuators
Drive components
Pneumatic cylinders
Assistance devices

Fluid control components

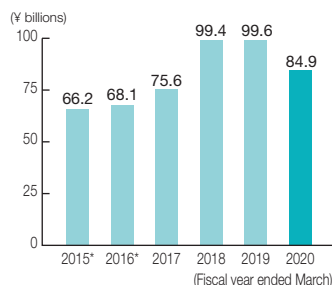
Fluid control valves
Valves used in medical analysis
Combustion gas valves
Explosion prevention valves

Fine system components

Process gas valves
Chemical liquid valves
Vacuum valves

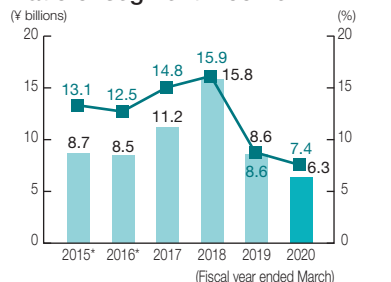


Net sales



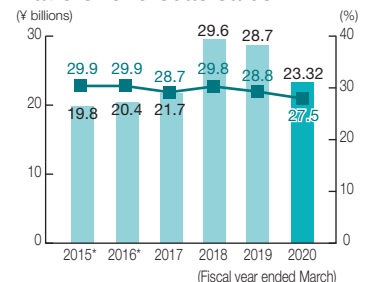
Segment income

Ratio of segment income

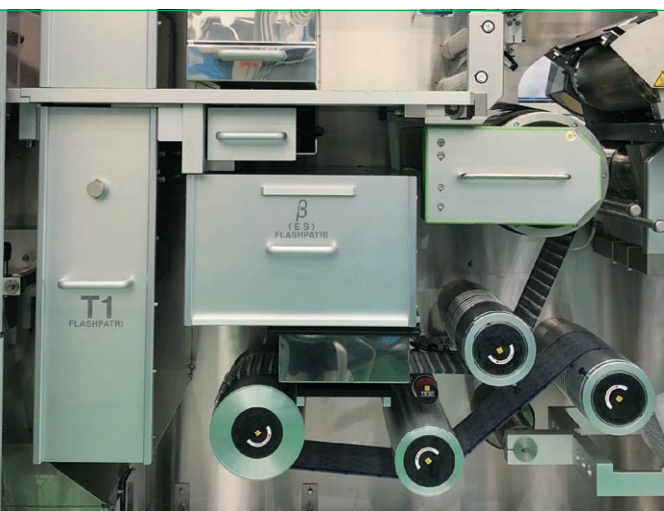


Overseas sales

Ratio of overseas sales



* Figures from fiscal years ended March 31, 2015 and March 31, 2016 exclude impact from accounting period changes.



In order to meet rising market demand for labor saving and automation that is accompanying the shrinking of the working population, we are working to strengthen the functions and expand the applications of the image inspection technology that we have cultivated through our pharmaceuticals packaging and circuit board mounting processes. Furthermore, we will advance product development that uses ICT to enhance production stability and productivity, and contribute to our customers' manufacturing operations.

Automatic packaging systems



Multiple CKD products, such as drive units and fluid control components, work in tandem to contribute to the manufacturing (monozukuri) that takes place at factories around the world. Recent years have seen factories make progress in incorporating IoT into their operations, and that has spurred demand for machinery capable of interacting within a variety of networks. In the component product segment, we are working to address a host of needs, including to respond to the advance of IoT technologies, and automation and energy conservation within a framework for development that leverages our core technologies while collaborating closely with our customers.

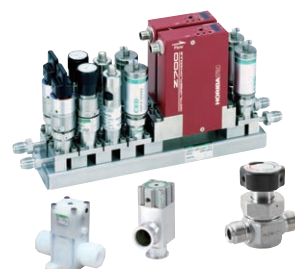
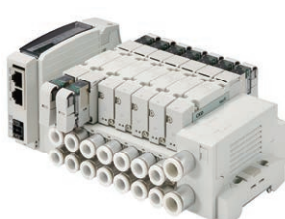
Drive components

Pneumatic control components

Electric actuators

Fluid control components

Fine system components



President's Message

We will take advantage of automation technology to further accelerate efforts toward the new era, contributing to the automation of customers both in Japan and abroad.



CKD formulated a long-term management vision called the “10-Year VISION” in 2016, and is now strengthening initiatives with an eye on 2025. As a pioneer in fluid control and automation, our aim is to become a Total FA Worldwide Supplier while achieving automation for our customers in Japan and overseas. As we head into a new era characterized by DX, post-pandemic changes, and other major shifts, we plan to accelerate our realization of 10-Year Vision and open up the future. At the same time, we will contribute to the creation of an affluent society, meet the expectations of our shareholders, and create happiness for our employees and their families. We will continue to grow as a “people-friendly company” and make efforts to contribute to society through our business, with the aim of achieving a sustainable society.

Our Response to the COVID-19 Pandemic and Our Condolences to Anyone Affected by It

All of us at CKD would like to express our sympathies to those affected by the COVID-19 pandemic, their families, and all concerned parties, and to offer our deepest condolences to those who have lost someone in their lives. We also extend our heartfelt gratitude to everyone engaged in treatment and prevention of this infectious disease around the world, and to those cooperating with these efforts.

To overcome this adversity, CKD established a crisis management committee in April 2020 and is enforcing contagion prevention measures that include work from home, staggered working hours, and social distancing inside company facilities. To prevent coronavirus contagion, we are making every effort to continue our business and meet the many requests for cooperation we have received from customers engaged in the development and production of pharmaceuticals and medical devices. As we continue to place our highest priority on the safety and health of our customers, business partners, cooperating companies, global employees, their families, and other related parties, we will strive to maintain our production activities and carry out our social responsibility to support the automation of manufacturing.

Digitalization is moving forward under the COVID-19 pandemic, and the era of a new normal is expected to arrive. We will work hand-in-hand with our stakeholders to get through this drastically changing business environment.

Fiscal 2019 Results

Our consolidated financial results for fiscal 2019 include net sales of ¥100.7 billion (down 12.9% year on year), operating income of ¥5.2 billion (down 23.0% year on year), ordinary income ratio of 5.2% (up 0.5 points year on year), and ROE of 4.5% (down 1.5 points year on year).

Harsh conditions continued from the beginning of fiscal 2019, against the slowing of the Chinese economy due to the US-China trade friction, postponement of semiconductor capital investment, and restrained investment due to drug price reductions. The second half of the year saw brighter signs as the electronic industry undertook capital investments aimed at the proliferation of next-generation communications. Coronavirus infections spread from around February 2020, however, affecting production and sales in China and constraining capital investment in countries including Thailand and Indonesia, primarily in the automobile industry.

In fiscal 2020, economic activity is making an early restart in China, with normalization of production activities progressing throughout the country's manufacturing industries. Capital investment in semiconductors has remained firm in Taiwan and South Korea. In Japan, a cautious stance continues toward automobile-related capital investments, but the proliferation of 5G combined with telework-related demand have resulted in the expansion of semiconductor capital investment. In addition, the effects of our company-wide productivity improvements and cost reduction activities have made contributions to enhancing our profitability.

Looking back on past Medium-Term Management Plans

	First Medium-Term Management Plan Fiscal 2010–2012	Second Medium-Term Management Plan Fiscal 2013–2015	Third Medium-Term Management Plan Fiscal 2016–2018
Title	NEW CKD 2012	GLOBAL CKD 2015	Challenge CKD 2018
Target numbers for the final fiscal year	<ul style="list-style-type: none"> Consolidated net sales: ¥85.0 billion Operating income ¥9.0 billion Ordinary income ratio: 10.6% 	<ul style="list-style-type: none"> Consolidated net sales: ¥85.0 billion 	<ul style="list-style-type: none"> Consolidated net sales: ¥100.0 billion Operating income: ¥10.0 billion Ordinary income ratio: 10.0%
Business performance in final fiscal year	<ul style="list-style-type: none"> Consolidated net sales: ¥65.0 billion Operating income: ¥3.2 billion Ordinary income ratio: 5.0% 	<ul style="list-style-type: none"> Consolidated net sales: ¥85.1 billion Operating income: ¥8.0 billion Ordinary income ratio: 9.4% 	<ul style="list-style-type: none"> Consolidated net sales: ¥115.7 billion Operating income: ¥5.4 billion Ordinary income ratio: 4.7%
Basic Policy	<ul style="list-style-type: none"> Improvement of overseas and domestic sites Continued strengthening of profit structure Strengthening of products for growth markets Development of new businesses based on fluid control and automation 	<ul style="list-style-type: none"> Globalization of products, sales, and production 	<ul style="list-style-type: none"> Evolve best-in-Japan products to be the best in the world Challenge new business activities and markets Strengthen our business foundations
Review	<ul style="list-style-type: none"> We focused on business expansion in growth markets and economic growth in China and other Asian emerging economies, and engaged in actions to expand business in overseas markets. In our overseas businesses, we increased our overseas sales bases to 56 bases in 12 countries, and expanded fiscal 2012 overseas sales to 1.7 times fiscal 2009 sales to ¥13.5 billion. 	<ul style="list-style-type: none"> We worked to expand bases in Japan and overseas, with overseas production in 5 countries and 74 sales bases in 15 countries. We expanded fiscal 2015 overseas sales to 1.7 times fiscal 2012 sales to ¥23.2 billion. 	<ul style="list-style-type: none"> Cumulative net sales for the three years from fiscal 2016 to fiscal 2018 were ¥325.4 billion, an increase of 34% from the results of the Second Medium-Term Management Plan. Three-year cumulative net sales of components increased 41% from the previous Medium-Term Management Plan. Sales of components for semiconductor manufacturing equipment increased significantly, partly due to support from the market. Three-year cumulative net sales of automatic machinery increased 6% from the previous Medium-Term Management Plan. Overseas sales increased 28%, making up for a decline in domestic medical product investment.
Results	<p>Automatic machinery</p> <ul style="list-style-type: none"> Expansion of sales of pharmaceutical product packaging machines Start of production of 3D solder paste printing inspection machines in China Establishment of a service company for pharmaceutical product packaging machines <p>Component products</p> <ul style="list-style-type: none"> Expansion of sales of medical-related products Transformation to a business unit structure Launch of products with optimal quality for the Chinese market <p>Business foundations</p> <ul style="list-style-type: none"> Introduction of overseas trainee system Introduction of lifetime employment program Expansion of systems at overseas bases Start of construction of a new plant in China Construction of the ERP software system (automatic machinery) 	<p>Automatic machinery</p> <ul style="list-style-type: none"> Development of pharmaceutical product packaging machines for the Chinese market, and receipt of orders Roll-out of new-model food packaging machinery in domestic and Asian markets Strengthening of service and support structure Response to increased demand for 3D solder paste printing inspection machines for vehicle circuit board inspection, and launch of new-model high-precision machinery <p>Component products</p> <ul style="list-style-type: none"> Development of valves for medical analytical equipment Launch of 52 models in the FP Series for the food industry Development of products to support state-of-the-art miniaturization in the semiconductor industry Pneumatic valve model change-over Strengthening of commercialized pneumatic valve variations at the Chinese plant Progress in converting the Yokkaichi Plant into a mother plant for components <p>Business foundations</p> <ul style="list-style-type: none"> Completion of new plant in China Start of operation of production plant in Indonesia Completion of a new building for the assembly of pharmaceutical product packaging machines at the Komaki Plant 	<p>Automatic machinery</p> <ul style="list-style-type: none"> Strengthening of the production and sales structure for pharmaceutical product packaging machines in China Launch of pharmaceutical packaging sheet inspection machines to support reduction of labor Development of monitoring system Start of preventive maintenance service Establishment of new forms of packaging such as V-Pack Expansion of sales of 3D solder paste printing inspection machines <p>Component products</p> <ul style="list-style-type: none"> Integration of business with CKD Nikki Denso Co., Ltd. Strengthening of electric motion products in collaboration with alliance partners Strengthening of network support for pneumatic valves Launch of IO-Link-equipped products Launch of products that help resolve social issues, including assistive devices, components for the food industry, and nitrogen gas extraction units Establishment of a technology development base in Silicon Valley, where cutting-edge industries are concentrated <p>Business foundations</p> <ul style="list-style-type: none"> Establishment of overseas subsidiaries in India and Europe Completion of Tohoku Plant and new production building in China Introduction of the new ERP software system (component products) Opening of a day-care center at the Head Office/Komaki Plant
Issues	<p>Automatic machinery</p> <ul style="list-style-type: none"> Construction of sales, production, and service infrastructure to improve profitability and develop overseas business <p>Component products</p> <ul style="list-style-type: none"> Further expansion of overseas sales, pursuit of emerging economy pricing, and strengthening of initiatives in growth markets 	<ul style="list-style-type: none"> Construction of a system adapted to globalization Initiatives aimed at the US and Europe, where demand for components is high Strengthening of product development and new business development aimed at new growth markets 	<ul style="list-style-type: none"> Expansion of the electric motion product business and new businesses Expansion of overseas sales Strengthening of global-oriented business foundations Human resource development

Long-Term Management Vision

10-Year Vision Title

GO CKD

Aspiration

Total FA Worldwide Supplier

Contributing to
an affluent
society

Meeting the
expectations of
shareholders

Caring for
employees and
their families

Medium-Term Management Plan

Build-up CKD 2021

Basic Policy

Evolve products from being best in Japan to becoming globally recognized products

Challenge new business activities and markets

Strengthen our business foundations

Basic Requirement

Human resource development

Looking Back on Past Medium-Term Management Plans

Although CKD achieved sales of ¥104.2 billion in fiscal 2006, a record at the time, the Company was hit sharply by the global financial crisis, resulting in a severe management environment in which fiscal 2009 sales halved from fiscal 2006 sales to ¥50 billion. At the time, the Company set management plans every term but did not formulate medium- to long-term management plans. We also faced issues of needing to undertake innovative initiatives and improvement of our corporate structure more dynamically and from a medium- to long-term perspective. At the same time, expectations for growth from the effects of policy measures and an upturn in the economic environment existed inside and outside the Company. Confirming that the decline in our business had halted, we deemed the time for action to be at hand and put forth our first Medium-Term Management Plan, called NEW CKD 2012, in April 2010. This plan did not reach its targets however, as Japan-China relations deteriorated over the Senkaku Islands dispute and economic activity stagnated. Our second and third Medium-Term Management Plans advanced globalization and our business foundations and steadily grew sales.

Progress and Future Development of the Fourth Medium-Term Management Plan: Build-up CKD 2021

Build-up CKD 2021, our fourth Medium-Term Management Plan, was launched in April 2019 as a three-year period for strong growth and laying foundations for the future, to achieve the 10-Year Vision. We are engaged in the plan under three basic policies, with fiscal 2021 sales of ¥143.0 billion, operating income of ¥14.3 billion, and an ordinary income ratio of 10% as management targets. An explanation of our progress and future development of Build-up CKD 2021 follows, broken down by Basic Policy.

Basic Policy 1, “Evolve products from being best in Japan to becoming globally recognized products,” sets an aim of maintaining a high share in Japan and rolling out distinctive products in overseas markets to become No. 1 globally. In the automatic machinery business, we leveraged our China Plant to the fullest to achieve Japanese quality locally and launched the automatic pharmaceutical packaging machine FBP-300W for the Chinese market. In addition, our VP9000 3D solder paste inspection machine has been well-received in Europe and the United States for its design and operability, resulting in many orders since its launch in

June 2019. In the component products business, we increased production capacity through full operation of our automated, state-of-the-art Tohoku Plant. In North America, we made effective use of the CKD-USA Technical Center to strengthen relationships with new customers. In China, we began τ DISC production at CKD Nikki Denso Co., Ltd. in a new production building, and organized a system to provide high-performance products demanded by the Chinese market in a timely manner. In the future, we will improve development functions and management capabilities in local markets and strengthen local responsiveness to accelerate globalization and further expand overseas net sales. Building optimal supply chain management and enhancing global competitiveness are also becoming vital issues. We recognize these as management challenges and will address them.

In our Basic Policy 2, “Challenge new business activities and markets,” we will take on a number of challenges aimed at the launch of new businesses and the opening of new markets. In the electric motion product business, we accelerated our growth strategy for the business by simultaneously launching five models of electric actuators and one model of a controller, by developing integrated products together with CKD Nikki Denso and by strengthening systems for cooperation between the sales departments of both companies. In pneumatic components, we released the HP Series of high durability components that contribute to the reduction of waste by increasing customers’ productivity and reducing the number of maintenance work. With strengths in developing and selling both electric motion products and pneumatic components, CKD will develop the best mix of proposals to meet the demands of our customers. In new businesses, we released Facilea, an easy-to-use visual programming tool that applies image processing technology cultivated over 20 years of automating inspection processes that require specialized knowledge. We also have added a new series to our popular PowerArm, offering environments for comfortable work to people around the world. We will also broaden our service business, centered on the automatic machinery business of CKD Field Engineering Corporation, and develop it into a foundation for the future.

In Basic Policy 3, “Strengthen our business foundations,” we are strengthening the foundations of our production and sales. In North America, we plan to launch operation at a production plant in the US state of Texas around the autumn of 2021. The purpose of the plant is to

strengthen our production system to meet growing demand in the fluid control components field. We are constructing a new production plant in India and forming alliances with local partners in Europe, moving ahead with preparations despite the COVID-19 pandemic. We can now also use our new ERP software system strategically to carry out activities that lead to improvements in productivity and profitability. Viewing the utilization of digital technology as critical in establishing a sustainable business foundation, we will achieve aggressive digitalization that offers proposals to customers and defensive digitalization that enhances productivity at our production sites. Moreover, we will strengthen our approach to corporate social responsibility through our environmental and business activities, so that we can become a highly sustainable company.

Approach to Management Issues and Initiatives Aimed at ESG (Environment, Society, Governance)

CKD engages in activities that connect to the Sustainable Development Goals (SDGs), seeking the resolution of social issues and the development of society through our business. Toward that end, we will establish sustainable business foundations and co-create social contribution-oriented businesses and products with an eye toward the SDGs, to provide new corporate value to our stakeholders. With regard to the environment, we will strive to reduce energy usage in our infrastructure and production processes, and to develop and expand sales of low environmental load products. With regard to society, we will make employee engagement our most important issue and strengthen our human resource development to let diverse human resources maximize their abilities. With regard to governance, we will achieve sound and efficient management with enhanced transparency, so that we can remain a respected and trusted company.

All of CKD’s employees will work as one to resolve social issues and improve our corporate value. We ask all of our stakeholders for their continued support.

Financial/Capital Strategies

Financial/Capital Strategies

The three-pillared basic policy of the financial strategy comprises: (1) improvement of corporate value, (2) the building of a sound financial base, and (3) shareholder return. The fiscal year under review saw the completion of large-scale investments and we improved operating cash flow by reducing inventories. Also, we achieved a shareholders' equity ratio of 60.5% and a net D/E ratio of +0.05 times through improving the balance sheet by shrinking interest-bearing debt, and we are maintaining a sound financial position.

	FY Ended Mar. 2019	FY Ended Mar. 2020	YoY Comparison	Comment
Total assets	¥136.9 billion	¥136.0 billion	-¥0.9 billion	Decreased by the completion of large-scale investment and shrinking borrowings
Total shareholders' equity	¥80.3 billion	¥82.2 billion	+¥1.9 billion	Increased by retaining part of net income
Cash and cash equivalents	¥12.0 billion	¥18.4 billion	+¥6.3 billion	Increased by improving operating cash flow
Interest-bearing debt	¥28.6 billion	¥23.0 billion	-¥5.5 billion	Decreased by shrinking borrowings
Shareholders' equity ratio	58.6%	60.5%	+1.9 points	Increased due to a decrease in interest-bearing debt
Net D/E ratio	+0.20 times	+0.05 times	-0.15 points	Declined due to a decrease in interest-bearing debt
ROE	6.0%	4.5%	-1.5 points	Declined in accordance with a decrease in profit

ROE

We will strategically advance investment based on the Medium-Term Management Plan, which is aimed at achieving the growth strategy in our 10-Year Vision, and take on the challenge of entering new businesses and markets. We will also strive to improve corporate value with the goals of raising profitability and stably maintaining ROE of 9% or more.

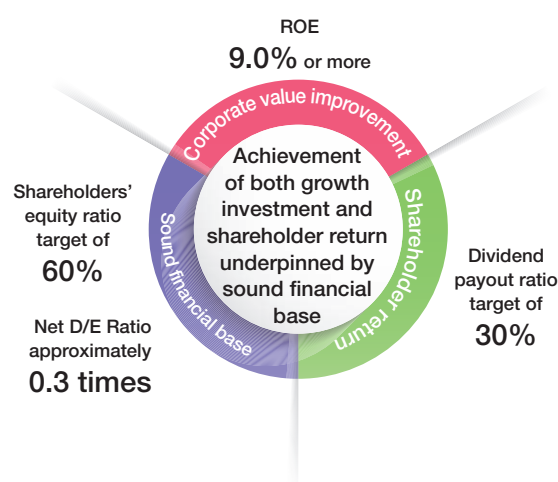
Building a Sound Financial Base

We are building a stable financial base that can flexibly respond to growth investments for business expansion. Since we are an equipment-related company and are influenced by economic conditions, we have set a shareholders' equity ratio of 60% or more as the standard for optimal financial leverage. In preparation for unforeseeable circumstances, we have secured enough cash on hand to enable us to flexibly respond to even the most sudden need for funds. Also, in preparation for the effects of the COVID-19 pandemic, in June 2020 we established a commitment line comprising syndicated loans totaling ¥10 billion as an emergency borrowing facility. Furthermore, in March 2020 we reinforced capital and procured funds by issuing share acquisition rights aimed at realizing sustainable growth. Additionally, external borrowing is managed so that

the net D/E ratio remains at around 0.3 times to enable financial soundness to be maintained while we work to diversify financing.

Shareholder Return Policy

The basic policy involves working to improve corporate value by investing in facilities and R&D to enhance the management base and further expand the business while providing stable dividends to shareholders. Since we are pursuing a growth strategy based on our 10-Year Vision and the Medium-Term Management Plan, the plan is to mainly utilize investment for capital investment and R&D. As a reference, the dividend payout ratio is set at 30% to ensure stable returns to shareholders after securing sufficient capital for growth investment.



Business Overview and Outlook

Automatic Machinery Business Division

Yoshiaki Kitahora

Executive Officer

General Manager of Automatic Machinery Business Division



Strategy

We in the Automatic Machinery Business Division welcome change and endeavor to evolve automation technology along a multitude of avenues as an organization that continually offers automatic machinery that satisfies customers around the world. We have made this our 10-Year Vision through which we will differentiate ourselves from competitors. We incorporate the requirements and requests of each individual customer into our automatic machinery, whether it be equipment that packages pharmaceutical or food products with heat-processed film, 3D solder paste inspection systems that feature image inspection technology, or lithium-ion battery manufacturing machines that perform high-speed wrapping of multiple materials. We strive to satisfy customers by providing quality products that meet their needs for delivery and cost.

Fiscal 2019 Report

In Fiscal 2019, sales of winding machines for lithium-ion batteries increased, but sales of 3D solder paste printing inspection systems to China decreased. Sales of pharmaceutical products packaging machines declined due to the impact of a contraction in capital investments made by pharmaceutical manufacturers in Japan. Although overall net sales in the segment fell year on year, improved earnings lifted segment income above that of the previous fiscal year.

In the pharmaceutical product packaging field, we have been working to expand sales in the Chinese market by advancing Chinese-Japanese joint development of equipment models tailor-made for the Chinese market and carrying out activities to strengthen production at the China Plant and to build a framework in which to offer services. In the Japanese market, we have been strengthening our ability to manufacture molds in-house, which are necessary for

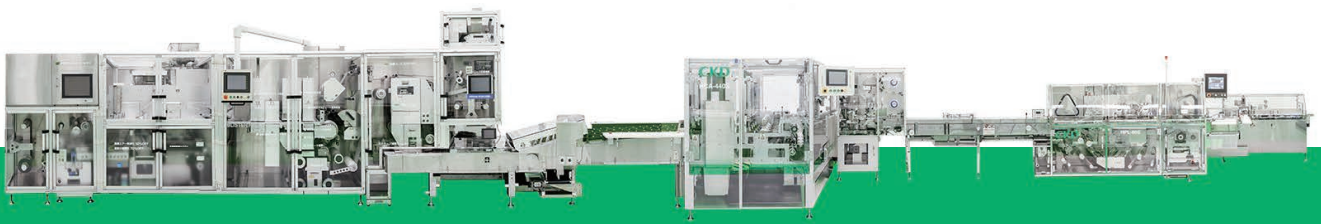
launching new generic pharmaceuticals. We have also been using IoT to strengthen proposals for enhancing customers' productivity and saving labor.

In the food packaging field, we are working to grow sales of V-pack packaging equipment and collaborating with package material manufacturers to develop new types of packaging, as well as launching marketing efforts for these.

In the industrial machinery field, we strengthened efforts to capture a greater share of the market for 3D solder paste printing inspection systems in Europe and the United States by introducing new products with renewed exterior design that offers improved visibility and operability. With regard to winding machines for lithium-ion batteries, we are working to capture domestic demand and focusing our efforts on next-generation batteries. In China, our largest market, we are working on ongoing collaborations with Chinese companies.

Value Provided through Business

Main Products that Create Value	
Automatic packaging systems	These systems contribute to providing safe and secure products with equipment that packages pharmaceutical products (tablets, capsules) and food items.
Inline medical product inspection systems	These systems facilitate safe and secure pharmaceutical products with high-speed and highly accurate inspections for pill flaws, foreign particle contamination, torn sheets and other problems.
3D solder paste inspection machines	These machines contribute to raising productivity and quality guarantees for the printed circuit board mounting process with printed circuit board solder paste inspection machines.
Lithium-ion battery manufacturing machines	These are systems that contribute to environmental efforts and the spread of eco-friendly vehicles with machines to manufacture lithium-ion batteries for electric vehicles (EVs) and other automotive uses.



Pharmaceutical products packaging Eco Blister [FBP-600E]

Upcoming Topics

We see global market development as a priority topic. Therefore, in the pharmaceutical products packaging field we need to strengthen production at the China Plant, which has become a product manufacturing hub, and to build a framework in which to offer services so that we can expand sales to markets in ASEAN countries and East Asia, particularly China. In the industrial machinery field, we are focusing on responding to price competition in the market, so we need to introduce price adjusted 3D solder paste printing inspection systems into the East Asia and ASEAN markets. Additionally, eliminating the use of plastic has become a social issue which poses great risks in the packaging fields, so we will strengthen our response to this issue together with pharmaceutical, food product, and package material manufacturers.

Future Initiatives

We plan to grow our business by restructuring into a market-oriented organization that brings together sales and technology to respond swiftly to market demand. In the pharmaceutical product packaging field, one of our focus areas, we will increase sales of medium-speed (3,000 pills/minute) equipment models that are tailor-made for the growing Chinese market and accelerate development of high-speed (6,000 pills/minute) models. We will then use these China-specific models as a base for development into other East Asia and ASEAN markets. Furthermore,

in the mature Japanese market, we will strengthen our service businesses through CKD Field Engineering Corporation and work to improve customer satisfaction. In the food packaging field, we aim to work with partners to enhance our ability to propose new types of packaging and raise the cost competitiveness of our existing equipment models. We will develop this as a new business, using the image inspection technology we have cultivated in the pharmaceutical product packaging field.

Ever Further Evolution!

Development and sale of the FBP-300W, an automatic pharmaceutical packaging machine for the Chinese pharmaceutical market



The pharmaceutical industry in China is demonstrating dramatic growth. Additionally, in 11 major cities including Shanghai and Beijing, the Chinese government is advancing centralized pharmaceutical procurement measures which are creating demand for pharmaceutical production equipment that can realize high quality, stable production at low costs.

In order to increase pharmaceutical product packaging machine sales in the Chinese market, we are leveraging the full advantages offered by our China Plant, (Wuxi, Jiangsu Province) and reviewing the design of all components used in order to lower costs by increasing local procurement, and we have realized Japanese levels of quality through local production. To realize the foreign material contamination prevention required of pharmaceutical product packaging machines, we have enhanced visibility and cleanability by adopting a flat design that includes a fully transparent front cover and by removing cover frames to realize a smoother surface. We have also incorporated a touch panel similar to those on smartphones, making various settings and operations easier for users.

Business Overview and Outlook

Component Products

Components Business Division

Katsunori Hayashida

Director and Executive Officer
General Manager of Components Business Division



Strategy

In the component products segment, we have set “Total FA Worldwide Supplier” as a goal for ourselves in the 10-Year Vision. We are working to build a broad lineup of FA systems to meet diversifying customer demands that include high speed/high precision, small size/high definition, safety/high quality, and digitalization, and to provide new value and creativity. Toward that end, we will tackle technological innovation, develop differentiated products, provide services, strengthen our global production foundation, and offer products to build a business structure that can meet the needs of customers worldwide.

Fiscal 2019 Report

In the Japanese market, orders for fine system components and related components were slow due to a temporary adjustment phase in investment of semiconductor manufacturing equipment. In overseas markets, sales declined as capital investment slowed in the Chinese and South Korean markets amid US-China trade friction and Japan-Korea trade conflict.

During the COVID-19 pandemic, we made use of the fluid control technology that is the cornerstone of our component products business to strengthen our manufacturing and engage in sales of components that go into ventilators, oxygen concentrators, and other medical equipment, as we worked to supply products that are demanded worldwide.

We are strengthening our domestic and overseas production systems to adapt to ever-accelerating changes in the external environment. Looking at our domestic plants, we increased the number of items

produced at the Tohoku Plant, which began operation in fiscal 2018 as a BCP measure. At our China Plant, we installed a clean room and increased the number of fine system components produced to meet the increasing demand for semiconductor manufacturing equipment in China ahead of the nation’s “Made in China 2025” plan. At our South Korea Plant, we increased the number of items produced to meet demand for locally produced products, and promoted local procurement and local processing of materials and parts.

To meet an ever-increasing need for automation amid a declining working population, we enhanced our product lineup with the Facilea visual programming tool for image processing, the HP Series of high durability components that prolong the maintenance cycle of equipment, and PowerArm, which reduces manual labor at production sites. Doing so, we have built a lineup of new products that can meet the needs of customers.

Value Provided through Business

Main Products that Create Value	
Pneumatic control components	These devices control the refinement of airflow, pressure adjustments, the driving of a cylinder, and so on. We develop automatic systems responding to a broad range of industrial needs and propose pneumatic technologies in consideration of environmental preservation and energy conservation.
Drive components Electric motion components	As pneumatic cylinders are easily automatic, they are used in a wide range of industrial fields. Proposals are made using high precision and user-friendly electric actuators, and automation in line with customer needs is realized with control technologies that utilize air and electric motion.
Fluid control components	Under the concept of high quality and wide variation, we are utilizing fluid control technologies to launch a broad range of products, from various types of valves, product series that meet the needs of medical and pharmaceutical processing, as well as food processing and environmental products such as water treatment systems.
Fine system components	With a broad range of products covering supply systems to exhaust systems of semiconductor and flat panel displays, we are able to provide state-of-the-art process control. We support the electronic device industry with our fine system components which can be used in clean environments.



Tohoku Plant



Kasugai Plant Collaborative robot assembly line

Upcoming Topics

Looking at the external environment, we view adaptation to ever-changing market needs, to working style reforms after the COVID-19 pandemic, and to the decrease in the working population as issues to address. There are needs for faster development, global design, unit products aimed at factory automation and unmanned operation, supply chain management (SCM) construction for the speedy provision of products, and diversification of working styles. Looking at our internal environment, the themes faced by the Components Business Division are stable production and supply of products, development of human resources that can play active roles globally, and the challenge of forward-looking research and development.

Future Initiatives

We will strengthen our efforts to address the SDGs and will make progress toward the goals of the SDGs through our development, production, and sales processes.

To meet the growing need for FA systems and automation, we will strengthen our production foundations globally by promoting production in optimal locations, production cooperation in Japan and overseas, and streamlining of logistics with the aim of timely supply of products. We will also promote flexible production systems and automation to enhance our ability to keep up with rapidly

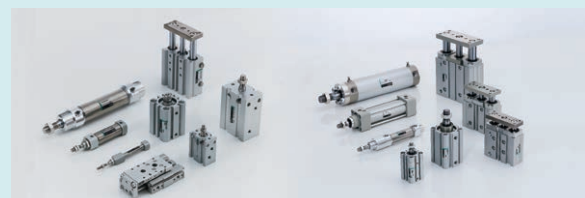
changing market conditions. In the area of products, we will develop and provide high-performance products and FA systems that enable predictive detection in response to the globally-expanding trend toward smart factories. We will also tackle the solutions business to expand new business domains. Elsewhere, we will promote CSR activities with roots in local communities, emphasizing diversification of working styles, BCP measures, development of low environmental load products, and the safety and health of working employees in order to build a sustainable supply structure.

Ever Further Evolution! HP Series High Durability Components

There are growing needs for automation and the IoT at manufacturing sites, as well as heightened demand for FA systems that enable stable operation and production facilities that do not stop.

As a manufacturer, we have developed the HP (High Productivity) Series based on three concepts of products 1) No breakdowns, 2) notification of service life and 3) can be quickly replaced during maintenance. In addition to improved durability in a variety of usage environments, the series offers a sensor-based predictive maintenance function and sophisticated positioning accuracy and reproducibility that eliminate the need for fine adjustment after replacement.

By achieving stable operation through high durability, the series can prevent production losses caused by equipment



failure or maintenance while also reducing the frequency of defective product disposal, contributing to the reduction of environmental impacts.

As an "FA Total Supplier" that supports automation, we will contribute to the realization of a richer society and the creation of a new era.

Business Overview and Outlook

Component Products

Sales and Marketing Division



Shinji Yuhara

Director & Executive Officer
General Manager of Sales and Marketing Division

Strategy

Our division will incorporate Digital Transformation (DX) into our sales activities and flexibly adapt to the New Normal to address the FA industry in which digitalization is accelerating. Through proposals for the FA market that combine pneumatic components, fluid control components, fine system components, and electric motion components, we will advance the comprehensive construction of automation and labor-reducing technologies that will give rise to a sustainable society. Moreover, we will work to become a truly global company and to become an “FA Total Consultant,” a goal set forth in the 10-Year Vision for the Sales and Marketing Division.

Fiscal 2019 Report

Although fiscal 2019 saw a strengthening of concerns over slowing world economic growth and political risks such as US-China trade friction, we foresaw an acceleration of investment in automation as labor shortages emerge. Amid these circumstances, however, many companies approached investment cautiously in the first half of the fiscal year while the market environment stagnated. The environment began to gradually pick up from the beginning of the second half, as a result of semiconductor and electronic component companies beginning to make positive moves toward investments to support new technologies such as 5G communications and AI. In 2020, just as market conditions took on an upward trend, the COVID-19 emerged in China and infection cases surged worldwide.

In Japan, we entered the second half of the fiscal year under unprecedented conditions of self-restraint from going out or attending outside business meetings, implementing telework, prohibitions against travelling abroad and during lockdowns or other prohibitions against social interactions. Despite this, in our business performance through the end of fiscal 2019, we received orders related to projects in which we had been active for months, and arrived at fiscal 2020 without any significant decrease.

To summarize our activities in fiscal 2019, we considered how to efficiently carry out sales activities

in an environment of never-before-experienced severity, and engaged in sowing the ‘seeds’ of sales worldwide in growth markets where capital investment is active. The automobile industry is facing what is being called a once-in-a-century turning point. Full-scale planning of CASE-related investments for the shift to electric automobiles is underway, and medium- to long-term growth is foreseen in the semiconductor and electronic component industries amid the introduction of new technologies for DX.

By engaging in product planning through the strengthening of marketing functions to meet diverse automation needs and by globally carrying out human resource education to enhance the capabilities of our sales staff, CKD will continue to exert its unique strengths and will continue to aggressively enter growth markets.

The Sales and Marketing Division has set “FA Total Consultant” as its ideal form in the 10-Year Vision. By proposing automation and labor reduction that draw on our diverse product lineup and by engaging in product planning and sales expansion that lead to the reduction of environmental impacts, we will actively incorporate the concepts of the SDGs and develop sales activities that let us contribute to the creation of a sustainable society.



Online observation tour of the Yokkaichi Plant



SEMICON TAIWAN

Upcoming Topics

The COVID-19 pandemic brought significant changes in people's lives in fiscal 2020. The pandemic continues without signs of abating, creating major impacts on corporate operations and economic activities. This has forced a shift from face-to-face sales to remote sales, and a need to establish a new sales style that asks how we can provide added value to customers.

Future Initiatives

The pandemic has also brought sudden changes to production sites. Securing social distance has become a necessity, automation and labor reductions are accelerating on the production floor. Taking this shift as an opportunity, we plan to promote the upgrading of products such as electric motion components, Human Assist Products (PAW), image inspection software, and nitrogen gas extraction units as an "FA Total Supplier" that fuses the core technologies of automatic machinery, pneumatic, control, and labor-saving components. We aim to be a company that offers solutions for a carbon-free society, people-friendly workplaces, quality improvement, and stable manufacturing.

The evolution of robots will continue to accelerate,

and the need for robots to reduce labor will increase at production sites. By selecting and proposing the best combinations of pneumatic hands for compactness and speed and electric motion grippers for precision grasping at robot extremities, we contribute to our customers' production efficiency.

We also view the reduction of maintenance man-hours as a key issue under labor shortages, and will contribute to the realization of production facilities that constantly operate by offering the high durability HP Series of products and others that resist harsh environments. We will also plan products that actively incorporate the concepts of the SDGs as we aim to become an "FA Total Consultant" that coordinates next-generation smart factories.

Ever Further Evolution!



Varied Options for Increasingly Versatile Robots Electric Motion & Pneumatic Grippers for Robots

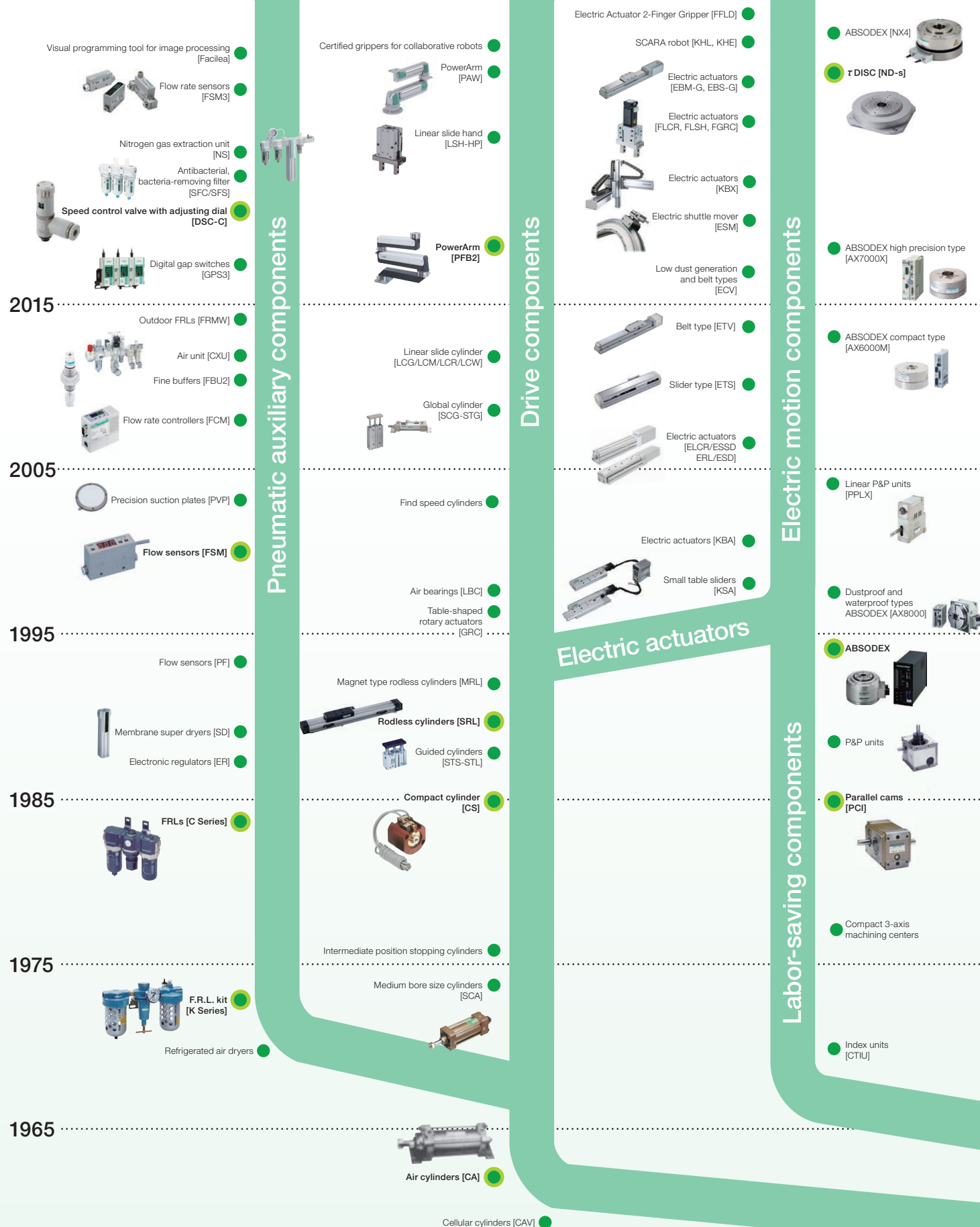
Activities performed by robots have expanded at production sites. To tackle the issue of improving productivity, we have applied the technologies we have built up in pneumatics and electric motion to robotic handling components. Our FFLD Series electric actuator grippers, LSH-HP Series pneumatic linear slide hands, and RLSH, RHLF, and RCKL (recipient of the Good Design Award 2020) pneumatic grippers for collaborative robots are expected to solve issues at sites where robots have been adopted.

Easy image processing even for beginners Visual programming tool for image processing

Amid a growing need for factory automation to improve productivity, we released the Facilea visual programming tool for image processing. Applying over 20 years of image processing technology built up through automatic machinery, Facilea can be easily used by anyone to automate inspection processes that rely on human labor.



Tree of Growth



Our pursuit of automatic machinery development and diversification sprung from the seeds of vacuum tube appliance manufacturing. We have used our core technologies as a platform to establish new machinery product fields and continue to develop technologies that meet customer needs. Going forward, we will provide wide-ranging support to manufacturing operations worldwide with our myriad of product lineups.

Automatic machinery

- 3D solder paste inspection machine [VP9000]
- Pharmaceutical products packaging Eco Blister [FBP-320E]
- Winding machines for lithium-ion batteries [PEW-380]
- Medical pillow wrapping machines [HPL-80E]
- Food packaging machine "Eco Blister" [CFF-360E]
- Blister packers for pharmaceutical products and medical devices [MBP-500M]
- Automatic pharmaceutical products packaging machine "Eco Blister" [FBP-300E]
- Automatic pharmaceutical products packaging machine "Eco Blister" [FBP-600E]
- PTP foreign particle inspection machine "Flash Patri" [FP600]
- LED backlight manufacturing systems
- Lithium-ion battery manufacturing machine
- 3D solder paste inspection machines [VAL-7100]
- Tantalum capacitor manufacturing systems
- Chip mounters
- Food blister packers [CFF]
- Blister packers [FBP]
- Electrolytic capacitor winding
- High speed horizontal production of straight tube fluorescent
- Midget bulb units (Stop taillights)
- Blister packers [DBP]
- Index units [RTA]
- Turret drilling machines

Pneumatic control components

- Intrinsically safe explosion-proof pilot 3,5-port valves [4GD※※EX]
- Pilot-operated 3,5-port valves [4GR]
- Outdoor pilot-operated 5-port valves [4F2/3]
- Direct acting 3-port valves [3QR]
- Wire-saving block manifolds [MN4E0]
- Pilot-operated 3, 5-port valves [4GA-4GB]
- Wire-saving block manifolds [MN4S0]
- Wire-saving 4-port valves [4T]
- Pneumatic valves [4K]
- Pneumatic valves [4F]
- 4-way pneumatic valves [PDC]
- AC solenoid [DS]

Fluid control components

- Thin pilot operated 2-port solenoid valves for compressed air [SP Series]
- Water flow rate sensors [WFK2]
- Automatic sprinklers with resin solenoid valves [GSV2]
- Capacitance electromagnetic flow rate sensors [WFC]
- Electric needle valves for chemical liquids [MNV]
- Wireless diaphragm valves [SWD-MWD]
- Metal-free solenoid valves for chemical liquids [MR16]
- Integrated water units [WXU]
- Gas combustion composite valves [GHV]
- Cylinder valves [SAB]
- Pilot regulators for chemical liquids [PMP]
- Process gas regulators [PGM]
- Multipoint float level switches [KML]
- Proportional vacuum pressure control systems [VEC]
- Metal-free solenoid valve for chemical liquids [MYB-MEB]
- Integrated gas feeding systems [IAGD]
- Water flow rate sensors [WFK]
- Special purpose valves
- Chemical liquid valves [AMD]
- High vacuum valves [AVB-AVP]
- Process gas valves [AGD-MGD]
- Pilot kick general purpose valves [ADK-APK]
- Ultra-high vacuum valves [HVB]
- Chemical liquid valves [AMB]
- Direct acting general purpose valves [AB-AG]
- Solenoid valves for water [WV]

Fine system components



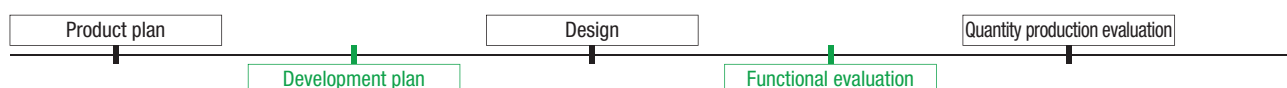
Core Technologies

CKD's core technologies are divided into the automatic machinery area, which includes pharmaceutical products packaging machines and the component products area, which includes products such as pneumatic and fluid control components that are used in equipment automation. Our customer base covers a wide range of industries, including automobiles, semiconductors, healthcare, pharmaceuticals, and food products. We use these core technologies to fulfill the various requirements of our customers, such as for products that are labor-saving, clean, miniaturized, high-speed, high-frequency, and long-life. Going forward, we will engage in further R&D and business development based on the CKD Corporate Philosophy.

Technology Chart

	Core Technologies	Semiconductors	Medical and pharmaceuticals	Food products	Rechargeable batteries	Electronic components	Automobiles	Machine tools
Automation	Image processing technology		Foreign material inspection machines of blister sheets for pills			3D solder paste printing inspection systems		
	Resin film formation technology		Pharmaceutical products packaging machines	Food packaging machines				
	Resin film sealing (welding) technology		Pharmaceutical products packaging machines	Food packaging machines				
	Pill filling technology		Pharmaceutical products packaging machines					
	Film transportation technology		Pharmaceutical products packaging machines	Food packaging machines	Winding machines for lithium-ion batteries			
	Servo control technology				Winding machines for lithium-ion batteries			
Fluid control	Compact coil design	Directional control valves				Directional control valves	Directional control valves	
	Low-sliding friction technology	Valves for process gas				Pneumatic cylinders	Pneumatic cylinders	
	Flow circuit analysis technology	Valves for chemical liquids	Fluid control valves					
	Miniaturization process management technology	Valves for chemical liquids						
	Water hammer reduction technology	Valves for chemical liquids						Fluid control valves
	Air servo control technology	High vacuum valves Electro pneumatic regulators				Electro pneumatic regulators		
	MEMS technology	Sensor components			Sensor components	Sensor components	Sensor components	Sensor components
	Diaphragm design technology	Valves for chemical liquids Valves for process gas	Valves used in medical analysis	Fluid control valves				
	Clean technology	Valves for chemical liquids Valves for process gas	Valves used in medical analysis	Fluid control valves				
	Compact resolver technology	Direct drive motors				Direct drive motors		
	Gas separation membrane technology			Refining and pressure adjusting components	Refining and pressure adjusting components	Refining and pressure adjusting components		
	Porosity control technology	Static pressure bearing suction cups			Suction plates	Static pressure bearing suction cups		

CKD'S Development Process



Development Project System

We carry out new product development by gathering specialists from various departments to form a product development team. By dedicating a small but elite group to the task, we enhance development quality.



Quality Assurance

We evaluate and record quality in every phase of development to ensure products are high quality. Our thorough quality control system based on quality engineering meets the customers' every need in terms of quality.



For more information regarding CKD's core technologies, see CKD Technical Journals on our website (Japanese only).
<https://www.ckd.co.jp/company/giho/>

Examples of Environmental Initiatives

In our voluntarily formulated Quality and Environmental Policy, we pledge to “promote energy saving, resource saving, and build energy-saving production lines.” We are working to reduce energy consumption and costs by advancing a shift to renewable energy through the installation of solar power generation systems at the Head Office/Komaki Plant and Thai Plant, and managing and controlling overall energy supply and demand at the Tohoku Plant. Going forward, we will contribute to environmental conservation by striving to reduce CO₂ emissions through continuous improvement activities such as installing energy saving equipment and building energy saving production lines.



Relevant SDGs



Renewable Energy Initiatives (Solar Power Generation)

Thai Plant



We are adopting renewable energy with the aim of achieving SDG 7, “Ensure access to affordable, reliable, sustainable and modern energy for all.” In June 2019, we began operation of a solar power generation system which is offsetting 15% of the Thai Plant’s CO₂ emissions. In fiscal 2019, we reduced annual CO₂ emissions by 197 tons.

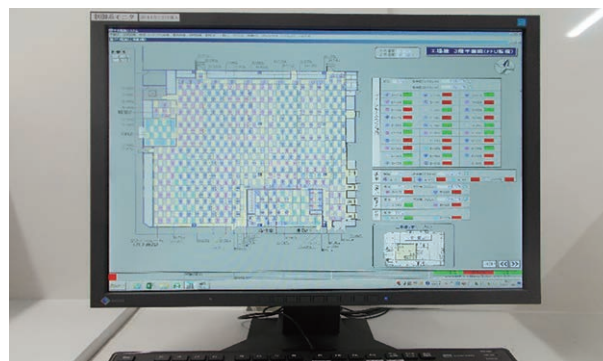
Head Office/Komaki Plant



As an initiative for incorporating renewable energy design, in July 2020 we installed and began operation of a solar power generation system at the CKD Head Office/Komaki Plant. It is expected to reduce annual CO₂ emissions by 300 tons. Going forward, we plan to systematically install these systems at our other plants in Japan and overseas.

Introducing FEMS

Tohoku Plant



At our Tohoku Plant, we have installed a Factory Energy Management System (FEMS) which can visualize energy management from power receiving to distributing to facilities, monitoring energy use, operational status of production and infrastructure equipment, and energy consumption. By measuring and analyzing the energy consumed by each equipment, we can optimize plant energy usage and reduce CO₂ emissions.

Corporate Governance

We strive to ensure and strengthen the feasibility of corporate governance from the perspectives of “ensuring transparent, healthy management” and “appropriate cooperation with stakeholders” for the purpose of realizing a greater level of sustainable corporate value.

Mindset

CKD Group endeavors to further enhance corporate governance as a mechanism to realize management that is healthy and efficient, and that has a character of transparency which earns the ongoing trust and goodwill of all stakeholders, with their diverse range of vested interests.

Status of Internal Control System and Risk Management Structure Development

CKD's basic policy for putting in place an internal control system and risk management structure is determined, and executed, by its Board of Directors. Details of the basic policy are as follows.

- a) Ensuring conformity to laws and regulations, as well as the Articles of Incorporation

To be sure that directors and employees comply with laws and regulations, as well as the Articles of Incorporation in the performance of their duties, we maintain Standards of Conduct and internal regulations, and have put in place a system that prohibits relations with antisocial forces and offers a way to report illegal activities. We have also established a Nomination, Remuneration Advisory Committee to designate directors and determine their compensation, among other duties.

- b) Preserving and managing information

Proposal approval forms, the minutes of various meetings, and other information associated with the execution of duties by directors are appropriately preserved and managed in accordance with laws and internal regulations.

- c) Risk management

In tandem with seeking to raise awareness of compliance among all employees, the risk management sections of each business division work in close cooperation and under the primary authority of the divisions tasked with risk management (General Affairs Department, Information Resource Management Department, Internal Control Audit Office and Legal Department) at headquarters, which promotes companywide risk management. In addition, to respond promptly and with precision to risks that are increasingly complex, we have established the Risk Management Committee under the auspices of the Board of Directors as an entity that manages risks laterally throughout the Company. The Risk Management Committee deliberates and decides upon matters relating to companywide risk management.

- d) Ensuring efficient execution of duties by directors

As a general rule, the Board of Directors convenes once a month, and the Board of Managing Directors, composed primarily of Company officers, convenes on an as needed basis. This enables swift decision making by management. The Company also holds Management conferences for matters that impact operations at each business division. These meetings are attended by officers and division heads who share information through reports and discussions on the analysis of the business environment and the progress of financial planning, and also reflect management decisions. In addition, the introduction of an executive officer system has effectively separated the management decision making, as well as supervisory and operational execution functions, responsibilities that had previously been held by the Board of Directors. This enables precise and prompt decision making, and agility in executing business operations.

- e) Ensuring appropriate operations within the corporate structure

CKD promotes efficient subsidiary management based on regulations for the control of subsidiaries both in and outside of Japan. In tandem with this, as subsidiaries fall under the scope of Standards of Conduct and within the risk management structure, we pursue proper business operations with subsidiaries by having a thorough system of reporting to headquarters and providing advance approval concerning important matters.

- f) Matters related to employees assigned to auditors
- The Company assigns employees to assist the auditors in the performance of their duties, as necessary, and grants such employees the authority to conduct investigations as directed by the auditors. In such cases directors and auditors deliberate in advance concerning human resources.

- g) Reporting to auditors

At the request of auditors, directors and employees of the Company and its subsidiaries shall provide required reporting, and share information regarding Groupwide management conditions and status of business execution, in accordance with laws and regulations and as stipulated by the Audit & Supervisory Board. In addition, employees who are assigned to auditors are not to be the subject of disadvantageous treatment due to sharing information and reporting to auditors.

h) Structure to ensure the effective execution of other auditor audits

To raise the effectiveness of the Group's audit structure, we have established the Internal Control Audit Office under the direct control of management, and ensure opportunities for information exchange by auditors, accounting auditors and the Internal Control Audit Office. In addition, auditors may consult with external experts in the legal, accounting or other fields as necessary, and the payment of related expenses will be the responsibility of the Company.

Officer Remuneration

The Nomination, Remuneration Advisory Committee, an advisory body to the Board of Directors, deliberates on the remuneration system for officers, and it has established the following basic policies.

- Design the system to motivate officers to contribute to the enhancement of corporate value
- Ensure the appropriateness of the method for determining the remuneration and distribution
- Design the system to allow officers to share the interests with shareholders through stock ownership

Remuneration for directors is determined following consultation with the Nomination, Remuneration Advisory Committee, by the representative director who is authorized by the Board of Directors, within the range approved by the General Meeting of Shareholders and in accordance with standards established by the Company. The remuneration for directors consists of fixed remuneration, performance-linked remuneration, and restricted stock remuneration, while outside directors are paid only fixed remuneration, in light of their role to supervise management from an independent perspective. Fixed remuneration is set at a fixed amount for each position, taking into account the level of responsibility and contribution to management.

Performance-linked remuneration is based on consolidated sales, consolidated operating income, ROE, and development investment of the previous fiscal year, which are linked to the Medium-Term Management Plan as key performance indicators. The distribution of performance-linked remuneration is set in a manner such that the higher the position is, the greater the distribution becomes, thereby requiring higher performance and responsibility for performance.

Criteria for Judging Independence

The Company deems an outside officer or a candidate for an outside officer to be independent from the Company if the officer or the candidate are judged to have no risk of generating conflicts of interest with ordinary shareholders of the Company.

* For details of our criteria for judging independence, see Principle 4-9 of the CKD Corporation Corporate Governance Report.

Providing Outside Officers with Information

In order to give our outside officers a deeper understanding of the Company's business, we provide explanations such as a business overview when they are first appointed, followed by opportunities to observe at each of our plants in Japan. We also carry out the following training and information provisions.

- Provision of materials and detailed explanations of key issues before Board of Directors meetings
- Scheduled participation in Audit & Supervisory Board meetings and other opportunities for information sharing
- Observation tours of plants both in Japan and overseas, including those belonging to Group companies
- Setting of opportunities to hear status reports from executive officers at Board of Directors meetings

Total remuneration, total of each type of remuneration, and number of each type of officer (fiscal 2019)

Officer Type	Total Remuneration (millions of yen)	Total Remuneration by Type (millions of yen)			Number of Officers
		Fixed Remuneration	Performance-linked Remuneration	Restricted Stock Remuneration	
Director (excluding outside directors)	202	133	57	11	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	17	17	—	—	1
Outside officers	40	40	—	—	6

* As of the end of fiscal 2019, there are eight directors (including three outside directors) and four Audit & Supervisory Board members (including three outside Audit & Supervisory Board members).

Promotion Structure

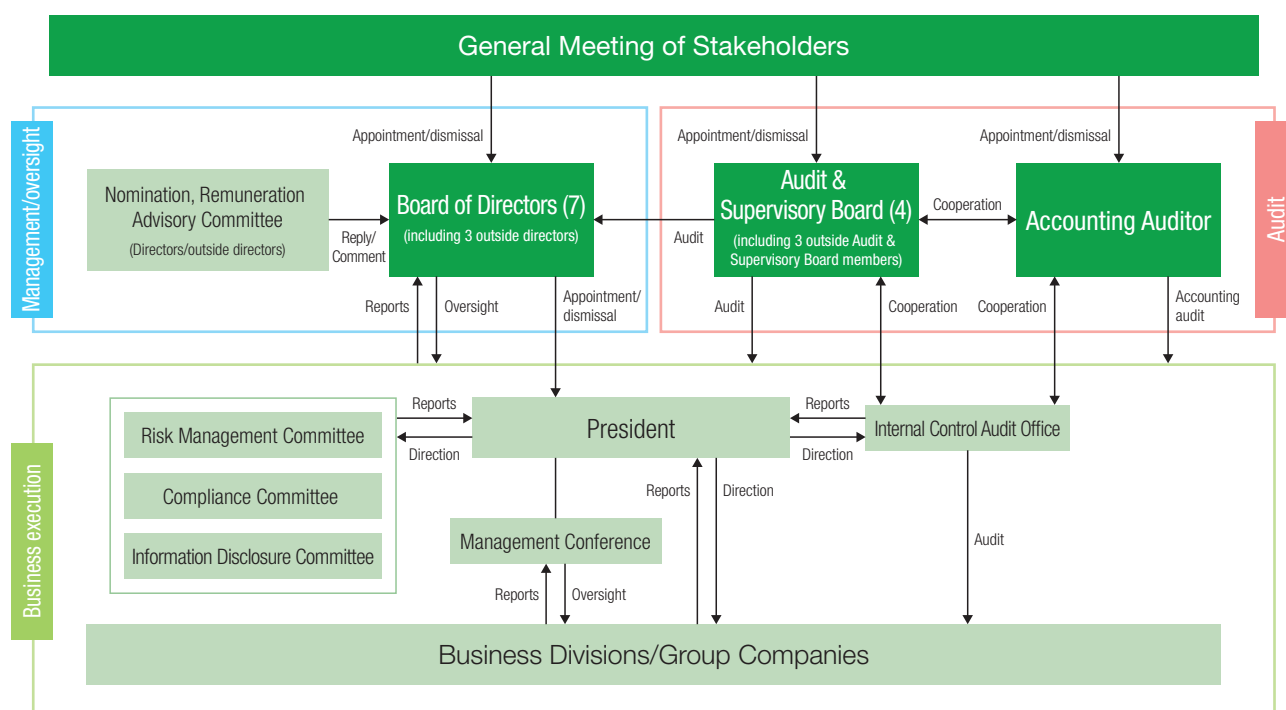
In addition to its responsibilities as determined by laws and regulations, the Board of Directors is positioned as an entity that determines basic policy and important matters concerning management. We believe that it is essential to have leadership driven by top management and decision making that is both transparent and fair. Based on this thinking, as a company that has adopted a board of auditors' system, we entrust to administrative personnel the execution of those routine duties as would be permitted within the scope of the law, and we work toward management that is transparent and objective owing to strengthened management oversight conducted by Audit & Supervisory Board Members. In addition, together with appointing three independent outside directors, we have established a Nomination, Remuneration Advisory Committee as an advisory body to the Board of Directors to strengthen the independence, objectivity and accountability of Board of Directors' functions associated with director nomination and remuneration. The committee is convened as needed, and based upon the results of deliberation on matters related to nomination and remuneration, committee members report to the Board of Directors.

Oversight Functions

The Company has adopted a board of auditors' system, and its Audit & Supervisory Board is composed of four auditors, three of whom are outside auditors. Each Audit & Supervisory Board Member attends Board of Directors' meetings and other important meetings based on the audit policies, formulated by the Audit & Supervisory Board, and audit plans, and conducts audits of directors' execution of duties through surveys on the status of business tasks and financial conditions. Auditors work closely with the Internal Control Audit Office and accounting auditors, and exchange information on an as needed basis.

The Standing Audit & Supervisory Board member also attends important meetings such as Management Conferences to deliberate on the management matters of each business division, analyze the business climate, and work to understand the status of business planning progress so as to provide appropriate audits. Accounting audits are conducted under an audit contract with Deloitte Touche Tohmatsu LLC for Companies Act audits and Financial Instruments and Exchange Act audits. We request accounting audits that are fair and unbiased.

Corporate governance organization



Outside Audit & Supervisory Board Member Messages



Koichi Hayashi

Outside Audit &
Supervisory Board Member

I have been involved with finance, accounting, and auditing for roughly 30 years. After acquiring experience in audit work in the US and returning to Japan, I have participated in multiple M&As, including cross-border M&As, and the accompanying post-merger integration work. Meanwhile, as CKD aims for greater global business growth, it has been actively promoting capital partnerships outside of Japan and business acquisitions within Japan. Based in part on my past experience, I intend to constantly verify whether CKD's management control framework corresponds to its growth. Even in these chaotic times, only when this appropriate control framework is in place can CKD achieve sustainable business growth and build win-win relationships with its stakeholders.



Takeshi Sawaizumi

Outside Audit &
Supervisory Board Member

With no end in sight to the COVID-19 pandemic that is gravely affecting the world economy, the escalation of the power struggle between the US and China is shaking up global systems. Japan is subject to a wide range of geopolitical risks and the country is facing an extremely difficult situation in terms of both national security and economy. Despite this situation, CKD is aiming to be a "Total FA Worldwide Supplier" and further advance its business development. Based on my experience and involvement in the management of many companies from the stance of finance, I will maintain my gaze on these numerous changes at the global level, while at the same time as an outside Audit & Supervisory Board member, ensure credibility among all stakeholders and strive to contribute however modestly, to the achievement of the corporate targets established by CKD.



Shuzo Hashimoto

Outside Audit &
Supervisory Board Member

The COVID-19 pandemic is transforming the social and economic structures that have existed to date. It is driving great change in the way social and economic activities are carried out and I think that companies will need to practice more robust corporate governance.

As an outside Audit & Supervisory Board member, my role is to oversee the execution of duties by directors and communicate from a more neutral and objective position. Over more than 30 years working as a lawyer, I have participated in the business of a variety of companies and I will strive to leverage this experience at CKD. I will remain aware of my position as an outside Audit & Supervisory Board member as I cooperate with our varied stakeholders and I will do my best to ensure the effectiveness of the Company's corporate governance and contribute to enhancing corporate value.

A Conversation with the Outside Directors



Kazumasa Uemura
Outside Director

Junichi Kagawa
Outside Director

Facilitator: Kazunori Kajimoto
President

Noriko Asai
Outside Director

As the need for sustainable growth rises, there is growing interest in corporate governance. CKD's three out of seven directors are outside directors. These outside directors shared with us their thoughts on the Board of Directors, their challenges and expectations regarding the future growth of the Company.

Please tell us about your backgrounds.

Kagawa: Previously, I worked for many years at a major global automaker with a focus on jointly developing new products in the engine development divisions. As each country has different requirements regarding matters on vehicle performance and development targets, I felt that it was crucial to maintain close communication with customers. Following this, I became an executive officer when the 2008 global financial crisis hit, which made us realize the importance of having cash on hand. I also have experience on earthquakes, and I think that business continuity planning (BCP) is key, especially for manufacturers. I believe I can provide advice that will help the Company create a robust corporate structure as we expand globally.

Asai: I have spent roughly 30 years visiting and analyzing the management situations at manufacturing and R&D locations in Japan and overseas, and have seen technological change at approximately 3,000 sites. While working in the public sector, including for the Ministry of Economy, Trade and Industry and the Ministry of Health, Labour and Welfare, I also got to experience the latest technological innovation as a member of technology screening committees for robotics and materials. I also participated in labor policy discussions regarding workstyle reforms. I want to leverage this experience to contribute to raising corporate value by ensuring objectivity and transparency and verifying the adequacy and appropriateness of decision making from an external perspective.

Uemura: After receiving my medical license, I aimed to become a researcher and clinician in 1990, and I began research activities in the U.S. In 2005, I took a position at the Medical Education Center at Nagoya University's School of Medicine where I became responsible

for medical training, as well as personnel matters as an advisor to the director of the university hospital. In this capacity, I have also dealt with issues regarding mental health and labor management.



Kajimoto: Over the years, the number of situations we've faced concerning mental health has risen, and we have had more dealings with medical and pharmaceutical-related industries, so we were glad to appoint an outside director with medical experience.



What are your impressions of CKD?

Kagawa: My impression is that CKD is an extremely serious company. As long as Japan remains a manufacturing country, there will be investment in equipment and facilities. I think that showcasing the Company's approach, including in areas outside of medium- to long-term management plans, to the public will also have a beneficial effect on our employees' mindsets. I think we need to communicate information about the Company in a positive manner.

Asai: CKD's employees are active at venues outside of the Company, such as in the Industrial Value Chain Initiative,^{*1} the Robot Revolution Initiative, and at exhibitions, and I feel that they are adapting to changes in the business environment, such as digital transformation (DX) and the fourth industrial revolution, and they are doing their best to grow and take on new challenges.

Uemura: Technology and skills are being passed down properly and while observing workplaces, I feel that work is being carried out seriously and diligently. However, I also get the impression that, for the most part, employees do not share the Company's social mission and values. Also, although there have been fewer major workplace accidents, there are small accidents occurring due to employees copying their senior colleagues rather than following the manuals. I think this is because there is a general lack of awareness regarding working with initiative.

What are your thoughts regarding CKD's meetings of the Board of Directors?

Kagawa: Meetings proceed smoothly, even when there are lots of items on the agenda, and I feel that basically most items have already been decided in advance. In regard to medium- to long-term management planning, I think it would be better if we were able to hold a little more discussion at meetings.

Kajimoto: Meetings have, for the most part, proceeded in this fashion for many years without being questioned, so going forward, I would like to make discussions fuller.

Asai: Amid movement toward the introduction and revision of corporate governance and stewardship codes, Board meetings have an appropriate sense of urgency and an atmosphere where members can give their opinions openly. The introduction of an executive officer system is realizing swift and accurate decision making and agility in regard to executing duties, and I think that the six outside directors and Audit and Supervisory Board members can leverage each of our diverse backgrounds in terms of qualifications, roles, and expert knowledge to perform our duties swiftly.

Kajimoto: As Board meetings are held once a month in principle, it may be a slight challenge to contribute shortly after being appointed. We will consider providing more information, such as Management Conference minutes.

Uemura: Like Mr. Kagawa, I think it would be good to have opportunities to discuss things. This is an area in which we should improve.

What are your thoughts about CKD's technology?

Kagawa: In our product development processes, we create collections of case studies of past issues, but as these aren't read until problems actually occur, we keep on making the same mistakes over and over again. To stop this from happening, we first need to create systems to prevent issues from occurring.

Kajimoto: Didn't you visit the Tohoku Plant?

Kagawa: Yes. I was impressed that there were absolutely no stoppages involving the gas valve assembly equipment. I think it is an extremely well-developed machinery and it can contribute to improving productivity so we can further raise production levels.

Kajimoto: What are your thoughts regarding CKD from a global perspective?

Asai: Global technological development is moving toward cyber-physical systems,^{*2} and digital twins, and even triplets, are being explored. IoT is making business borderless, and within this, we are aiming to be a Total FA Worldwide Supplier that is developing a product line-up of over 500,000 items, adapting to the use of



IoT at plants and development of smart factories, and developing technologies such as equipment with communications and sensing functions and failure prediction.

Please tell us your thoughts regarding COVID-19 countermeasures and health and productivity management.

Kajimoto: We were able to implement countermeasures due to detailed advice from Director Uemura.

Uemura: Initially I thought it might be difficult to implement

countermeasures in the manufacturing industry, as the work cannot be done online, but we have been able to apply certain measures and prevent infections at workplaces. However, I think we need to provide care that deals with the stress of online communication. We are realizing health and productivity management that goes beyond the set level and the improvement of environments is progressing smoothly. Welfare efforts that look after employees' physical and mental health also result in greater productivity.

Please give us your opinions regarding CKD's governance structure.

Kajimoto: We have established a Nomination, Remuneration Advisory Committee so the president no longer nominates their own successor.

Asai: I have been impressed with the Company's initiatives to transform corporate governance, including the Nomination, Remuneration Advisory Committee. Within a business environment that is changing at an incredible speed, I think that creating opportunities to hold discussions in a way that incorporates external perspectives will be important to raising corporate value.

Kajimoto: The number of women in management positions has increased and I want to have excellent female employees speak at future Board of Directors meetings. Unless we transform the mindsets of our male employees and bring in talented women, we will not be able to compete internationally.

Uemura: Career continuation and advancement for women is also a big issue in the healthcare field. We need to create an environment that does not bring female careers to a halt.

What are your expectations for CKD going forward?

Kagawa: I would say DX. I think manufacturing will be fundamentally non-digital, based on the three realities principle.^{*3} I think this principle and on-the-job training are crucial to raising the performance and sensibilities of people, but we need to advance our DX and then skillfully combine it with this principle and training.



Asai: In 2018 at the World Economic Forum, an initiative was started to recognize advanced factories worldwide that are at the forefront of the fourth industrial revolution as "Lighthouses" (pioneering companies). I expect the Company to contribute to the solution of global issues by achieving sustainable growth in a manner that is in line with the times as a total FA supplier that can provide customers with the best solutions.

Uemura: I want the Company to take a direction of raising employee engagement so employees can really feel that they are contributing to the Company's development and success.

Kajimoto: These are valuable opinions and I hope to reflect them in the future management of the Company. Our outside directors offer broad experience together with a variety of knowledge and talents making them one of CKD's strengths. I hope to deepen communication with our outside directors going forward so that we can work toward raising corporate value.

^{*1} Industrial Value Chain Initiative: A forum where activities are carried out to design a new society in which manufacturing and IT are integrated, and to direct the changes in the right direction. Participants from manufacturing sites of member companies equally take the initiative based on their own viewpoints.

^{*2} Cyber-physical systems: Systems that merge physical and digital aspects.

^{*3} An approach that focuses on "real places," "real things," and "real facts."

Risk Management

CKD considers risk management as an important operational activity to be a company that continues to earn the trust of society, and together with maintaining this management structure, the Company strives to mitigate serious risk and to minimize loss that results from risk.

Mindset

CKD identifies various risks ancillary to business activities so as to ensure business continuity and to raise corporate value, and based upon the proper assessment of such risks, undertakes efficient and effective management activities.

Risk Management Promotion Structure

CKD formulates risk management regulations that define a structure of risk management promotion. In conjunction with this, the Company positions the Risk Management Committee directly under the Board of Directors, which serves to promote risk management. The Risk Management Committee performs the following duties.

- a) Considers methods of risk identification, assessment and response, and makes the decision on how to respond to risk
- b) Assesses the effective results of the risk response method, and based upon this, considers corrective measures
- c) Provides guidance, communicates and makes requests in relation to matters for thorough companywide implementation
- d) Audits and monitors matters decided upon by the Risk Management Committee
- e) Reports to the Board of Directors

Formulation of Business Continuity Plans (BCP)

We make preparations for events such as large-scale earthquakes, fires, typhoons or other enormous disasters, and believe that the safety of human life is of the utmost priority. We therefore formulate BCP that serves to aid in the recovery of the local community and our business partners, and keep our business in operation.

Main Initiatives

- Educate all employees and conduct training for working-level responders
- Implement an array of drills (drills for initial response, business recovery, evacuation, first aid, fire extinguishing, and others)
- Prepare supplies (return-to-home support kits, stored rice and water, electricity generators, etc.)
- Hold BCP formulation seminars for business partners

Mindset on Information Security

Information security refers to securing the safety of computers and information for conditions that enable information to be used properly, and can be categorized into three elements, namely, confidentiality, integrity, and availability. At CKD we strive to heighten the level of information security for technical data, engineering drawing information and other material of a classified nature. We also introduce security measures to efficiently protect information assets, and define related points and operational processes. Moreover, under our information security framework we take measures such as conducting drills, seek to educate all employees, and bring together a range of related information in order to clarify laws and regulations that pertain to information security, various rules and guidelines.

Compliance

In our **Standards of Conduct**, which sets out the basic principles that we should adhere to when carrying out business activities, we make our approach to legal compliance clear and to raise awareness of compliance throughout the entire Group, including overseas we are implementing various initiatives.

Mindset

We shall fulfill our social responsibilities by ensuring each and every employee adheres to laws, regulations, and business ethics.

Thorough Standards of Conduct

Our Standards of Conduct clearly outlines our thorough policy regarding legal compliance, comprehensively covering topics including fair transactions, preventing harassment, bribery and illicit benefit sharing, and other dishonest and corrupt acts. Additionally, in order to communicate this policy widely throughout the Company, we provide all employees with a CKD Conduct Guidelines Manual, implement internal compliance training, and share legal compliance information with overseas sites.

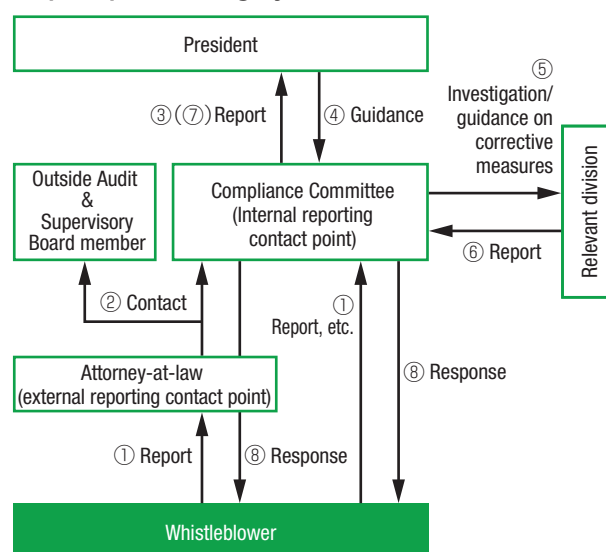
Handling Risk of Compliance Violations

The status of handling matters related to legal compliance as stipulated in the Standards of Conduct is covered under risk assessments of business operations carried out by the Risk Management Committee under the supervision of the Board of Directors. Procedures for handling these matters are considered in accordance with the importance and priority of the risk involved. When dealing with customers and contractors who may become new business partners, we carry out due diligence as necessary, including screening before any transaction is carried out and confirming whether there have been any instances of inappropriate transactions, fraud or corruption. Furthermore, our approach to compliance is clearly stated through means such as the Request for Business Partners posted on our corporate website, and new business partners are informed of this approach. In fiscal 2019, there were no cases of disciplinary action taken for reasons such as bribery or corruption, nor any instances of expenses occurred, such as fines or settlement payments, in relation to such acts.

Whistleblower System

We have established a whistleblower system as a mechanism through which employees and others who work in the CKD Group can make reports. In parallel with this internal reporting system, we have also established an external reporting system, staffed by an independent attorney-at-law, and in addition to taking care to protect those making reports, including assuring anonymity and confidentiality, we strive to quickly discover and correct compliance problems. Reports can be made regarding a wide range of compliance violations, including violations of the Antimonopoly Act, such as cartels, and violations of criminal laws, such as bribery, corruption, and embezzlement. We continuously work to make employees aware of this whistleblower system, and we are making progress on creating a structure which enables reports to be made by overseas-based employees by developing our ability to handle reports in English and multiple other languages. The details of reports are presented to the president without delay, and matters are investigated and deliberated on by the Compliance Committee. We take action to correct any problems and ensure that they do not reoccur.

Report processing system



Board of Directors, Audit & Supervisory Board Members



Kazunori Kajimoto
President

Apr. 1980	Joined the Company
Jun. 2004	Director & Executive Officer General Manager, Sales and Marketing Division
Jun. 2005	Director & Managing Executive Officer
Jun. 2008	President (to the present)



Katsuhito Okuoka
Director and
Senior Managing Executive Officer

Apr. 1991	Joined the Company
Jun. 2014	Deputy General Manager, Components Business Division, General Manager, Administration Department
Jun. 2015	Executive Officer General Manager, Components Business Division
Jun. 2016	Director & Executive Officer
Jun. 2018	Director & Managing Executive Officer
Jun. 2019	Director and Senior Managing Executive Officer (to the present)
Jun. 2020	General Manager, Corporate Planning Department (to the present) General Manager, Security Export Control Office (to the present) General Manager, Internal Control and Auditing Office (to the present)



Shinji Yuhara
Director and Executive Officer

Apr. 1986	Joined the Company
Oct. 2007	General Manager, Nagoya Sales Department, Nagoya Branch, Sales and Marketing Division
May 2012	Osaka Branch Manager, Sales and Marketing Division
Jun. 2013	Executive Officer
Apr. 2014	Deputy General Manager, Sales and Marketing Division
Apr. 2015	General Manager, Sales and Marketing Division (to the present)
Jun. 2018	Director & Executive Officer (to the present)



Katsunori Hayashida
Director and Executive Officer

Apr. 1984	Joined the Company
Jun. 2006	General Manager, Production Department, Automatic Machinery Business Division
May 2009	General Manager, Battery Engineering Department, Automatic Machinery Business Division
Apr. 2011	General Manager, Procurement Department, Purchasing Division
Jun. 2018	Executive Officer General Manager, Automatic Machinery Business Division
Jun. 2019	Director and Executive Officer (to the present)
Jun. 2020	General Manager, Components Business Division (to the present)



Junichi Kagawa
Outside Director

Apr. 1977	Joined NGK Spark Plug Co., Ltd.
Jun. 2003	Director
Jun. 2007	Managing Director
Jun. 2009	Senior Managing Director
Jun. 2011	Advisor & Senior Technical Executive
Jun. 2012	Director, the Company (to the present)
Jul. 2014	Commissioned by NGK Spark Plug Co., Ltd.
Apr. 2015	Advisor, Shinwa Gijutsu Company (to the present)



Noriko Asai
Outside Director

Apr. 1997	Research Assistant, School of Economics, Nagoya University
Mar. 1999	Received Ph.D. (Economics)
Apr. 2003	Assistant Professor, School of Management, Chukyo University
Apr. 2007	Professor, School of Management, Chukyo University (to the present)
Jun. 2015	Director, the Company (to the present)
Jun. 2020	Outside Director, IBIDEN Co., Ltd. (to the present)



Kazumasa Uemura
Outside Director

Mar. 1990	Received Ph.D. (Medicine) from Nagoya University
Aug. 2005	Professor, Medical Education Center, School of Medicine, Nagoya University
Apr. 2009	Advisor to President, Nagoya University
Apr. 2017	Professor, Faculty of Health and Medical Sciences Aichi Shukutoku University (to the present)
May 2017	Professor Emeritus of Nagoya University (to the present)
Jun. 2017	Director, the Company (to the present)



Masafumi Kokubo

Standing Audit & Supervisory Board Member

Apr. 1983 Joined the Company
 Oct. 2005 General Manager, Sales and Planning Department, Sales and Marketing Division
 Oct. 2008 Chairman and President, TAIWAN CKD CORPORATION
 Sep. 2012 General Manager, Corporate Planning Department
 Jun. 2015 Executive Officer
 Jun. 2018 Director & Executive Officer
 General Manager, Security Export Control Office
 General Manager, Internal Control and Auditing Office
 Jun. 2019 Director and Senior Executive Officer
 Jun. 2020 Standing Audit & Supervisory Board Member (to the present)



Koichi Hayashi

Outside Audit & Supervisory Board Member

Oct. 1990 Joined KPMG LLP, New York Office
 Apr. 1997 Registered as a certified public accountant
 Mar. 2008 Representative Director, Attax Co., Ltd. (to the present)
 Jun. 2010 Audit & Supervisory Board Member, the Company (to the present)
 Jun. 2013 Outside Auditor, Plaza Create Co. Ltd.
 Jun. 2018 Outside Director, Plaza Create Co. Ltd. (to the present)



Takeshi Sawaizumi

Outside Audit & Supervisory Board Member

Apr. 1974 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
 Jun. 2002 Executive Officer
 General Manager, Osaka Second Corporate Business Office (Sumitomo Mitsui Banking Corporation)
 Jun. 2003 Executive Director, Sumitomo Mitsui Card Company, Limited
 Oct. 2006 President, Alpha REIT Advisors Co., Ltd.
 Jun. 2008 President, SMBC Consulting Co., Ltd.
 Jun. 2014 Audit & Supervisory Board Member, the Company (to the present)
 Oct. 2014 Advisor, Laox Co., Ltd. (to the present)



Shuzo Hashimoto

Outside Audit & Supervisory Board Member

Apr. 1987 Registered as attorney-at-law Joined Oguri Law Office
 Apr. 1992 Established Hashimoto Law Firm, Director (to the present)
 Apr. 2004 Vice Chairman, Nagoya Bar Association (currently Aichi Bar Association)
 Jun. 2020 Audit & Supervisory Board Member, the Company (to the present)

Board of Directors Meeting Attendance and Skill Set Matrix

	Name	Attendance at Board of Directors meetings	Skill Set							
			Independence (Outside)	Corporate management	Manufacturing, technology, research and development	Sales and marketing	Finance and accounting	Legal affairs	Compliance, corporate governance	International experience
Directors	Kazunori Kajimoto	11/11		○		○	○		○	○
	Katsuhito Okuoka	11/11		○	○				○	
	Shinji Yuhara	11/11				○				
	Katsunori Hayashida	9/9			○	○			○	○
	Junichi Kagawa	11/11	○	○	○	○		○	○	○
	Noriko Asai	11/11	○		○	○			○	
	Kazumasa Uemura	11/11	○	○					○	○
Audit & Supervisory Board Members	Masafumi Kokubo	11/11		○		○	○	○	○	○
	Koichi Hayashi	10/11	○	○			○		○	○
	Takeshi Sawaizumi	11/11	○	○		○	○		○	
	Shuzo Hashimoto	—	○	○				○	○	

* The attendance result for Katsunori Hayashida is for meetings after he assumed office on June 21, 2019.

* Shuzo Hashimoto assumed the position of Audit & Supervisory Board member on June 19, 2020.

Human Resources

Human resources development putting the abilities of employees to their best use

We believe the realization of “A Corporate Culture That Places Faith in Human Resources” requires us to develop global human resources and create a working environment where employees can challenge themselves and pursue self-fulfillment. We value the potential of each of our employees, regardless of gender, age, or nationality, and are focused on strengthening our human resources development efforts so that each worker can make the most of his or her abilities.

Mindset

One of our key corporate commitments is creating a “Corporate Culture That Places Faith in Human Resources.” Quite simply, we believe human resources represent human capital and are accordingly viewed as a key management resource for the sustained development and growth of the Company. Developing the abilities of our employees is a key theme for management at CKD, and our goal is to create a lineup of human resources that can provide products and services of great value to our customers while simultaneously expanding our business on a global basis.

Policy

We are focused on the strategic and systematic creation of a production system in which workers are eager to tackle the challenges of a new business while maintaining the strengths inherent in our core technologies and technical abilities, and a sales system where our employees can meet the needs of our customers not only in Japan, but around the world.

A Corporate Culture That Places Faith in Human Resources

We place a high value on the motivation and potential of each of our employees, and are focused on enacting business reforms without fear of failure and creating a corporate culture that maximizes the strengths of the organization.

■ Career Planning Sheets

In order to better create a workplace motivating to employees, CKD supervisors and managers use a “Career Planning Sheet” as a means of communication in assisting subordinates in their career planning efforts.

Promoting Work-Life Balance

We are working to improve the lives of our workers both at home and in the workplace, as we believe a fulfilling life in both these locations contributes to a working environment where employees can achieve self-fulfillment.

■ Reducing Working Hours Through Improved Operational Efficiency and Time Management

- Reduce use of outside labor through the implementation

of operational improvements

- Establishment of a set day once a week where workers leave at a specified time
- Setting specified days when all employees use paid time off
- Creation of an hourly paid leave system

■ Childcare Support System

CKD has created a system for childcare leave that is open to all our employees. We have also extended the use of the reduced working hour system and exemption system where workers can be exempted from overtime work until their child reaches their sixth year in elementary school. CKD is creating a working environment in which our female employees can give birth with peace of mind, and where male and female employees raising their children can balance their work and home responsibilities.

■ Nursing Care Support System

We have also created an environment in which employees who provide long-term care can manage this situation while continuing to work. In general, CKD employees may take leave for up to one year to care for their spouses, children, the parents of either the employee or their spouse, as well as grandchildren, siblings or grandparents with whom they are living with or are dependent on them.

Promoting Diversity

CKD is promoting a workforce that makes the best use of its diversity and does not discriminate on the basis of gender, nationality, or age.

Measures Aimed at Empowering Women

We believe the creation of an environment in which women can play an active role and fully demonstrate their abilities will contribute to a workplace where every employee can provide their best contribution.

With this in mind, we opened a daycare center at the Head Office and Komaki Plant location in April 2018. We also established at the same time a system that provides support to employees working in areas where daycare is not available for their child in non-licensed daycare centers.

■ Promoting the Active Participation of Foreign Employees

In order to further promote diversity and globalization, the CKD Group is actively hiring foreign employees, including 36

foreign nationals employed in Japan (as of March 31, 2020).

■ Broadening the Re-employment System

We broadened our system for re-employing retired employees in April 2012. With the goal of increasing the number of options available for workers after they reached the retirement age of 60, we established a lifetime employment program allowing employees to continue working regardless of their age while simultaneously maintaining our existing re-employment system.

Human Resources Development

Bolstering our efforts to allow our diverse employees to play an active role and make the most of their abilities.

■ Education and Training

Using a level-specified system for all employees, we are providing educational programs according to each worker's role in the Company and educational support for self-development in line with that worker's particular business. Moreover, each department engages in programs and initiatives designed to improve the skills of their employees and the environment in which they work.

■ System for Overseas Trainees

We have established an overseas trainee system allowing the exchange of employees for training. The fostering of a global workforce and the promotion of enhanced understanding over how the businesses work is contributing to improvements in our business.

■ Skill Training Facility

We launched a skill training dojo (facility) in fiscal 2016 with the aim of teaching employees how to best use measuring equipment and machine tools for metals processing. In the parts processing department, we aim to raise the level of processing skills by improving the skill level of young employees and ensuring that the refined skills of senior employees are passed on to their younger colleagues.

■ Support for Language Learning

In order to support employees in acquiring the language abilities required to conduct global business, we provide them with opportunities for self-driven study, such as access to external courses and online study support.

Occupational Safety and Health

With the goal of achieving zero accidents, we are focused on creating a "safety first" corporate culture, including through the implementation of safety and health activities in which all Company employees participate.

■ Basic Philosophy

We put safety first and follow correct procedures in manufacturing operations.

Maintaining a safe and healthy workplace allows us to provide products that our customers can use with peace of mind.

■ Policies

1. We will maintain healthy minds and bodies.
2. We will make safety a priority and raise safety awareness among all employees.
3. We will comply with all laws, internal rules and specified work procedures.
4. We will work to predict and avoid risks.
5. We will produce safe and secure products.

Promoting Health Management

We believe the health of our employees is a key issue for management, and we are working accordingly to improve health awareness among the employees and create a working environment conducive to healthy minds and bodies.

■ The CKD Health Management Declaration

We believe the health of our employees is a key issue for management and in cooperation with health insurance societies and labor unions, we are working to improve health awareness among the employees, building a working environment conducive to healthy minds and bodies, and promoting "health management."

■ Key Initiatives

1. Work-life balance (workstyle reforms, management of time spent working)
2. Prevention of lifestyle-related diseases (improving diet, sleep, exercise habits, preventing smoking and passive smoking)
3. Creating a comfortable working environment (promoting mental health, improving the working environment, supporting for balancing treatment and work)

■ Recognition as an Outstanding Organization for Health & Productivity Management in 2020

In 2019, we formulated the CKD Health Management Declaration and we have been continuously implementing initiatives that enhance health and productivity. In March 2020, our efforts were recognized as we were certified as an outstanding organization for health and productivity management under the large enterprise category of the Certified Health & Productivity Management Organization Recognition Program.*



* Certified Health & Productivity Management Organization Recognition Program: A program operated jointly by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi that gives recognition to organizations carrying out excellent health and productivity management.

Quality Management System

Focused on manufacturing products of even higher quality

With the goal of more efficiently and effectively supplying products and services that satisfy our customers, we have made a commitment to continually improve product quality and environmental management practices throughout the Company. In line with this commitment, we have established annual quality and environmental policies and promoted their awareness not only within CKD but also among those working with the Company.

Policy

Our product quality and environmental policies focus on more efficiently and effectively supplying products and services that satisfy our customers. Accordingly, we have established the following policies and remain committed to continuously improving the quality management system throughout the Company.

[Quality]

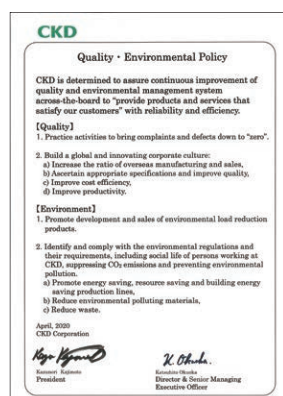
1. We will conduct activities aimed at achieving zero complaints and zero product defects.
2. We will build an innovative and global structure that:
 - a) Improves the overseas production and sales ratios
 - b) Identifies optimal quality and boosts product quality
 - c) Improves cost competitiveness
 - d) Enhances productivity

Our policy on quality centers on quality targets aimed at preventing defects, and sustained improvements through a focus on productivity, cost competitiveness, quality, and overseas operations.

Our ongoing efforts to enhance quality include ISO 9001-based quality management, and evaluating operational conditions through internal audits and management

reviews twice a year. Moreover, all employees, including those at overseas subsidiaries, participate in efforts aimed at raising quality awareness each year in November, which we have selected as our month to focus on quality.

Quality and Environmental Policies



ISO Certification for CKD Group Companies in Japan and Overseas

ISO 9001, ISO 14001 Certification

	Certification	Certification Date
CKD Corporation	ISO 9001	Jun. 24, 1994
	ISO 14001	Dec. 8, 2000
CKD THAI CORPORATION LTD.	ISO 9001	Jan. 14, 2004
	ISO 14001	
CKD (China) Corporation	ISO 9001	Jan. 4, 2009
	ISO 14001	
CKD Nikki Denso Co., Ltd.	ISO 9001	Mar. 16, 2018

Initiatives

Case Study A: Implementing Own-Process Completion Activities

Don't create or continue to make defects, and don't allow defects to move to post-processing

With the aim of zero complaints and zero defects, we are promoting a quality policy that includes own-process completion*1 activities.

Our main activities for entrenching this policy include Challenge 1000*2, which enters its fifth year this year, as well as activities started this fiscal year where each team in the Production Department aims to half their own number of defects.

Through these activities we are working to make improvements using process defects by quality control (QC) stories and provide opportunities for employees to learn while practicing own-process completion.

These activities are being carried out not only in domestic plants, but also in overseas production bases, with a focus on improving plant capabilities so that consumers around the world can use our products with confidence and peace of mind.

*1 Own-process completion: Centers on the idea that a manufacturer can guarantee the product quality of items produced in-house through the incorporation of machine and line quality measures.

We keep the customer in mind during every process to ensure that we do not create or continue to make defects, or allow defects to move into the next process in the line. An important point is to set specific quantitative production conditions for creating a good product and evaluation standards for evaluating whether a product is good.

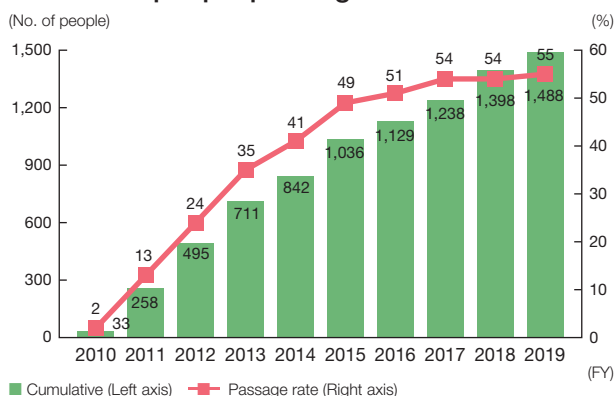
*2 Challenge1000: CKD has established a policy of designating the mass production line at a plant with a high defect rate as a priority line, and set a defect rate reduction target of 1,000ppm (0.1%). The idea is for all departments to work together to make continuous improvements, and through these activities provide OJT for own-process completion and improve the quality control process (QC story).

Case Study B: Using QC Testing to Improve Skills

Raising quality awareness on a companywide basis through QC certification

With the goal of boosting quality awareness companywide, we launched activities promoting QC testing in fiscal 2010 and over the ten years through fiscal 2019, 1,488 people had taken and passed the exam, including not only those working in technology, production, and purchasing, but also those focused in sales and working in the head office. One positive result of many people taking the exam was an increased basic knowledge of quality and the formation of a common language, which has contributed to ongoing improvements and effective management. QC certification exams are planned each year as part of the company's training plan, and have become entrenched on a sustained basis at a companywide level. We are also engaged in activities designed to contribute to those taking the exam to successfully pass it, including seminars conducted by an in-house instructor being held immediately before the exam.

Number of people passing the QC exam



Case Study C: Efforts during Quality Month

Products and services that satisfy our customers

November is "Quality Month" at CKD and all employees participate in related activities, including the sharing of quality month messages from the Company, executive QC patrols, reports and evaluations on quality-related activities, and the creation of quality slogans, with the best of these being recognized with awards. Checks on progress toward meeting quality targets and daily improvement activities that take place during Quality Month not only raise awareness regarding quality, but also allow the Company to recognize successful efforts, improving on-site operations and employee motivation. With the goal of deepening quality awareness, we also



QC Patrol

communicate our ideas on quality to employees both in Japan and overseas through Quality Month messages. Finally, the company president and executives participate in QC patrols, demonstrating their commitment to quality by directly observing quality conditions at the company's production and manufacturing facilities.

Case study D: Introducing the QC Meister Program

Cultivating experts who can play a key role

We have introduced the QC Meister Program with the aim of cultivating personnel who can function as quality experts who can play a key role in quality control at our workplaces. We have set three levels of QC proficiency from a One-Star Meister to a Three-Star Meister and the conditions for achieving the top rank level of a Three-Star Meister are extremely difficult, including acquiring Grade 1 in the QC Kentei (an exam assessing QC knowledge). Achieving meister certification provides an employee with status, further raising motivation, and we look forward to seeing these personnel raise the level of the Company's QC activities.

Case study E: Automating Inspections

Automation using image processing to realize labor-free visual inspections

Visual inspections pose challenges such as human error, as they rely on human sight and it is difficult to make quantitative judgements. Therefore, we are working on automating visual inspections at all our plants. We are accelerating development of the required image recognition and processing by applying the image processing technology we have cultivated over 20 years through an easy-to-use Facilea^{*3}

^{*3} Facilea is a visual programming tool for image processing that was launched in May 2020

Case Study F: Quality Awareness Activities for Suppliers

Quality policy briefings and quality improvement activities

As part of Quality Month, the Company holds briefings for its major suppliers. In addition to explaining current quality policy details and reporting on the state of quality over the past year, the Quality Assurance Department provides an explanation on the importance of modification control^{*4}. We conduct a survey after the briefing, focusing on the quality control status of each supplier and explanations that have been provided to secondary suppliers. We also conduct follow-up activities to ensure the implementation of content provided during the briefings.

^{*4} Modification Control refers to efforts aimed at minimizing risk of defects in products delivered to customers as the company or supplier makes shifts in manufacturing methods, materials, or machinery. In addition to verification testing, we also suggest changes to customers and implement them if approved.

Environmental Management System

Living in harmony with the environment

CKD is engaged in companywide efforts to improve the environment, including efforts in regard to pollution and in ensuring compliance with product-based environmental regulations, such as the European RoHS Directive. We recognize that the realization of a low-carbon society is indispensable to the needs of the international community, and believe that not only can business be conducted while maintaining the environment in a beautiful state, but that the environmental activities undertaken by each of our employees can produce significant positive results. CKD will continue to contribute to the preservation of the environment by developing and supplying to our customers environmentally friendly products that comply with relevant laws and regulations thanks to our years of experience in automation and fluid control technologies.

Policy

We have established our environmental policies in line with our commitment to ensure that CKD business activities, products, and services have an appropriate environmental impact and contribute to the prevention and reduction of pollution.

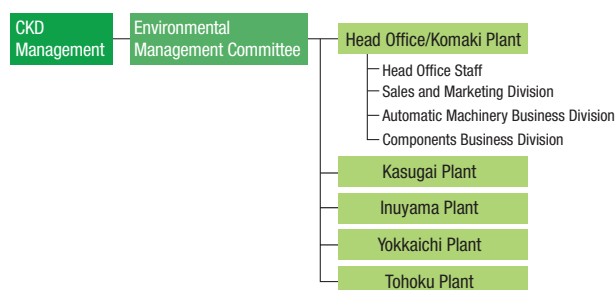
[Environment]

1. We will promote the development and expanded sales of environmentally friendly products.
2. We will clarify and comply with all environmental laws and regulations, while working to prevent pollution and CO₂ emissions, including by those working at CKD in their social life.
 - a) We will promote the conservation of energy and resources and build energy-saving production lines
 - b) We will reduce environmental pollutants
 - c) We will reduce waste

We are developing and expanding sales of environmentally friendly products, focusing not only on the conservation of energy and resources, but also on the environmental impact of the product throughout its life cycle. While maintaining compliance with all environmental laws and regulations, we are also working to reduce our environmental impact as much as possible by conducting our business in recognition of our social responsibilities and continually striving to reduce CO₂ emissions and pollution.

Structure

Companywide efforts to reduce our environmental impact.



Environmental Regulations and Compliance

There are a number of environmental laws and regulations that apply to CKD operations, including the Air Pollution Control Law, the Water Pollution Control Law, and the Waste Disposal and Public Cleansing Act. In May 2019, there was a violation of the Water Pollution Control Law at the Head Office/Komaki Plant. This violation was swiftly reported to the authorities, dealt with, and measures were implemented to prevent a reoccurrence. There were no other incidents of regulatory violations resulting in fines or other disciplinary measures or accidental spillages of chemicals or other substances that might impact the environment.

Environmental targets and results

	Target	Result
Develop and expand sales of products with low environmental impacts	Develop and release environmentally friendly products in line with our standards	Established annual development and sales targets. Achievement rate in fiscal 2019 was 93%.
	Expand sales of products with low environmental impacts	The target in sales of component products has been increased by 5% year on year. The target achievement rate in fiscal 2019 was 87%.
	Collect requests from customers for improvements in products with low environmental impacts, and propose development and improvement plans	Established sales division targets. Achievement rate in fiscal 2019 was 334%.
Reduce environmental pollutants	Accumulate data related to chemical substances within products in line with REACH regulations	Promoting the collection of substance data in order to comply with customer requests.
Promote the conservation of energy and resources	Improve infrastructure and reduce energy consumption	The target reduction in energy consumption per unit is 1% which is in line with the Energy Conservation Act. In fiscal 2019, our energy consumption volume increased 3% compared to the previous fiscal year, and energy consumption per unit was up 16%. The five-year average energy consumption per unit increased 2% in the period from fiscal 2015 to fiscal 2019.

Soil and Groundwater Purification at the Head Office/Komaki Plant

The results of a soil survey conducted during the construction of a plant building in May 2014 showed amounts of hazardous substances above standard levels. We notified and filed reports with authorities, and we have been implementing response measures in a planned and continuous manner. Additionally, no groundwater pollution has spread beyond the site.

Excavation and disposal of polluted soil	Soil that exceeded standards was excavated in October and November 2014 and has been transported to and disposed of at an authorized facility
Pumping and purification of polluted groundwater	Pumping and purification began in July 2015 and changes in concentration are monitored
Biological purification of polluted groundwater	Since June 2018, we have implemented biological purification as an additional countermeasure to speed up purification and prevent spread outside of the site

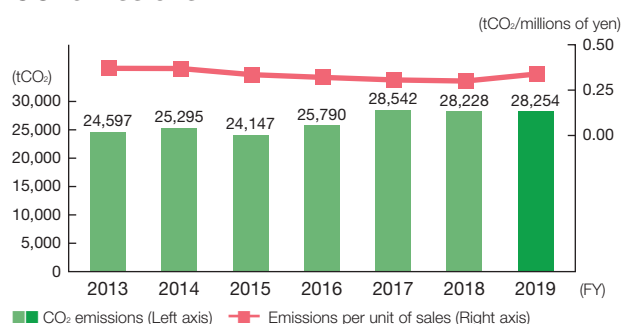
Initiatives Aimed at Combatting Global Warming

We are reducing CO₂ emissions intensity by enacting continuous improvement activities including systematically introducing renewable energy (solar power generation equipment), introducing (and upgrading) highly efficient equipment, and building energy-saving production lines.

- CO₂ emissions rose 0.1% overall due to an increase of 2,647 tCO₂ from the Tohoku Plant which was completed in January 2019. While emissions have increased by 15% compared to fiscal 2013 (3,657 tCO₂), they have decreased per unit of sales by 8% over the same period.

Note: Domestic plants and sales offices

CO₂ emissions



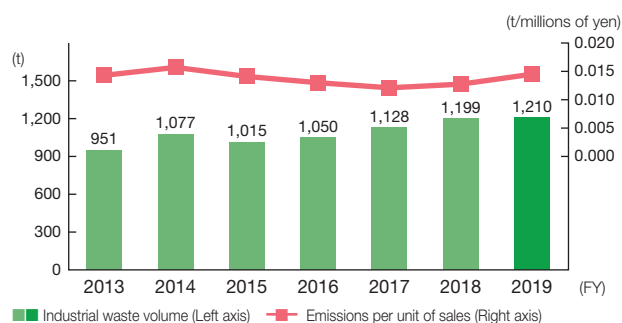
Initiatives Aimed at Reducing Industrial Waste

We are working to separate and recycle waste generated at the Company's plants and reduce waste consigned to landfill with the aim of reducing overall waste volumes and the amount of waste per unit.

- The volume of industrial waste generated decreased 0.6% overall despite an increase of 46 t from the Tohoku Plant which was completed in January 2019. The volume of waste has increased 27% compared to fiscal 2013 (259 t), and it has increased per unit of sales by 1% over the same period.

Note: Domestic plants

Industrial waste volume



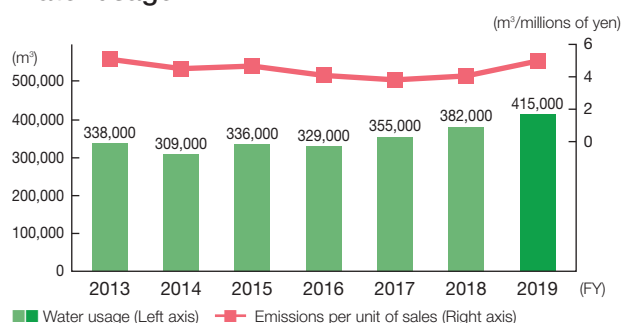
Initiatives Aimed at Reducing Water Consumption

We are promoting the effective use of water resources at each of our plants through measures such as reusing discharged water with the aim of reducing overall water consumption volumes and the amount used per unit.

- Water use rose 9% overall due to an increase of 47,000 m³ from the Tohoku Plant which was completed in January 2019. While use has increased 23% compared to fiscal 2013 (77,000 m³), it has decreased per unit of sales by 2% over the same period.

Note: Domestic plants

Water usage



Contributing to the Local Society

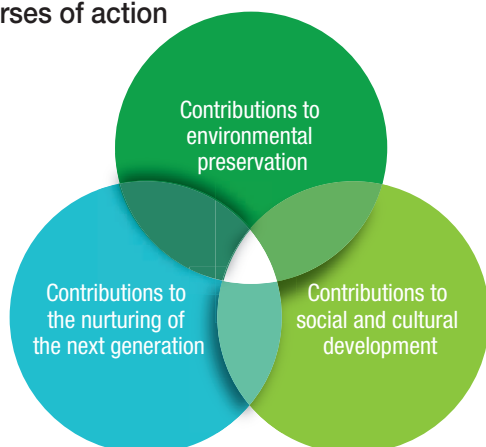
CKD aims to be an “open” company that can contribute to society and local communities.

We aim to be an “open” company that can contribute to the sustainable development of society by fulfilling our social responsibilities through our business activities and tackling the issues facing society and local communities.

Policy

As a good corporate citizen, we value engagement with local communities, promote social contribution activities, and strive to play our part in creating an affluent society. (Based on the Corporate Philosophy, Corporate Commitment, and Standards of Conduct)

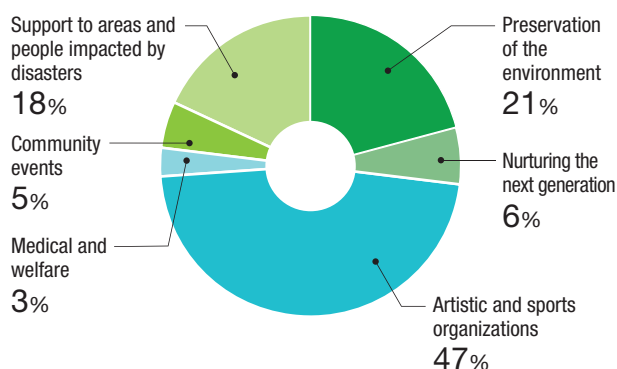
Courses of action



Initiatives

CSR Funding

Through our CSR funding, which started in 2006, we have been providing continuous support and actively carrying out activities linked to social contribution. In fiscal 2019, we supported environmental conservation activities and social and cultural initiatives, such as promoting sports and the arts.



Creating a System Allowing Time off for Volunteer Activities

With the goal of supporting employees in their social contribution activities, CKD created a system allowing 3-5 days off per year for volunteer-related activities. This allows each employee to contribute to society in an area in which they feel familiar, with possible fields for action including welfare activities, disaster relief and recovery efforts, and activities aimed at preserving natural habitats.

Contributing to the Preservation of the Environment

CKD forestation activities

CKD employees and their families participate in volunteer activities to preserve forest areas in the Kaisho Forest area of Seto City, Aichi Prefecture. This area has volunteer activities throughout the year, including pruning and trimming, maintaining the trees and bushes around the viewing area, and preserving the promenade.



Clean-up activity around the Oyama River

CKD sponsors the Oyama River clean-up activity, in which employees and local residents work together, every September. The effort serves to revitalize the area around the Oyama River that runs through Komaki City, Aichi Prefecture, where the Company's head office and factory are located, and contributes to the preservation of a rich environmental area.



Nurturing the Next Generation

Teaching science through manufacturing (monozukuri)

CKD sponsors a science class for elementary school students in the area around the Komaki facility, where the head office is located. Noting that children are becoming increasingly distanced from science, our goal is to increase their interest in science and nurture those who will be the leaders in the years ahead.



Practical training for those studying pharmaceuticals

CKD also conducts practical training for pharmacy students in their fifth year of study. The training centers on the theme of deepening knowledge related to PTP* sheets, including how to operate the PTP for pharmaceuticals packaging machines and how PTP sheets are manufactured.

* PTP stands for "Press Through Package", where medicine can be taken out by pressing it through the enclosing package material.

Sponsoring Science Inkare

In fiscal 2019, one of 102 student presentations from around Japan was selected to receive the CKD award.

Contributing to Social and Cultural Development

Eco-cap and used stamp collection activities

CKD is involved in the collection of PET bottle caps and used stamps. The collected caps are sold to recycling companies, with the profits donated to provide vaccines to children around the world. In fiscal 2019 the collected caps were used to fund vaccines for 139 people. Used stamps are donated to organizations providing medical support overseas or sold to collectors, with gains of sales used to fund activities. In fiscal 2019 we collected 1.2 kg (equivalent to ¥4,000).

Efforts aimed at promoting blood donations

CKD has conducted blood drives since 2006. In fiscal 2019, 301 people took part.

Table for Two

Table for Two is a project that sends meals to children in Africa, funded through a donation of ¥20 per meal at the Company's cafeteria. Cafeterias at four CKD plants in Japan take part in the program and in fiscal 2019, we donated enough to fund 13,952 meals.

Social Contribution Activities at Overseas Group Companies

Efforts to preserve the environment in China

CKD (China) Corporation participates in annual activities to preserve the environment such as promoting eco-activities and cleaning up refuse around local roads. In fiscal 2019 it cooperated with companies located around the plant on efforts to keep China's cities and towns clean.

Efforts to preserve the environment in Thailand

The annual social contribution activities of CKD THAI CORPORATION LTD. include making donations and participating in cleaning efforts. In fiscal 2019, it cleaned refuse from Pak Nam Prasae Beach in Rayong Province.



Efforts to preserve the environment in the US

CKD USA CORPORATION participates in the Christmas tree decorating event at the Brookfield Zoo in Chicago, Illinois. A portion of the participation fee is donated to fund the protection of wildlife and forests. The company's social contribution efforts also include participation in Toys for Tots, which provides Christmas presents for underprivileged children.



11-Year Financial Summary

		Medium-Term Management Plan	NEW CKD 2012		
	(Unit)	2010	2011	2012	2013
Business results					
Net sales	(¥ million)	50,035	72,020	72,804	65,031
Gross profit	(¥ million)	11,421	20,657	19,655	17,022
Selling, general and administrative expenses	(¥ million)	11,087	13,154	13,588	13,778
Operating income	(¥ million)	333	7,502	6,067	3,244
Ordinary income	(¥ million)	711	7,528	6,213	3,517
Net income attributable to owners of parent	(¥ million)	1,494	4,577	3,741	2,452
Cash flow					
Cash flows from operating activities	(¥ million)	7,775	4,048	3,775	7,008
Cash flows from investing activities	(¥ million)	(831)	(1,048)	(3,020)	(5,017)
Cash flows from financing activities	(¥ million)	(5,838)	(766)	(2,450)	(57)
Free cash flows	(¥ million)	6,944	2,999	754	1,990
Financial position					
Total assets	(¥ million)	62,869	72,171	70,079	71,742
Net assets	(¥ million)	41,480	45,335	48,322	50,852
Cash and cash equivalents	(¥ million)	5,581	7,728	5,961	8,180
Interest bearing debt	(¥ million)	6,012	5,851	4,040	5,070
Investment					
Depreciation	(¥ million)	2,918	2,639	2,769	2,619
Capital investment	(¥ million)	597	2,180	2,963	2,710
Research and development expense	(¥ million)	1,731	2,245	2,151	2,336
Per share information					
Net income per share (EPS)	(¥)	24.04	73.40	58.96	38.99
Dividends per share	(¥)	6	14	12	10
Net assets per share (BPS)	(¥)	667.24	714.46	761.54	814.25
Key performance indicators					
Sales by products					
Automatic machinery business	(¥ million)	11,967	13,061	14,762	14,202
Components business	(¥ million)	38,068	58,959	58,041	50,828
Ratio of overseas sales	%	15.8	20.6	20.3	20.8
Sales by areas					
Japan	(¥ million)	42,122	57,155	58,043	51,499
Rest of Asia	(¥ million)	6,907	13,080	12,712	11,966
Other	(¥ million)	1,006	1,785	2,047	1,565
ROE	%	3.7	10.5	8.0	4.9
ROA	%	2.4	6.8	5.3	3.5
Shareholders' equity ratio	%	66.0	62.8	69.0	70.9

Note: Accounting year figures have been revised for the accounting year ended on March 31, 2018 to reflect changes in accounting policies from April 1, 2018.

GLOBAL CKD 2015

Challenge CKD 2018

Build-up CKD 2021

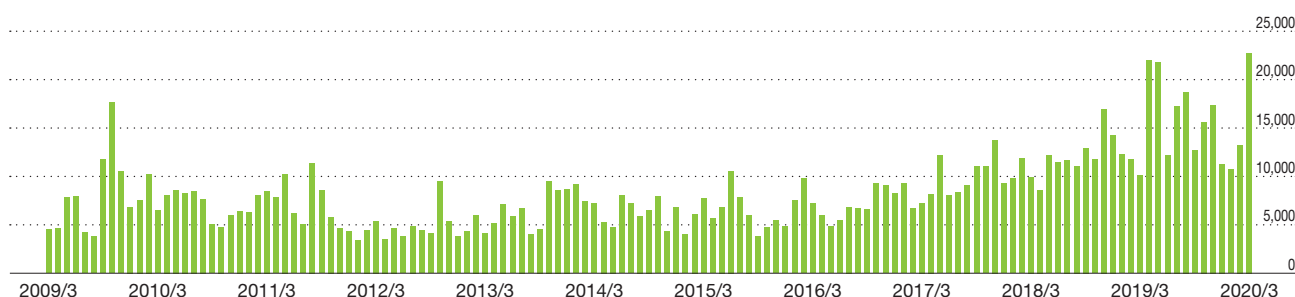
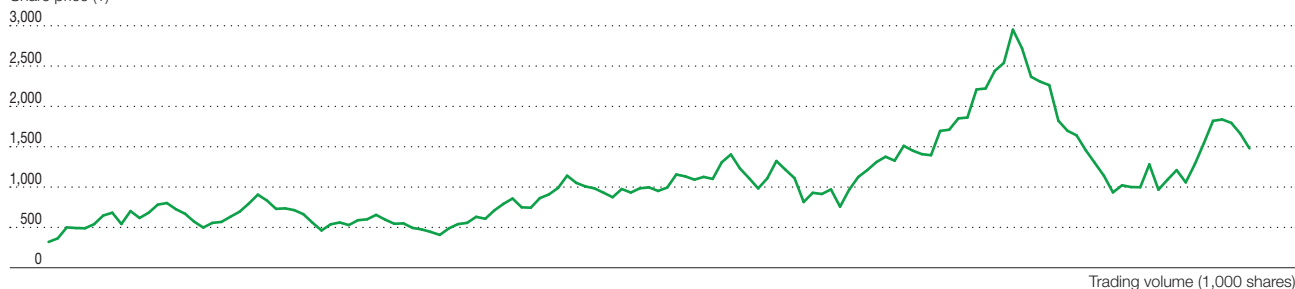
(Fiscal year ended March)

2014	2015	2016	2017	2018	2019	2020
75,491	83,379	88,117	94,012	115,700	115,665	100,717
23,151	25,439	26,734	28,727	35,835	28,510	26,135
15,268	17,076	18,627	19,146	23,363	23,081	20,905
7,883	8,363	8,107	9,580	12,472	5,429	5,230
8,136	8,735	8,094	9,771	12,469	5,425	5,374
5,456	6,010	5,459	6,958	9,142	4,793	3,689
9,754	6,226	8,027	10,163	5,542	(2,254)	17,250
(6,224)	(4,755)	(6,183)	(4,081)	(7,273)	(14,867)	(4,555)
(2,330)	618	(3,329)	(2,505)	2,559	14,374	(6,022)
3,530	1,471	1,844	6,081	(1,730)	(17,121)	12,694
86,711	96,018	96,412	106,361	130,887	136,961	136,059
57,712	65,555	66,419	70,957	80,058	80,444	82,465
9,831	12,290	10,342	13,905	14,799	12,028	18,409
3,446	5,411	4,391	3,602	11,684	28,627	23,068
2,485	3,188	4,060	3,964	4,230	5,173	5,822
5,800	5,454	7,801	4,864	9,422	14,843	3,060
2,709	2,927	2,857	3,348	4,330	3,637	3,383
87.36	96.25	87.99	112.38	147.65	77.42	59.56
18	24	26	30	37	28	18
924.09	1,049.70	1,072.72	1,146.02	1,291.26	1,296.94	1,321.28
15,113	15,920	16,954	18,380	16,344	16,027	15,792
60,377	67,458	71,163	75,631	99,355	99,638	84,924
22.6	27.6	29.7	25.5	27.8	26.9	24.6
58,461	60,352	61,907	70,046	83,518	84,515	75,944
14,815	20,455	22,469	20,772	28,529	27,253	21,320
2,214	2,571	3,741	3,193	3,652	3,897	3,452
10.1	9.8	8.3	10.1	12.1	6.0	4.5
6.9	6.6	5.7	6.9	7.7	3.6	2.7
66.6	68.3	68.9	66.7	61.1	58.6	60.5

Share Information

Share price trend

Share price (¥)



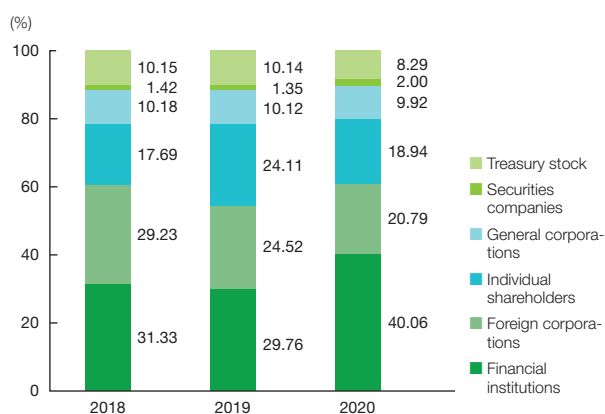
Stock status (As of March 31, 2020)

Total number of authorized shares	233,000,000 shares
Total number of shares outstanding	67,909,449 shares
Number of shareholders	10,055

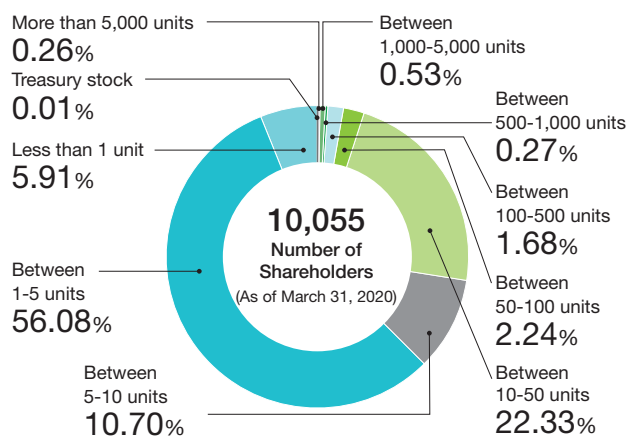
Dividends/dividend payout ratio (Fiscal year ended March)

	Dividends (¥)	Dividend payout ratio (%)
2020	18	30.2
2019	28	36.2
2018	37	25.1
2017	30	26.7
2016	26	29.5
2015	24	24.9
2014	18	20.6
2013	10	25.6
2012	12	20.4
2011	14	19.1
2010	6	25.0
2009	16	—

Shareholder status (As of March 31)



Shareholder ratio by number shares held (Unit: 100 shares)



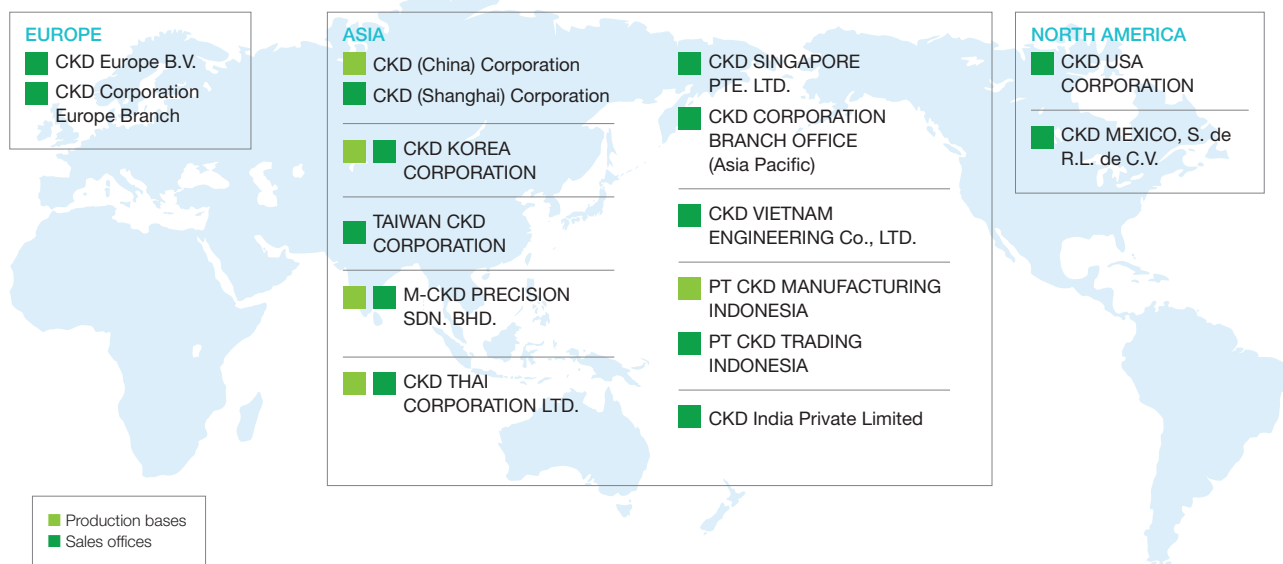
Corporate Data

Corporate profile

Company name	CKD Corporation
Establishment	April 2, 1943
Paid-in capital	¥11,016 million
Consolidated number of employees	4,470 (March 31, 2020)
Net sales	¥100.7 billion (March 31, 2020)
Listed on	First Section of the Tokyo Stock Exchange and Nagoya Stock Exchange
Securities code	6407

Lines of Business	Development, manufacture, sale, and export of functional components which include automatic machinery, drive components, pneumatic control components, pneumatic auxiliary components, and fluid control components
Headquarters	Address: 2-250 Ouj, Komaki City, Aichi 485-8551, Japan Telephone: +81 (568) 77-1111

Key overseas business facilities and overseas subsidiaries



Editorial policy

CKD Report 2020 is an integrated report that the CKD Group has published in order to contribute to engagement with its various stakeholders. The report has been edited in a manner to facilitate understanding of CKD's business profile, management strategies, and growth strategies.

Organizations covered in the report: In principle consolidated CKD Group companies

Scope of the report: In principle from April 1, 2019 to March 31, 2020 but includes certain periods before and after in order to provide more detailed information.

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