

Translation

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Summary of Consolidated Financial Results for the Year Ended December 31, 2019 (Based on Japanese GAAP)

February 10, 2020

Company name: HOSHIZAKI CORPORATION
 Stock exchange listing: First Section of the Tokyo Stock Exchange and Nagoya Stock Exchange
 Securities code: 6465 URL: <http://www.hoshizaki.co.jp>
 Representative: Representative Director, President & COO Yasuhiro Kobayashi
 Inquiries: Director Tadashi Mizutani TEL: +81-562-96-1320
 Scheduled date of annual general meeting of shareholders: March 26, 2020
 Scheduled date to file Securities Report: March 26, 2020
 Scheduled date to commence dividend payments: March 9, 2020
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 31, 2019	290,136	(0.9)	32,664	(10.4)	34,224	(5.9)	24,437	(5.0)
Year ended December 31, 2018	292,774	3.7	36,446	1.1	36,372	(1.9)	25,717	11.1

Note: Comprehensive income Year ended December 31, 2019 ¥24,330 million [8.6%]
 Year ended December 31, 2018 ¥22,413 million [(9.6)%]

	Earnings per share	Diluted earnings per share	Return on equity	Ordinary profit/ total assets	Operating profit/ net sales
	Yen	Yen	%	%	%
Year ended December 31, 2019	337.45	–	10.6	10.0	11.3
Year ended December 31, 2018	355.14	–	12.0	11.2	12.4

Reference: Share of profit (loss) of entities accounted for using equity method

Year ended December 31, 2019 ¥– million
 Year ended December 31, 2018 ¥– million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	351,887	242,038	68.4	3,321.31
As of December 31, 2018	334,879	223,510	66.4	3,068.86

Reference: Equity As of December 31, 2019 ¥240,531 million
 As of December 31, 2018 ¥222,238 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended December 31, 2019	30,455	29,645	(5,908)	142,803
Year ended December 31, 2018	30,203	16,478	(5,047)	89,256

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended December 31, 2018	–	0.00	–	80.00	80.00	5,793	22.5	2.7
Year ended December 31, 2019	–	0.00	–	110.00	110.00	7,966	32.6	3.4
Year ending December 31, 2020 (Forecast)	–	0.00	–	110.00	110.00		30.3	

3. Forecast of consolidated financial results for the year ending December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	302,500	4.3	36,000	10.2	37,800	10.4	26,300	7.6	363.15

*Notes

(1) Changes in significant subsidiaries during the year ended December 31, 2019

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

b. Changes in accounting policies due to other reasons: No

c. Changes in accounting estimates: No

d. Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2019	72,421,650 shares	As of December 31, 2018	72,418,250 shares
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b. Number of treasury shares at the end of the period

As of December 31, 2019	1,031 shares	As of December 31, 2018	981 shares
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c. Average number of shares during the period

Year ended December 31, 2019	72,419,346 shares	Year ended December 31, 2018	72,416,147 shares
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[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 31, 2019	74,645	(4.0)	11,595	(18.2)	14,569	(7.2)	10,939	(5.7)
Year ended December 31, 2018	77,732	(0.1)	14,171	(3.9)	15,706	(9.7)	11,602	(8.9)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Year ended December 31, 2019	151.06	–
Year ended December 31, 2018	160.22	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	217,099	134,890	62.1	1,862.59
As of December 31, 2018	207,616	129,730	62.5	1,791.43

Reference: Equity As of December 31, 2019 ¥134,890 million

As of December 31, 2018 ¥129,730 million

* **Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual business and other results may differ substantially due to various factors.

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1. Overview of Operating Results

The forward-looking matters stated herein are judgments made by the Hoshizaki Group (the “Group”) as of December 31, 2019.

Furthermore, the Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year ended December 31, 2019. Accordingly, the standard, etc. have been applied retrospectively to figures for the previous fiscal year in order to facilitate comparison and analysis of financial positions for the current and previous fiscal years.

(1) Overview of Operating Results During the Fiscal Year Ended December 31, 2019

(Operating results during the fiscal year ended December 31, 2019)

In the Japanese economy during the fiscal year ended December 31, 2019, employment and personal income improved, driven by the implementation of economic and monetary policies and other factors, and despite continuing weakness in some areas, economic activity was recovering mildly with a moderate increase in capital investment. In addition, consumer spending continued rallying and consumer prices grew at a moderate rate.

Looking at overseas, the U.S. economy remained strong while in Europe the economy slowly turned around despite weakness in some sectors. Meanwhile, the economies of China and other emerging countries in Asia gradually slowed down.

Amid such circumstances, the Group continued to actively work on expanding sales in the food service and other industries and made ongoing efforts to reach new customers.

In overseas markets, the Group strove to increase sales of flagship products to its key customers, the food service and other industries, especially in the U.S.

Furthermore, in addition to efforts to reduce costs, the Group consistently worked hard to secure profits by streamlining business operations and improving productivity using information technology.

As a result of the above initiatives, the Group reported business results for the fiscal year under review with net sales of ¥290,136 million (down 0.9% year-on-year). Operating profit was ¥32,664 million (down 10.4% year-on-year), reflecting an increase in selling, general and administrative expenses due to the recording of investigation expenses, etc. concerning the finding of inappropriate transactions at a consolidated subsidiary in the previous fiscal year. Ordinary profit was ¥34,224 million (down 5.9% year-on-year). In addition, profit attributable to owners of parent was ¥24,437 million (down 5.0% year-on-year).

Business results by segment are as follows.

a. Japan

In Japan, despite actively promoting sales of products, such as refrigerators, ice makers and dishwashers, as well as new customer acquisition, the Group generated net sales of ¥194,987 million (down 0.9% year-on-year) and segment profit of ¥21,760 million (down 12.4% year-on-year).

b. Americas

In the Americas, despite actively promoting sales of products, such as ice makers and refrigerators, the Group generated net sales of ¥64,805 million (down 2.5% year-on-year) and segment profit of ¥7,647 million (down 17.9% year-on-year).

c. Europe / Asia

In Europe and Asia, although the Group generated net sales of ¥37,827 million (down 0.6% year-on-year) as a result of actively promoting sales of flagship products, segment profit was ¥3,667 million (up 14.6% year-on-year).

(Outlook for the next fiscal year)

The Japanese economy for the next fiscal year is expected to continue along a gradual trend of recovery due to a favorable employment environment and the government policy to ease the impact of the consumption tax rate hike. While the U.S. economy is expected to be stable due to a favorable employment environment and a monetary easing policy, it is necessary to pay attention to the U.S.-China trade friction, future policy trends, etc. For the European economy, despite the expected gradual recovery, it is necessary to pay attention to the impacts of the UK leaving the EU, etc. In Asia, the economies of some emerging countries, including China and India, are slowing down moderately and the future of those economies is expected to remain unclear.

In this environment, the Company will continuously make efforts to acquire new customers and develop high-value-

added products, while also continuing to reduce costs, streamline business operations and improve productivity. The Group will also further strengthen initiatives for the growth of the Group.

The assumed foreign exchange rates in our full-year earnings forecasts are ¥105 to the U.S. dollar and ¥120 to the euro as the yen is expected to appreciate approximately ¥4 against the U.S. dollar and approximately ¥2 against the euro compared to the previous fiscal year.

For the full-year earnings forecasts, net sales are expected to be ¥302,500 million (up 4.3% year-on-year), operating profit is expected to be ¥36,000 million (up 10.2% year-on-year), ordinary profit is expected to be ¥37,800 million (up 10.4% year-on-year), and profit attributable to owners of parent is expected to be ¥26,300 million (up 7.6% year-on-year).

In Japan, the Group will make further efforts to acquire new customers, develop competitive high-value-added products, and strive to promote sales of cooking appliances such as flagship products, prefab refrigerators and steam convection ovens, by continuing sales promotion for existing customers such as those in the food service industry, who are major customers, strengthening hard business, which continues to be centered on sales, in addition to soft business such as consulting that contributes to solving customers' issues, and providing higher-value-added technical services.

Overseas, in the Americas, the Group will enhance the product lineup, which includes flagship products such as ice makers and refrigerators, and will strive to promote sales of these products. In Europe, the Group will strive to promote sales of flagship products such as ice makers and refrigerators. In Asia and other regions where significant economic growth is expected to continue, the Group will continue to construct a business foundation to support that growth while promoting sales of flagship products such as refrigerators.

Furthermore, the Group will pursue the creation of synergy between acquired companies and other group companies.

Foreign exchange gains and losses are not taken into account for the financial results forecast as exchange rate trends are extremely uncertain.

* The outlook for the next fiscal year is calculated based on certain assumptions and suppositions decided by the Company based on the information currently available to the Group, and as a result, actual business results may differ.

(2) Overview of Financial Position During the Fiscal Year Ended December 31, 2019

a. Overview of assets, liabilities and net assets

Total assets as of December 31, 2019 increased ¥17,007 million from December 31, 2018 to ¥351,887 million.

Current assets increased ¥8,783 million from December 31, 2018 to ¥281,343 million. The main factors were increases in cash and deposits and notes and accounts receivable - trade.

Non-current assets increased ¥8,224 million from December 31, 2018 to ¥70,543 million. The main factors were increases in investment securities and leased assets.

Total liabilities as of December 31, 2019 decreased ¥1,519 million from December 31, 2018 to ¥109,848 million.

Current liabilities decreased ¥1,365 million from December 31, 2018 to ¥86,878 million. The main factors were decreases in notes and accounts payable - trade and income taxes payable.

Non-current liabilities decreased ¥154 million from December 31, 2018 to ¥22,970 million. The main factor was a decrease in retirement benefit liability.

Total net assets as of December 31, 2019 increased ¥18,527 million from December 31, 2018 to ¥242,038 million.

b. Overview of cash flows

Cash and cash equivalents as of December 31, 2019 increased ¥53,546 million from December 31, 2018 to ¥142,803 million. The respective cash flow positions and the factors thereof in the fiscal year ended December 31, 2019 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥30,455 million (¥30,203 million provided in the previous fiscal year). The main factors were profit before income taxes of ¥34,263 million and depreciation of ¥4,643 million.

(Cash flows from investing activities)

Net cash provided by investing activities amounted to ¥29,645 million (¥16,478 million provided in the previous

fiscal year). The main factors were proceeds from net decrease of time deposits of ¥41,913 million and proceeds from redemption of investment securities of ¥1,000 million.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥5,908 million (¥5,047 million used in the previous fiscal year). The main factor was cash dividends paid of ¥5,793 million.

(3) Basic Policy Regarding Profit Distribution and Dividend Payments for the Current and Next Fiscal Year

The Company recognizes the distribution of profits as an important management policy. The basic policy is to stably distribute profits to shareholders upon comprehensively judging the financial conditions, profit conditions, dividend payout ratio, etc. of the Company and the Group, while increasing the retained earnings needed to respond to stable corporate growth for the future and changes in the business environment.

Regarding dividends, the Company aims for a consolidated dividend payout ratio of 35%, and strives to maintain continuous and stable dividends between roughly 30% and 40%. In addition, the Company is considering strategic share repurchase upon taking factors such as balance with growth investment and the value of Hoshizaki shares on the stock exchange into consideration.

Retained earnings will be appropriated for investment in order to increase corporate value in the future through activities such as strengthening the corporate structure, capital investment, research and development.

Based on the basic policy, the Company has set its year-end dividend at ¥110 per share for the fiscal year ended December 31, 2019.

In addition, the Company plans to pay a year-end dividend of ¥110 per share.

2. Basic Approach to the Selection of Accounting Standards

The Group currently has a policy to prepare the consolidated financial statements based on the generally accepted accounting standards in Japan (Japanese GAAP), giving consideration to the possibility of comparing the consolidated financial statements between terms.

With respect to the timing of application of International Financial Reporting Standards (IFRS), our policy is to respond appropriately while considering various domestic and overseas circumstances.

3. Consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	204,263	215,093
Notes and accounts receivable - trade	31,183	31,708
Merchandise and finished goods	17,941	16,376
Work in process	3,820	3,495
Raw materials and supplies	10,148	10,464
Other	5,354	4,360
Allowance for doubtful accounts	(151)	(155)
Total current assets	272,560	281,343
Non-current assets		
Property, plant and equipment		
Buildings and structures	43,730	45,083
Accumulated depreciation	(27,303)	(28,180)
Buildings and structures, net	16,426	16,902
Machinery, equipment and vehicles	33,613	34,033
Accumulated depreciation	(25,105)	(26,093)
Machinery, equipment and vehicles, net	8,508	7,939
Tools, furniture and fixtures	21,555	22,053
Accumulated depreciation	(19,317)	(19,752)
Tools, furniture and fixtures, net	2,238	2,300
Land	15,631	15,656
Leased assets	150	1,027
Accumulated depreciation	(74)	(160)
Leased assets, net	75	866
Construction in progress	1,083	636
Total property, plant and equipment	43,962	44,303
Intangible assets	5,489	4,695
Investments and other assets		
Investment securities	1,332	10,295
Deferred tax assets	9,615	9,434
Other	2,115	2,022
Allowance for doubtful accounts	(197)	(208)
Total investments and other assets	12,866	21,543
Total non-current assets	62,318	70,543
Total assets	334,879	351,887

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,664	16,555
Income taxes payable	3,760	3,519
Advances received	26,699	26,829
Provision for product warranties	1,641	1,671
Other provision	3,434	3,348
Other	35,043	34,953
Total current liabilities	88,243	86,878
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	242	233
Retirement benefit liability	19,118	18,826
Provision for product warranties	1,211	1,244
Other	2,551	2,666
Total non-current liabilities	23,124	22,970
Total liabilities	111,368	109,848
Net assets		
Shareholders' equity		
Capital stock	8,008	8,021
Capital surplus	14,530	14,543
Retained earnings	204,123	222,768
Treasury shares	(4)	(4)
Total shareholders' equity	226,659	245,328
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	139	94
Foreign currency translation adjustment	(2,052)	(3,196)
Remeasurements of defined benefit plans	(2,507)	(1,695)
Total accumulated other comprehensive income	(4,420)	(4,796)
Non-controlling interests	1,272	1,506
Total net assets	223,510	242,038
Total liabilities and net assets	334,879	351,887

(2) Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Net sales	292,774	290,136
Cost of sales	182,224	180,671
Gross profit	110,549	109,464
Selling, general and administrative expenses	74,103	76,799
Operating profit	36,446	32,664
Non-operating income		
Interest income	1,497	1,821
Other	552	507
Total non-operating income	2,049	2,329
Non-operating expenses		
Interest expenses	67	17
Foreign exchange losses	1,719	426
Other	337	325
Total non-operating expenses	2,123	769
Ordinary profit	36,372	34,224
Extraordinary income		
Gain on sales of investment securities	–	98
Other	12	4
Total extraordinary income	12	103
Extraordinary losses		
Loss on sales of non-current assets	15	13
Loss on abandonment of non-current assets	28	34
Loss on sales of investments in capital of subsidiaries and associates	248	–
Impairment loss	2	15
Total extraordinary losses	294	63
Profit before income taxes	36,090	34,263
Income taxes - current	11,268	10,039
Income taxes - deferred	(1,136)	(521)
Total income taxes	10,132	9,518
Profit	25,958	24,745
Profit attributable to non-controlling interests	240	307
Profit attributable to owners of parent	25,717	24,437

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Profit	25,958	24,745
Other comprehensive income		
Valuation difference on available-for-sale securities	(174)	(44)
Foreign currency translation adjustment	(2,654)	(1,182)
Remeasurements of defined benefit plans, net of tax	(716)	812
Total other comprehensive income	(3,544)	(414)
Comprehensive income	22,413	24,330
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	22,311	24,062
Comprehensive income attributable to non-controlling interests	102	268

(3) Consolidated statements of changes in equity

Fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	7,993	14,516	183,475	(3)	205,981
Changes of items during period					
Issuance of new shares	14	14			29
Dividends of surplus			(5,069)		(5,069)
Profit attributable to owners of parent			25,717		25,717
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	14	14	20,648	(0)	20,677
Balance at end of current period	8,008	14,530	204,123	(4)	226,659

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	313	463	(1,791)	(1,014)	1,932	206,900
Changes of items during period						
Issuance of new shares						29
Dividends of surplus						(5,069)
Profit attributable to owners of parent						25,717
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	(174)	(2,516)	(716)	(3,406)	(660)	(4,066)
Total changes of items during period	(174)	(2,516)	(716)	(3,406)	(660)	16,610
Balance at end of current period	139	(2,052)	(2,507)	(4,420)	1,272	223,510

Fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,008	14,530	204,123	(4)	226,659
Changes of items during period					
Issuance of new shares	12	12			24
Dividends of surplus			(5,793)		(5,793)
Profit attributable to owners of parent			24,437		24,437
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	12	12	18,644	(0)	18,668
Balance at end of current period	8,021	14,543	222,768	(4)	245,328

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	139	(2,052)	(2,507)	(4,420)	1,272	223,510
Changes of items during period						
Issuance of new shares						24
Dividends of surplus						(5,793)
Profit attributable to owners of parent						24,437
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	(44)	(1,143)	812	(375)	234	(141)
Total changes of items during period	(44)	(1,143)	812	(375)	234	18,527
Balance at end of current period	94	(3,196)	(1,695)	(4,796)	1,506	242,038

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	36,090	34,263
Depreciation	5,122	4,643
Amortization of goodwill	872	510
Increase (decrease) in retirement benefit liability	759	931
Interest and dividend income	(1,516)	(1,838)
Foreign exchange losses (gains)	1,589	368
Loss (gain) on sales of investments in capital of subsidiaries and affiliates	248	-
Decrease (increase) in notes and accounts receivable - trade	(1,885)	(173)
Decrease (increase) in inventories	(4,494)	1,948
Increase (decrease) in notes and accounts payable - trade	1,884	(1,427)
Increase (decrease) in accounts payable - other	448	(530)
Increase (decrease) in accrued expenses	392	(372)
Increase (decrease) in advances received	1,732	130
Increase (decrease) in accrued consumption taxes	(317)	136
Other, net	649	548
Subtotal	41,576	39,139
Interest and dividend income received	1,374	2,038
Interest expenses paid	(64)	(25)
Income taxes paid	(12,682)	(10,697)
Net cash provided by (used in) operating activities	30,203	30,455
Cash flows from investing activities		
Payments into time deposits	(222,461)	(141,824)
Proceeds from withdrawal of time deposits	244,304	183,737
Purchase of property, plant and equipment	(4,449)	(3,819)
Purchase of intangible assets	(170)	(526)
Purchase of investment securities	(1,352)	(9,682)
Proceeds from sales of investment securities	9	533
Proceeds from redemption of investment securities	1,527	1,000
Purchase of long-term prepaid expenses	(217)	(169)
Net decrease (increase) in trust beneficiary right	36	307
Purchase of shares of subsidiaries	(815)	-
Other, net	66	89
Net cash provided by (used in) investing activities	16,478	29,645
Cash flows from financing activities		
Cash dividends paid	(5,069)	(5,793)
Other, net	21	(114)
Net cash provided by (used in) financing activities	(5,047)	(5,908)
Effect of exchange rate change on cash and cash equivalents	(2,285)	(645)
Net increase (decrease) in cash and cash equivalents	39,349	53,546
Cash and cash equivalents at beginning of period	49,906	89,256
Cash and cash equivalents at end of period	89,256	142,803

(5)Notes to the consolidated financial statements

Notes on premise of going concern

Not applicable

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries:

50

Names of the significant consolidated subsidiaries

HOSHIZAKI TOKYO CO., LTD., HOSHIZAKI TOKAI CO., LTD., HOSHIZAKI KEIHAN CO., LTD.,
HOSHIZAKI KITAKYU CO., LTD., HOSHIZAKI AMERICA, INC. and LANCER CORPORATION

(2) Names of non-consolidated subsidiaries

Non-consolidated subsidiaries

LANCER DO BRASIL INDUSTRIA E COMERCIO LTDA. and Haikawa Industries Private Limited

The non-consolidated subsidiaries are excluded from the scope of consolidation because their operations are relatively small, and their total assets, net sales, profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest) and others do not have a significant impact on the consolidated financial statements.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries and associates accounted for using the equity method:

1

Name of the equity-method company

Öztiryakiler Madeni Eşya Sanayi ve Ticaret Anonim Şirketi

(2) Names of non-consolidated subsidiaries not accounted for using the equity method

LANCER DO BRASIL INDUSTRIA E COMERCIO LTDA. and Haikawa Industries Private Limited

The above subsidiaries are excluded from the scope of the application of the equity method because such exclusion has an immaterial effect on the consolidated financial statements in terms of profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest) and others, and are not material as a whole.

(3) Changes in the scope of application of the equity method

From the current fiscal year, Öztiryakiler Madeni Eşya Sanayi ve Ticaret Anonim Şirketi (hereinafter “Özti”) has been accounted for using the equity method. This is because the Company newly acquired the shares in Özti during the current fiscal year and made it an equity-method associate.

3. Fiscal years of consolidated subsidiaries

The fiscal year end of the consolidated subsidiaries is the same as the fiscal year end for the consolidated financial statements.

4. Accounting policies

(1) Valuation basis and methods for significant assets

a. Securities

Held-to-maturity debt securities

Amortized cost method (using the straight-line method)

Available-for-sale securities

Securities with market value

Market value method based on the quoted market price at the fiscal year-end date (All valuation differences are accounted for as a component of net assets with the cost of securities sold determined using the moving-average method.)

Securities with no market value

Cost method using the moving-average method

b. Inventories

(i) Valuation basis:

primarily by the cost method (The amount carried on the balance sheet is calculated by writing down the

book value based on lowered profitability.)

(ii) Valuation methods

Merchandise:

primarily by the specific identification method

Finished goods and work in process:

primarily by the weighted average method

Raw materials and supplies:

primarily by the first-in, first-out (FIFO) method

(2) Depreciation methods for significant depreciable assets

a. Property, plant and equipment (except for leased assets)

Buildings (except for facilities attached to buildings)

The Company has adopted the declining balance method while its consolidated subsidiaries have adopted the straight-line method.

Others

The Company and its domestic consolidated subsidiaries have adopted the declining balance method while its overseas consolidated subsidiaries have adopted the straight-line method.

However, a portion of its consolidated subsidiaries have adopted the straight-line method for facilities attached to buildings and structures acquired on or after April 1, 2016.

Useful lives of major assets

Buildings and structures: 5 to 50 years

Machinery, equipment and vehicles: 4 to 15 years

b. Intangible assets (except for leased assets)

The straight-line method

c. Leased assets

The Company has adopted the straight-line method using the lease term as the useful life, with a residual value of zero.

(3) Reporting basis for significant allowances and provisions

a. Allowance for doubtful accounts

To prepare for bad debt losses on trade receivables, loan receivables, etc., the Company and its domestic consolidated subsidiaries have provided for allowances for doubtful accounts at uncollectible amounts estimated based either on historical bad debt loss percentage in the case of general receivables, or on individual consideration of collectability in the case of specific receivables such as doubtful receivables. Its overseas consolidated subsidiaries have provided for allowances for doubtful accounts primarily for specific receivables at estimated uncollectible amounts.

b. Provision for bonuses

To prepare for the payment of bonuses to employees, the Company and its certain consolidated subsidiaries have recorded a portion to be borne during the current fiscal year out of the total estimated amount of payment.

c. Provision for product warranties

To prepare for costs of after-sales services, the Company and its certain consolidated subsidiaries have recorded an estimated amount of service costs to be incurred in the future.

d. Provision for retirement benefits for directors and other officers

To prepare for the payment of retirement benefits for directors and other officers, domestic consolidated subsidiaries of the Company have recorded an amount to be paid at the end of the current fiscal year based on the internal rules.

(4) Accounting for retirement benefits

To prepare for the payment of retirement benefits to employees, the Company and its certain consolidated subsidiaries have recorded an amount deemed accrued at the end of the current fiscal year based on the projected amounts of retirement benefit liability and pension assets as of the end of the current fiscal year.

a. Attribution method for estimated retirement benefits

In the calculation of retirement benefit liability, the benefit formula basis is used to attribute the estimated amount of retirement benefits to the period up to the end of the current fiscal year.

- b. Accounting for actuarial gains and losses and past service cost
Actuarial gains and losses are expensed on a straight-line basis at an amount allocated proportionally over a certain period within the average remaining service years of employees (mainly 10 years) as of the time of accrual in each fiscal year from the fiscal year following the respective fiscal year of recognition.
Likewise, past service cost is expensed on a straight-line basis over a certain period within the average remaining service years of employees (10 years) as of the time of its accrual.
- (5) Basis for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen
Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate at the fiscal year-end date, and exchange rate differences are accounted for as gains or losses. In addition, assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rate at the fiscal year-end date, and their revenues and expenses are translated into Japanese yen at the average exchange rate for the period. Exchange rate differences are included in foreign currency translation adjustment and non-controlling interests in the net assets section.
- (6) Amortization method and period of goodwill
Goodwill is amortized on a straight-line basis mainly over 10 to 12 years.
- (7) Scope of funds in the consolidated statement of cash flows
The scope of funds includes cash on hand, demand deposits and highly-liquid short-term investments with a maturity of three months or less at acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.
- (8) Other significant matters for preparing the consolidated financial statements
Accounting for consumption taxes
Consumption taxes are accounted for using the net-of-tax method.

Changes in accounting policies

Application of IFRS 16 Leases

Overseas consolidated subsidiaries (excluding subsidiaries in the United States that adopt US GAAP) have applied IFRS 16 *Leases* from the beginning of the first quarter of the fiscal year. According to this new standard, a lessee, in principle, recognized all leases as assets and liabilities on the balance sheet.

The effect of this application on the consolidated financial statements for the fiscal year is insignificant.

Segment information, etc.

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available, and whose operating results are regularly reviewed by the Board of Directors to make decisions about managerial resources to be allocated to the segments and assess their performances.

The Group's activities consist of the manufacture and sale of food service equipment, and maintenance services, and the Company and its domestic subsidiaries are responsible for this in Japan and each overseas subsidiary is responsible for this overseas. In addition, the planning of each strategy and the management of business activities are centered on the Company.

Accordingly, the Group consists of the three reportable segments of "Japan," "Americas," and "Europe / Asia," where each subsidiary is integrated based on area, etc.

Specifically, the Japan segment includes the Company and its domestic subsidiaries; the Americas segment includes HOSHIZAKI USA HOLDINGS, INC., its affiliated HOSHIZAKI AMERICA, INC. and LANCER CORPORATION, their subsidiaries, and Aços Macom Indústria e Comércio Ltda. (Brazil); and the Europe / Asia segment includes Hoshizaki Europe Holdings B.V. (the Netherlands), its affiliated subsidiaries, and the Company's subsidiaries located in China, etc.

2. Calculation of net sales, profit or loss, assets, liabilities, and other items for each reportable segment

The accounting method for reportable segments is generally the same as the method described in "Significant matters forming the basis of preparing the consolidated financial statements." Segment profit of reportable segments is provided on an operating profit basis. Intersegment sales and transfers are based on prevailing market prices.

3. Information related to net sales, profit or loss, assets, liabilities, and other items for each reportable segment

Fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

	Reportable segment				Reconciliation (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	Japan	Americas	Europe / Asia	Total		
Net sales						
Sales to external customers	191,239	65,564	35,970	292,774	–	292,774
Intersegment sales or transfers	5,501	914	2,068	8,484	(8,484)	–
Total	196,741	66,478	38,038	301,258	(8,484)	292,774
Segment profit	24,828	9,310	3,198	37,338	(892)	36,446

Notes 1. The reconciliation amount of negative ¥892 million for segment profit includes amortization of goodwill of negative ¥804 million, amortization of intangible assets, etc. of negative ¥99 million, negative ¥3 million from reconciliation of inventories, and ¥14 million from reconciliation of transactions with other segments and miscellaneous items.

2. Segment profit has been reconciled with operating profit in the consolidated financial statements.

Fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable segment				Reconciliation (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	Japan	Americas	Europe / Asia	Total		
Net sales						
Sales to external customers	189,953	63,916	36,265	290,136	–	290,136
Intersegment sales or transfers	5,033	888	1,562	7,484	(7,484)	–
Total	194,987	64,805	37,827	297,620	(7,484)	290,136
Segment profit	21,760	7,647	3,667	33,074	(409)	32,664

- Notes
1. The reconciliation amount of negative ¥409 million for segment profit includes amortization of goodwill of negative ¥444 million, amortization of intangible assets, etc. of negative ¥28 million, ¥4 million from reconciliation of inventories, and ¥57 million from reconciliation of transactions with other segments and miscellaneous items.
 2. Segment profit has been reconciled with operating profit in the consolidated financial statements.

Related information

Fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

1. Information by product and service

(Millions of yen)

	Ice makers	Refrigera- tors	Dish- washers	Dis- pensers	Non Hoshizaki goods	Mainte- nance and repair	Other	Total
Sales to external customers	51,007	76,306	21,387	28,744	37,620	49,560	28,146	292,774

2. Information by region

Net sales

(Millions of yen)

Japan	Americas	Other regions	Total
191,299	56,801	44,673	292,774

Note Net sales are classified into countries or regions based on customers' location.

3. Information by major customer

This information has been omitted as there is no major external customer that accounts for 10% or more of the net sales recorded in the consolidated statement of income.

Fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

1. Information by product and service

(Millions of yen)

	Ice makers	Refrigera- tors	Dish- washers	Dis- pensers	Non Hoshizaki goods	Mainte- nance and repair	Other	Total
Sales to external customers	51,528	75,038	20,104	26,139	37,799	50,763	28,763	290,136

2. Information by region

Net sales

(Millions of yen)

Japan	Americas	Other regions	Total
190,027	55,821	44,287	290,136

Note Net sales are classified into countries or regions based on customers' location.

3. Information by major customer

This information has been omitted as there is no major external customer that accounts for 10% or more of the net sales recorded in the consolidated statement of income.

Per share information

	Fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Net assets per share	¥3,068.86	¥3,321.31
Earnings per share	¥355.14	¥337.45

- Notes 1. Diluted earnings per share is not presented since no potential shares exist.
2. The basis of the calculation of earnings per share is as follows:

	Fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Profit attributable to owners of parent (Millions of yen)	25,717	24,437
Amounts not attributable to common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent related to common shares (Millions of yen)	25,717	24,437
Average number of shares during the period (Thousands of shares)	72,416	72,419

Significant subsequent events

Not applicable

4. Other

(1) Changes in Directors

a. Change in Representative Director

Not applicable

b. Changes in other Directors

• New candidates for Director

Vice President (Outside Vice President) Masanao Tomozoe

Vice President (Outside Vice President) Masuo Yoshimatsu

Vice President Kyo Yaguchi

Note Subject to approval at the 74th General Meeting of Shareholders to be held on March 26, 2020.

• Directors scheduled to retire

Senior Vice President Masami Hongo

Senior Vice President Hideki Kawai

Vice President Daizo Ogura

Vice President Shinichi Ochiai

Vice President Yoshio Furukawa

Vice President Tadashi Mizutani

Note At the conclusion of the 74th General Meeting of Shareholders to be held on March 26, 2020, the terms of office of the Directors will expire.

c. Scheduled date of assumption of office and retirement

March 26, 2020

(2) Other

Not applicable