Summary of Business Results for the Year Ended March 31, 2023 [Japan GAAP] (Consolidated)

May 12, 2023

Company	**NS TOOL CO., LTD.**	Listed on the TSE
Stock Code	6157 URL: https://www.ns-tool.com/en/	
Representative	Hiroji Goto, President & CEO	
Contact	Satoru Toda, Director, General Manager of Corporate Planning Office and General Manager of Administration Division	TEL: +81-3-6423-1135

Expected date of annual shareholders' meeting: June 22, 2023
Expected date of filing of annual securities report: June 23, 2023
Expected starting date of dividend payment: June 23, 2023
Preparation of supplementary financial document: Yes
Results briefing: Yes

(Rounded down to million yen)

1. Consolidated business results for the fiscal year ended March 2023 (April 1, 2022 through March 31, 2023)

(1) Consolidated results of operations

(% indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Mar. 2023	9,656	1.4	2,108	-0.1	2,131	-1.2	1,475	-3.1
Year ended Mar. 2022	9,524	17.6	2,111	39.6	2,156	25.9	1,522	25.4

(Note) Comprehensive income:
Year ended March 2023: 1,524 million yen (-1.6%)
Year ended March 2022: 1,549 million yen (28.8%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Year ended Mar. 2023	59.16	58.64	9.0	11.6	21.8
Year ended Mar. 2022	60.89	60.38	9.8	12.4	22.2

(Reference) Share of profit (loss) of entities accounted for using equity method
Year ended March 2023:– million yen
Year ended March 2022:– million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 2023	18,857	17,200	90.1	680.51
As of Mar. 2022	17,874	16,165	89.2	640.58

(Reference) Equity:
As of March 2023: 16,984 million yen
As of March 2022: 15,950 million yen

(3) Consolidated results of 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
	Million yen	Million yen	Million yen	Million yen
Year ended Mar. 2023	1,614	-1,137	-560	8,397
Year ended Mar. 2022	2,261	-348	-763	8,443

2. Dividends

	Annual dividend					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended Mar. 2022	–	10.00	–	12.50	22.50	561	37.0	3.6
Year ended Mar. 2023	–	10.00	–	12.50	22.50	561	38.0	3.4
Year ending Mar. 2024 (forecast)	–	12.50	–	12.50	25.00		51.1	

3. Forecast of consolidated business results for the fiscal year ending March 2024 (April 1, 2023 through March 31, 2024)

(% indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending Sept. 2023	4,970	4.2	930	-3.1	930	-2.7	600	-3.2	24.04
Year ending Mar. 2024	9,870	2.2	1,820	-13.7	1,830	-14.2	1,220	-17.3	48.88

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates and restatement

①Changes in accounting policies associated with revision of accounting standards : Yes
②Changes in accounting policies other than ① : None
③Changes in accounting estimates : None
④Restatement : None

(Note) For more details, please refer to "Changes in accounting policies" on page 18 of the attached material.

(3) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)
As of March 2023 25,035,034 shares
As of March 2022 25,035,034 shares

② Treasury stock at the end of period:
As of March 2023 75,866 shares
As of March 2022 135,138 shares

③ Average number of stock during period
Year ended March 2023 24,937,664 shares
Year ended March 2022 25,003,496 shares

(Reference) Summary of non-consolidated business results

1. Non-consolidated business results for the fiscal year ended March 2023 (April 1, 2022 through March 31, 2023)

(1) Non-consolidated results of operations (% indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Mar. 2023	8,231	0.4	1,653	0.8	1,844	4.4	1,331	4.2
Year ended Mar. 2022	8,201	16.8	1,640	25.4	1,766	10.0	1,278	9.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended Mar. 2023	53.40	52.94
Year ended Mar. 2022	51.12	50.69

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 2023	16,219	14,768	89.7	583.06
As of Mar. 2022	15,304	13,925	89.6	550.60

(Reference) Equity:
As of March 2023: 14,552 million yen
As of March 2022: 13,709 million yen

2. Forecast of non-consolidated business results for the fiscal year ending March 2024 (April 1, 2023 through March 31, 2024) (% indicates year-on-year change)

	Net sales		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending Sept. 2023	4,330	6.9	930	4.7	650	2.8	26.04
Year ending Mar. 2024	8,540	3.7	1,690	-8.4	1,180	-11.4	47.28

*** Financial summary is not subject to auditing procedures by certified public accountants or auditing firms**

*** Explanation regarding appropriate use of business forecasts and other special instructions**

Above forecasts are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors.

Contents of Attached Materials

1. Overview of operating results and others

(1) Overview of operating results for the fiscal year

During the fiscal year ended March 31, 2023, the Japanese economy saw economic activities gradually head toward normalization with the progressive easing of COVID-19-related movement restrictions. However, due to the disruption of supply chains resulting from the situation in Ukraine and lockdowns in China, and the depreciation of the yen due to global monetary tightening aimed at curbing rising inflation, raw material and energy prices have soared, causing the recovery of the manufacturing industry to be slow.

As for the situation of the major consumers for the products of the Company group (the “Group”), recovery of production volume in the automotive industry has been delayed amid the continued effects of semiconductor and parts shortages, and demand has been sluggish. On the other hand, the market for semiconductor and electronic components and devices generally remained strong, with some semiconductors and electronic components performing well, despite declining demand for smartphones and PCs that had been brisk.

Amid such an environment, the Group strived to cut costs further on the manufacturing frontlines starting with more manufacturing internalization to combat increased costs caused by inflation. However, as we had difficulty maintaining prices solely through our own efforts, we decided to pass on some of the increased costs to our customers, and in line with trends at other companies, we issued price increases for major products starting from November orders. We saw some rush demand prior to the price increases.

In terms of sales, we have worked to develop new users by proposing tools to meet various needs through exhibitions such as “INTERMOLD2022” held in Osaka and Nagoya, “IMTS2022” held in Chicago, the United States, and “JIMTOF2022” held in Tokyo.

In terms of products, we have launched new products and expanded standards, and developed products that realize high added value. In January 2023, we expanded our lineup by expanding the “MRBSH330,” MUGEN COATING PREMIUM Plus High Efficient 3-Flute small-diameter Long Neck Ball End Mill for Hardened Steel with improved cutting edge rigidity and chip discharge.

In terms of production, in addition to “Orange FC,” which are “NS TOOL Group improvement activities that take on challenges for the future,” implemented for streamlining and cost cutting mainly at the Sendai Factory, we launched other activities aimed at further cost-cutting. This activity has also contributed to the reduction of greenhouse gas emissions, and we were awarded the “Environmental Special Award” by the Japan Cutting & Wear-resistant Tool Association in fiscal year 2022 for our achievements in reducing emissions.

As a result, net sales for the fiscal year ended March 31, 2023 were ¥9,656 million (up 1.4% year on year), operating profit was ¥2,108 million (down 0.1% year on year), ordinary profit was ¥2,131 million (down 1.2% year on year), and profit attributable to owners of parent was ¥1,475 million (down 3.1% year on year).

Regarding the KPI target of a 20% ordinary profit margin on sales, although there was an increase in costs due to the increase in energy prices and the resumption of sales activities, we achieved the target with a result of 22.1% by implementing price revisions to pass on some of the rising costs to customers and cost reductions. However, with regard to the other target of 10% ROE, profit attributable to owners of parent fell by 3.1% year on year, causing ROE to fall to 9.0%, which was below the target.

By product category, sales of “End mills (diameter 6 mm or less)” were ¥7,483 million (up 0.5% year on year), sales of “End mills (diameter over 6 mm)” were ¥891 million (down 2.0% year on year), sales of “End mills (other)” were ¥536 million (up 9.8% year on year), and sales of “Other” were ¥744 million (up 10.0% year on year).

(Note) Since there is only one reportable segment, the information is presented by product category. The “Other” business segment is included in “Other” by product category.

(2) Overview of financial position for the fiscal year

As for the consolidated financial position as of March 31, 2023, total assets came to ¥18,857 million (an increase of ¥983 million over the end of the previous fiscal year), total liabilities came to ¥1,657 million (a decrease of ¥51 million over the end of the previous fiscal year) and total net assets came to ¥17,200 million (an increase of ¥1,034 million over the end of the previous fiscal year). The factors behind increases and decreases in each asset and liability account are as follows.

<Current assets>

The balance of current assets at the end of the fiscal year ended March 31, 2023 was ¥12,298 million, an increase of ¥490 million, or 4.2%, over the previous fiscal year. This was mainly due to an increase in inventories aimed at enhancing inventory, among other factors.

<Non-current assets>

The balance of non-current assets at the end of the fiscal year ended March 31, 2023 was ¥6,559 million, an increase of ¥492 million, or 8.1%, over the previous fiscal year. This is mainly due to the increase in insurance funds related to new insurance contracts.

<Total assets>

Due to the above, total assets came to ¥18,857 million, an increase of ¥983 million, or 5.5%, over the previous fiscal year.

<Total liabilities>

The balance of liabilities at the end of the fiscal year ended March 31, 2023 was ¥1,657 million, a decrease of ¥51 million, or 3.0%, over the previous fiscal year. This was mainly due to a decrease in income taxes payable.

<Total net assets>

The balance of net assets at the end of the fiscal year ended March 31, 2023 was ¥17,200 million, an increase of ¥1,034 million, or 6.4%, over the previous fiscal year. This was due to an increase in retained earnings resulting from the posting of profit attributable to owners of parent, among other factors.

(3) Overview of cash flows for the fiscal year

The status of each type of cash flows in the fiscal year ended March 31, 2023 and accompanying factors are as follows. Cash and cash equivalents (“cash”) on a consolidated basis came to ¥8,397 million, a decrease of ¥45 million, or 0.5% over the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities came to ¥1,614 million, down 28.6% year on year. This mainly reflects an increase in cash resulting from ¥2,110 million in profit before income taxes and an outflow of cash resulting from increased inventories and the payment of income taxes.

(Cash flows from investing activities)

Net cash used in investing activities came to ¥1,137 million, up 226.0% year on year. This mainly reflects expenditures due to the acquisition of property, plant and equipment and expenditures due to insurance funds related to new insurance contracts.

(Cash flows from financing activities)

Net cash used in financing activities came to ¥560 million, down 26.5% year on year. This is mainly due to the payment of dividends.

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Equity-to-asset ratio (%)	89.4	89.2	90.1
Equity-to-asset ratio based on market value (%)	246.2	202.0	137.8
Interest-bearing debt to cash flow ratio	–	–	–
Interest coverage ratio (x)	–	–	–

Equity-to-asset ratio: Equity/Total assets
Equity-to-asset ratio based on market value: Total market capitalization/Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid

* Each indicator is calculated based on consolidated financial data.
* Total market capitalization is calculated based on the share closing price at the end of the fiscal year multiplied by the total number of outstanding shares at the end of the fiscal year.
* Cash flows from operating activities on the consolidated statement of cash flows is used for operating cash flows. Interest-bearing debts include all of those debts reported on the consolidated balance sheet on which interest is paid.

(4) Outlook for the next fiscal year

	Net sales (Millions of yen)	Operating profit (Millions of yen)	Ordinary profit (Millions of yen)	Profit attributable to owners of parent (Millions of yen)
Fiscal year ending March 31, 2024 (forecast)	9,870	1,820	1,830	1,220
Fiscal year ended March 31, 2023 (actual)	9,656	2,108	2,131	1,475
Change (%)	2.2	-13.7	-14.2	-17.3

In the next fiscal year, we expect the effects of supply chain disruptions, which have had a significant impact mainly on the manufacturing industry, to gradually ease and normalize, but there will be a modest economic slowdown due to high resource and energy prices and overseas monetary tightening aimed at curbing inflation. We expect various costs such as raw materials, labor costs, and electricity costs to rise, and we expect the business environment surrounding the Group to remain harsh.

In such an environment, in terms of the trend among major customers, for automobiles, we expect the supply shortage of semiconductors and parts to gradually dissipate, and production volume to recover. Due to the acceleration of decarbonization, we expect demand for hybrid vehicles (HV) and fuel cell vehicles (FCV) in Japan to increase, and due to the global production shift to electric vehicles (EV), we expect demand for precision and micro-machining in the industry to continue to be solid.

For semiconductors and electronic components, we expect demand for tools to decline due to reduced demand for smartphones and PCs, and it is necessary to pay close attention to the tightening of US semiconductor regulations against China. However, digital transformation (DX) is steadily expanding, and we expect communication, information, and computational processing to further advance. We expect that there will be a certain level of demand in a wide range of fields, from automobiles to home appliances and communication equipment, and we expect demand for precision and micro-machining to become more widespread.

In conjunction with normalizing economic activities, the Group will actively conduct sales activities utilizing the characteristics of remote and face-to-face meetings, including exhibitions in Japan and overseas, and strive to collect information and develop new projects. In the development department, we will launch new products and lineup expansion throughout the year to develop products that meet customer needs. Starting with the new CBN Micro 2-Flute Ball End Mill “SMB200” released in April 2023, we plan to continue to release high value-added products. In the production department, we will continue to promote business improvement and cost reduction, mainly focused on the “Orange FC Activities” that we have been carrying out continuously since 2018, and we will work to further improve quality and reduce cost, and also work to reduce environmental impacts.

Although we expect sales to increase slightly compared to the fiscal year ended March 31, 2023 based on these economic conditions, demand trends, and the Company’s activity policies, it is inevitable that costs for materials and electricity will increase, and we also expect manufacturing costs and SG&A expenses to increase due to the increase in wages across the Group.

Based on the above, the Company estimates that it will post consolidated net sales of ¥9,870 million (up 2.2% year on year), operating profit of ¥1,820 million (down 13.7% year on year), ordinary profit of ¥1,830 million (down 14.2% year on year), and profit attributable to owners of parent of ¥1,220 million (down 17.3% year on year).

(Note) The above business performance forecast includes future forecasts based on information available to the Company and the Group at this juncture. Accordingly, there may be gaps between actual business performance and the forecast figures indicated due to factors such as future changes in the economic environment or business operation.

(5) Basic policy on the distribution of profits and dividends for the current and next fiscal years

The Company places one of the highest priorities on returning profits to shareholders. Its basic policy is to deliver shareholder returns based on business results while taking into account the earnings to be reserved internally for solid management infrastructures and future expansion of businesses. However, the Company also considers requests from investors and capital markets, and operates with capital efficiency in mind in addition to the above.

Based on the above policy, we will continue to consider the stability and continuity of dividends, comprehensively consider performance trends and dividend payout ratios, and consciously determine distribution in accordance with growth, based on the assumption of maintaining on-hand liquidity at or above the level necessary for medium-term business execution.

For the fiscal year ended March 31, 2023, the Company has set a year-end dividend of ¥12.5 per share for a combined annual dividend of ¥22.5 to be paid when the interim dividend of ¥10 per share is included. Additionally, for the fiscal year ending March 31, 2024, in light of the above policy and its anticipated business performance forecast for said fiscal year, the Company is planning on paying an interim dividend of ¥12.5 per share and a year-end dividend of ¥12.5 per share for an annual dividend of ¥25, which is higher than that for the fiscal year ended March 31, 2023.

2. Status of the Corporate Group

The Group is comprised of six companies that includes the Company and five consolidated subsidiaries. It engages in its businesses with a particular focus on the manufacture and sales of end mills, cutting tools installed on machining centers (machine tools) to work metal and other materials. The Group distinguishes itself by focusing on end mills that are made of particularly carbide materials and have especially small diameters (blade edge diameter of 6 mm or less). These products account for approx. 70% of its business volume in terms of monetary amount.

The Group conducts its business activities having established a strategy for each product department with a systematic division of modes of manufacture, markets and customers for its products. Accordingly, the Group is comprised of two business segments that are divided according to product department: “End mills” and “Other.” “End mills” constitutes the mainstay business operated by the Group, and is engaged in the manufacture and sale of cutting tools centered on small-diameter cemented carbide end mills. “Other” includes businesses engaged in the manufacture and sale of plastic-molded products centered on tool cases. “End mills” is further divided in the following manner according to the size and other aspects of the products: “End mills (Diameter 6 mm or less),” “End mills (Diameter over 6 mm)” and “End mills (Other).”

Note that as both the amount of net sales and profit (loss) and amount of assets of the business segments under “Other” make up less than 10% of the total amount for all business segments, the Group has rendered them into a single reporting segment.

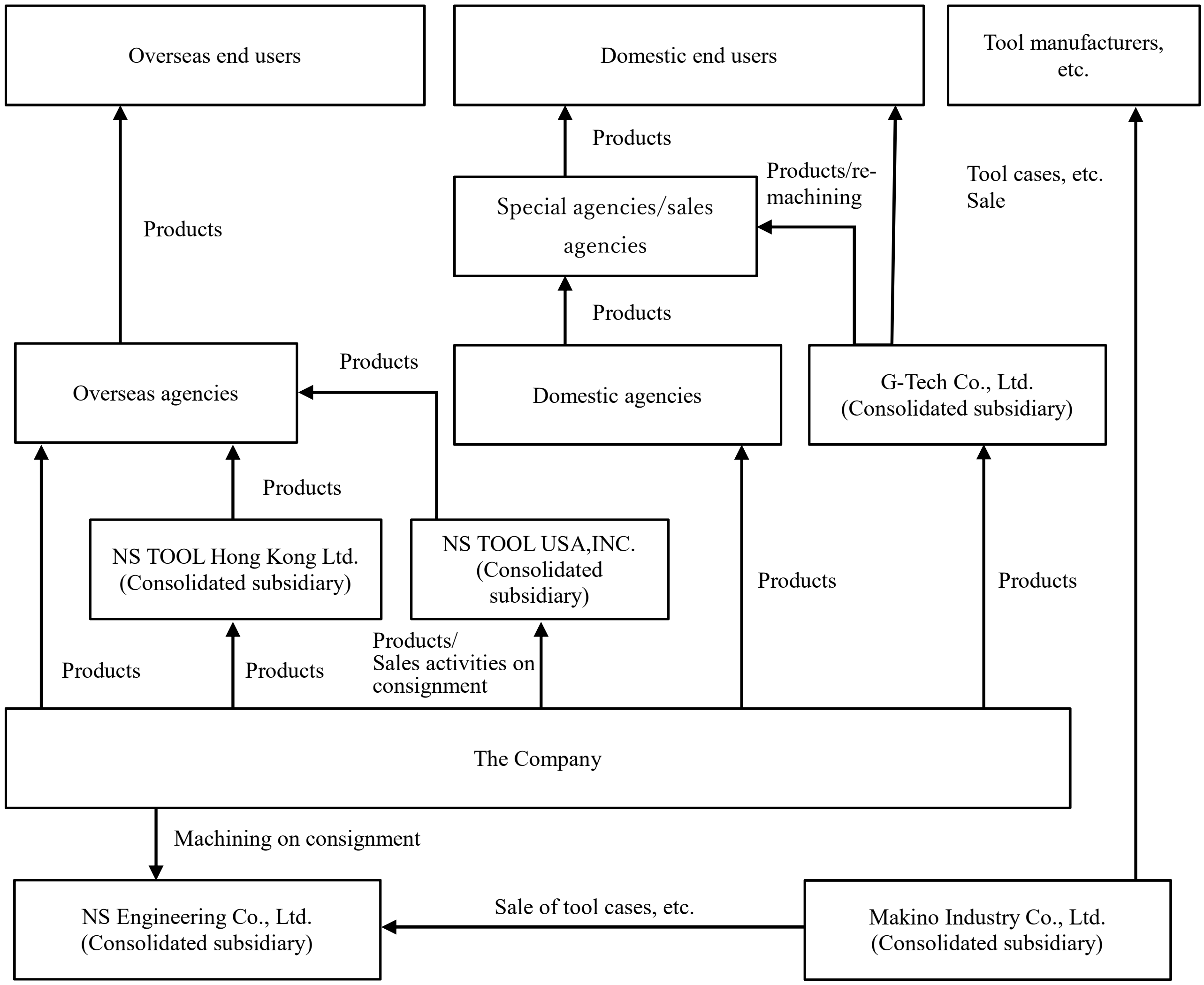
(1) The Company

The Company produces cutting tools centered on small-diameter cemented carbide end mills that it sells to agencies and three of its consolidated subsidiaries: G-Tech Co., Ltd., NS TOOL Hong Kong Ltd., and NS TOOL USA, INC.

(2) Subsidiaries

G-Tech Co., Ltd. engages in the sales and partial re-machining of products.
NS TOOL Hong Kong Ltd. engages in the sale of products in the China area.
NS TOOL USA, INC. engages in the sale of products in the United States.
Makino Industry Co., Ltd. engages in the manufacture and sale of plastic-molded products centered on tool cases.
NS Engineering Co., Ltd. is a machining consignee of the Company.

[Business System Diagram] (As of Mar. 31, 2023)



3. Management Policy

(1) Basic Policy on Company Management

The Group creates “Software (technology),” “Hardware (machines)” and “Heart (humanity).” It contributes to society by developing eco- and human-friendly products. Based on this management philosophy, over time, the Group has been involved in the development, manufacture and sale of cutting tools and other products that serve to improve productivity. Additionally, having espoused “For Crafting Tomorrow” as its brand statement, the Group has set forth the creation of high value-added products that meet the needs of its customers and society and the cultivation of the dreams and possibilities of *monozukuri* (manufacturing) as its basic management policy.

In addition, the Group has formulated its “Basic Policy on Sustainability” that synchronizes social coexistence with the sustainable growth of the Group. In order to tackle the medium- to long-term challenges of the Group, coexist with society, and maintain and continue its sustained growth as a corporation, while placing its focus on small-diameter cemented carbide end mills, the Group will “produce eco- and human-friendly products using minimum resources and endeavor to lower its environmental footprint.” In doing so, it will aim to become the number-one company in the precision and micro-machining tool sector by an overwhelming margin.

(2) Targeted Management Indicators

Practicing management that priorities profit over sales, the Group has adopted the securing of a ratio of ordinary profit to consolidated net sales of 20% as a medium- to long-term target. The Group met this target with a ratio of ordinary profit to consolidated net sales of 22.1% for the fiscal year ended March 31, 2023 (although this was down 0.5 points year on year). Demand for small-diameter tools, which are suitable for precision and micro-machining, remained stable, supported by solid demand for semiconductors and electronic components. However, the increase in raw material costs, electricity costs, and labor costs could not be absorbed simply by reducing manufacturing costs, and we were forced to increase the prices of our main products, but profit margin declined because we were only able to pass on part of the increased costs.

For the fiscal year ending March 31, 2024, the view of the Group is that the sense of uncertainty surrounding its operating environment will further rise due to factors such as concerns about the worsening global economy and trends in resource prices. This makes it difficult to establish sales forecasts. Meanwhile, the Group predicts a ratio of ordinary profit to consolidated net sales of 18.5%, down 3.6 points from the fiscal year ended March 31, 2023, due to certain costs and expenses anticipated to steadily rise.

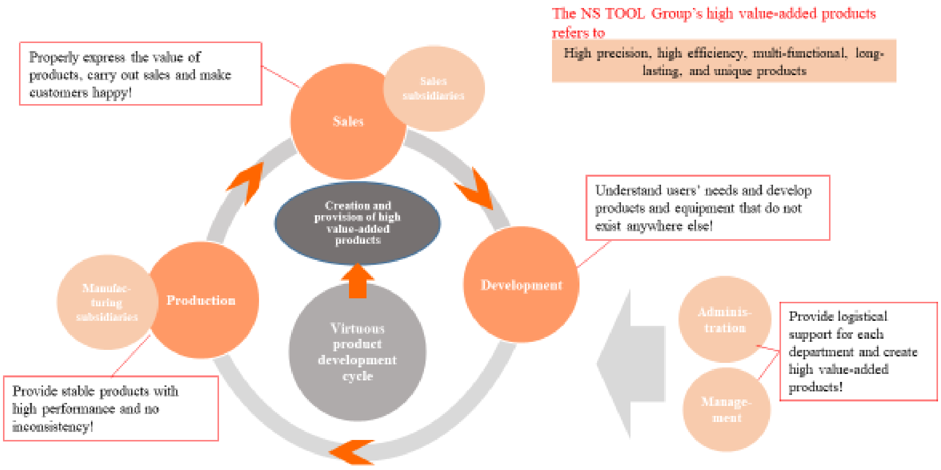
Additionally, although the Group had also prioritized the management indicator of securing a consolidated return on equity (ROE) ratio of 10% from the standpoint of the efficient utilization of shareholders’ equity, it anticipates a figure of only 9.0% for the fiscal year ended March 31, 2023. While the business environment continues to be harsh, we will secure profit growth opportunities by creating and providing high added value, and aim to achieve both indicators in the medium term.

(3) Medium- to Long-Term Management Strategy of the Company

To achieve sustainable growth of the Group and coexistence with society, the Company’s various departments and the Group conglomerate will cooperate with each other to fashion a virtuous product development cycle and, in doing so, endeavor to realize the sustained creation and provision of high value-added products.

- To Create and Provide High Value-Added Products

The Group will realize the **creation and provision of high value-added products** by fashioning a company-wide **virtuous product development cycle** from "sales to development to production."



To achieve the above objectives, the Group will proceed to implement the following strategies in each of its development, production and sales departments.

(i) Development department

In the development of new products, we aim to extend the existing product range, which is the strength of the Group, and to develop competitive products that other companies cannot produce that use different machining methods than the current methods. In addition to promoting the development of tools made with new materials and the improvement of machining methods and coating techniques for new tools, the Group will utilize the Internet and social media in its endeavors to gather and share information pertaining to product development conducted internally and externally, and will proceed to develop products supported by users. Additionally, in production technique development, with the innovation of existing techniques through initiatives geared towards next-generation machining techniques as its basic policy, the Group will endeavor to further improve the functions of its in-house development tool grinders and expand the scope of automated measurement through image processing technology.

(ii) Production department

While taking the "Manufacturing Action Guidelines" formulated at the Sendai Factory as the basis for its production activities, the Group will continue to promote labor-saving and power-saving largely through the augmentation of automated lines using equipment developed in-house and the expansion of the scope of automation, and will deepen its framework capable of stably supplying high performance (high precision, high efficiency, multi-functional, and long-lasting), price-competitive products with no disparity among them. In addition, the Group will proceed to further strengthen the improvement activities conducted in small groups "Orange FC Activities" (with "FC" meaning "Future Challenge") for quality improvement. The Group will also continue to pursue the establishment of a risk dispersion framework for small-diameter end mills largely through reinforced production at subsidiary plants and reduce power consumption for promotion of environmentally-friendly production activities, among other efforts.

(iii) Sales department

The Group will push forward with the visualization of sales activities using digital platforms, information-sharing and data analysis to facilitate the cultivation of new users and the expansion of sales of Company products among existing users. In order to respond to environmental changes, for sales development, we will add information dissemination using websites such as NS Connect (already released) and online processing consultation to the menu, in addition to webinars, social media dissemination, and digital catalog production, etc. By rolling out a multilateral user approach, the Group will proceed to conduct activities that correctly convey the value of the Company's products to those users. Additionally, the Group will conduct activities with the aim of cultivating and expanding precision and micro-machining markets overseas as it moves forward.

(4) Challenges that the Company Must Cope With

Japanese *monozukuri* (manufacturing) boasts an overwhelming advantage in the field of precision and micro-machining. The Group views the provision of support to that field from the aspect of tools as its mission. The Group feels that the most important thing in fulfilling that mission is stably providing at reasonable prices, high-performance, high value-added products with stable quality, that users can feel safe in using to take on new machining challenges.

Regarding challenges that the Group must cope with, based on its medium- to long-term management strategy steeped in the above mission and its “Basic Policy on Sustainability,” each department and Group company has formed KPI and is implementing PDCA cycles.

(5) Regarding Operating Environment

The cemented carbide end mills that constitute the mainstay offerings of the Group are a type of cutting tool that is installed on machine tools and mainly used in the production of molds and various parts as well as in the working of metals and other materials. As those molds and parts are used in a myriad of industrial products, the business performance of the Group is considerably affected by trends in the production of those products. The Company, which specializes in small-diameter end mills with a blade edge diameter of 6 mm or less, supplies its products to numerous industries that include automobiles, semiconductors, electronic parts, optical devices, daily commodities and medical equipment.

With the prolonged fragmentation of the global supply chain and the steady rise in wages, raw material prices, and electricity costs, etc., we were forced to revise product prices during the fiscal year ended March 31, 2023 in order to partially pass on the cost increases, and we recognize that the business environment will continue to be harsh in the next fiscal year. On the other hand, we expect that demand for digital devices and electronic components due to the economic recovery in the service industry and the steady progress of digital transformation (DX) will support the demand for tools for precision and micro-machining, where our products have demonstrated their strengths, albeit with fluctuations.

In addition to the above, in the medium term, with the advancement of automation in the automotive industry, we expect to see an increase in precision and micro-machining that the Company specializes in, such as sensors, cameras, and communication modules, and we expect the use of micro-diameter tools to steadily increase.

(6) Current State of Management Strategy and Outlook

Regarding the Group’s products, as stated under “Company’s Management Strategy over the Medium Term,” the Group is endeavoring to elevate its machining and measuring techniques on the production frontlines while simultaneously promoting automation and lowering costs, and we are realizing faster product development, and higher-level sales capability, and more. Simultaneously, the Group is also focusing on the development of high value-added products made with CBN (cubic boron nitride) and PCD (polycrystalline diamond) and proposals of machining techniques using those materials. As the utility of CBN products has been gradually recognized, the Group has expanded sales of those products, and intends to continue expanding domains of use through means such as launching new products and improving durability and precision. With PCD products, while their use is still limited, the Group will endeavor to expand the market for those products as it works towards improving their performance.

Regarding the stable supply of products, in addition to the Sendai inventory center, the Tokyo headquarters, and the Hong Kong subsidiary, we have begun to hold product inventory at the US subsidiary from the fiscal year ended March 31, 2023, giving us a product supply system from four bases.

(7) Sustainability Concept and Initiatives

(i) Basic Policy on Sustainability and Materiality

From the standpoint of striving for its sustained growth while coexisting with society, in November 2021, the Group formulated its “Basic Policy on Sustainability,” which it has disclosed alongside its priority challenges (materiality). Each of the Group’s production, development, sales and administration departments have established KPI based on this “Basic Policy on Sustainability,” and aim to establish a favorable cycle for the creation and provision of high value-added products going forward.

Sustainability Policy
As a leading company in small-diameter end mills,
by providing unprecedented high value-added products,
we will coexist with society and strive for sustained growth.

Materiality

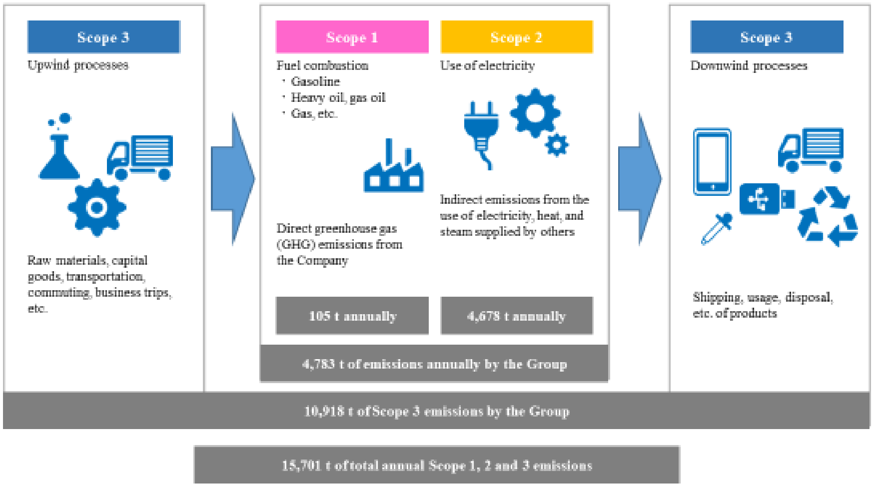
1. Addressing of the environment	We will produce eco- and human-friendly products using minimum resources and endeavor to lower our environmental footprint.
2. Respect for human rights	We will conduct ourselves with respect for human rights in our corporate activities.
3. Contributions to community and society	We will practice activities with public benefit for communities and society through our small-diameter end mill business.
4. Employee job satisfaction	We will provide a workplace environment where all employees are satisfied with their jobs.
5. Partnerships with suppliers	We will deepen mutual understanding with suppliers and strive for a sustained society through fair business activities.
6. Crisis management for accidents, etc.	We will build a framework that enables the stable supply of products regardless of the situation.

(ii) Sustainability Promotion Structure

	Governance	Strategy	Risk Management	Indicators and Objectives
Common	・ A Sustainability Committee was established as a subcommittee of the Heads of Departments Meeting ・ The Heads of Departments Meeting (Sustainability Committee) discusses management issues on a monthly basis, reports to the Board of Directors at least twice a year on strategies for the sustainable growth of the company, including climate change and human capital, and the Board of Directors discusses them	・ Through ISO activities, the Company analyzes opportunities, risks, strengths and weaknesses from the perspective of the Company's sustainable growth every year, and based on this, it drafts company-wide issues at the Heads of Departments Meeting (Sustainability Committee) and discusses them at the Board of Directors meeting ・ Setting six materialities as key elements for sustainable growth	・ PDCA for ISO is linked with the promotion of sustainability. ・ Based on the overall policy, each department sets up a "Materiality KPIs," and the ISO Secretariat follows up the PDCA and reports to the Board of Directors on a monthly basis ・ A review is carried out at the end of each half-fiscal year and the results and reflection points are summarized	・ From the perspective of sustainable growth of the Company, KPIs are set for each materiality, linked to ISO activities, and PDCA is carried out ・ Disclosure of the progress of major Materiality KPIs
Climate Change	・ The Sustainability Committee regularly considers climate change-related issues and the Board of Directors discusses them	・ We have set a worldview based on the 2°C and 4°C scenarios, extracted risks and opportunities, and considered the medium-term strategy based on them ・ The financial impact has not been calculated	・ Based on the medium-term strategy and ISO, Materiality KPIs are developed into specific targets within the "Environment" section, and are monitored by the ISO Secretariat and the Sustainability Committee	・ Annual GHG emissions are managed and Scope 1, 2 and 3 emissions are calculated and disclosed annually ・ Power reduction targets are set and Scope 1 and 2 are being monitored
Human Capital	・ We have established a "Human Resources Committee" including Outside Directors to deliberate the promotion of management and report to the Board of Directors ・ The Human Resources System Construction Committee, consisting of internal directors and HR officers, is held monthly to monitor and evaluate the HR system ・ Human resource exchanges between departments are discussed at the Heads of Departments Meeting and reported to the Board of Directors	・ Focus on respecting diversity, especially promoting active roles for women ・ We have formulated the "Human Resources Development Policy" and "Workplace Environment Development Policy" based on the company motto "MEI-RAKU-SO"	・ We have developed specific targets for the Materiality KPIs "Human Rights" and "Employees" items, and the Sustainability Committee monitors PDCA and reports to the Board of Directors	・ Increase the percentage of female employees by 1% each year ・ Acquisition of "Kurumin" Certification (Fiscal 2025 target) ・ Efforts to improve the indicators of "ratio of female managers," "male childcare leave acquisition rate," and "wage gap between men and women," which are disclosure items

(iii) Indicators on climate change

Based on the GHG Protocol Standard, the Group calculates Scope 1, 2, and 3 greenhouse gas emissions throughout the supply chain. Scope 1 and 2 emissions totaled 4,783 tons in the fiscal year ended March 31, 2021, a decrease of 89 tons from the fiscal year ended March 31, 2020. The Group has been working on energy conservation by setting targets for reducing power usage, and will continue to work on reducing Scope 1 and 2 emissions.



(8) Other Important Matters from the Perspective of Company Management

(i) State of establishment and operation of internal control framework

The Group has established internal regulations and a system for approval via internal memos, and operates its business based on established rules. Additionally, regarding the accommodation of a system for internal controls reporting, the Group has established a "Internal Controls Committee" with the Company's Managing Director as its Chairman. This Committee promotes and evaluates the establishment and operation of internal controls as well as accommodates internal control audits performed by audit corporations.

(ii) Establishment of Nomination and Remuneration Committee

The Group has established a voluntary Nomination and Remuneration Committee to strengthen governance. The Nomination and Remuneration Committee is an advisory committee on which Independent Outside Directors account for the majority of Committee members and whose chairman is elected from among the Independent Outside Directors. The Nomination and Remuneration Committee is consulted by the Board of Directors regarding the nomination of candidates for Director and other posts (excluding Directors who are Audit & Supervisory Committee members) and remuneration for Directors and other executives (excluding Directors who are Audit & Supervisory Committee members) and reports the results of their review. This serves to elevate the independence of the Board of Directors.

(iii) Other

Other initiatives conducted by the Group include hearings with the heads of each department by the Audit & Supervisory Committee members and internal audits of each department by the internal audit department. For internal audits, we have adopted a dual reporting system that reports to the President, the Board of Directors and the Audit & Supervisory Committee. The officer in charge of compliance spearheads efforts to promote compliance. By covering it in employee workshops, emails and magazines as a companywide training theme, the Group is endeavoring to realize widespread internal awareness of compliance. The Group has also established a "Compliance Consultation Desk" that functions as a counter for its whistleblowing system.

4. Basic Rationale for Selection of Accounting Standards

The Group applies Japanese accounting standards.

Note that the Group will examine the application of international accounting standards as appropriate after taking various domestic and international circumstances into consideration.

5. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	8,543,254	8,497,445
Notes and accounts receivable - trade	1,322,918	1,355,962
Merchandise and finished goods	1,191,205	1,382,932
Work in process	304,224	287,258
Raw materials and supplies	345,547	650,308
Other	100,391	124,444
Total current assets	11,807,542	12,298,351
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,280,039	4,292,783
Accumulated depreciation	(1,605,581)	(1,753,819)
Buildings and structures, net	2,674,457	2,538,963
Machinery, equipment and vehicles	8,083,252	8,187,386
Accumulated depreciation	(6,366,260)	(6,754,679)
Machinery, equipment and vehicles, net	1,716,992	1,432,706
Land	800,483	800,483
Construction in progress	66,367	496,119
Other	1,554,085	1,567,297
Accumulated depreciation	(1,377,271)	(1,423,205)
Other, net	176,813	144,092
Total property, plant and equipment	5,435,114	5,412,365
Intangible assets	32,663	28,370
Investments and other assets		
Investment securities	50,765	28,365
Insurance funds	3,772	473,748
Deferred tax assets	412,829	485,816
Other	131,498	130,620
Total investments and other assets	598,865	1,118,550
Total non-current assets	6,066,644	6,559,285
Total assets	17,874,187	18,857,636

(Thousands of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	249,230	303,739
Income taxes payable	445,948	364,470
Provision for bonuses	241,481	282,037
Provision for bonuses for directors (and other officers)	102,034	102,927
Other	444,576	378,892
Total current liabilities	1,483,270	1,432,066
Non-current liabilities		
Long-term accounts payable - other	224,952	224,952
Total non-current liabilities	224,952	224,952
Total liabilities	1,708,222	1,657,018
Net assets		
Shareholders’ equity		
Share capital	455,330	455,330
Capital surplus	418,223	418,223
Retained earnings	15,271,863	16,168,839
Treasury shares	(200,791)	(112,713)
Total shareholders’ equity	15,944,625	16,929,679
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,532	4,855
Foreign currency translation adjustment	2,171	50,449
Total accumulated other comprehensive income	5,704	55,304
Share acquisition rights	215,634	215,634
Total net assets	16,165,964	17,200,618
Total liabilities and net assets	17,874,187	18,857,636

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net sales	9,524,936	9,656,612
Cost of sales	4,633,029	4,540,866
Gross profit	4,891,907	5,115,746
Selling, general and administrative expenses	2,780,352	3,007,131
Operating profit	2,111,555	2,108,615
Non-operating income		
Interest income	54	49
Dividend income	743	1,073
Commission income	1,164	1,143
Rental income	–	6,000
Subsidy income	19,120	1,613
Gain on sale of scraps	14,764	31,049
Surrender value of insurance policies	13,430	12,390
Other	12,652	5,647
Total non-operating income	61,929	58,967
Non-operating expenses		
Rental expenses	–	8,458
Foreign exchange losses	14,591	27,445
Other	2,453	51
Total non-operating expenses	17,044	35,955
Ordinary profit	2,156,439	2,131,627
Extraordinary income		
Gain on sale of non-current assets	3,689	3,655
Total extraordinary income	3,689	3,655
Extraordinary losses		
Loss on sale of non-current assets	2,083	–
Loss on retirement of non-current assets	10,321	718
Loss on valuation of investment securities	–	24,289
Total extraordinary losses	12,404	25,008
Profit before income taxes	2,147,725	2,110,274
Income taxes - current	691,850	708,591
Income taxes - deferred	(66,678)	(73,519)
Total income taxes	625,172	635,072
Profit	1,522,553	1,475,202
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	1,522,553	1,475,202

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit	1,522,553	1,475,202
Other comprehensive income		
Valuation difference on available-for-sale securities	776	1,322
Foreign currency translation adjustment	25,863	48,277
Total other comprehensive income	26,640	49,600
Comprehensive income	1,549,193	1,524,802
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,549,193	1,524,802
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2022

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	444,372	407,272	14,312,278	(925)	15,162,998
Changes during period					
Dividends of surplus			(562,967)		(562,967)
Profit attributable to owners of parent			1,522,553		1,522,553
Exercise of share acquisition rights	10,957	10,950			21,908
Purchase of treasury shares				(199,866)	(199,866)
Net changes in items other than shareholders' equity					
Total changes during period	10,957	10,950	959,585	(199,866)	781,627
Balance at end of period	455,330	418,223	15,271,863	(200,791)	15,944,625

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	2,756	(23,692)	(20,936)	184,258	15,326,320
Changes during period					
Dividends of surplus					(562,967)
Profit attributable to owners of parent					1,522,553
Exercise of share acquisition rights					21,908
Purchase of treasury shares					(199,866)
Net changes in items other than shareholders' equity	776	25,863	26,640	31,375	58,016
Total changes during period	776	25,863	26,640	31,375	839,643
Balance at end of period	3,532	2,171	5,704	215,634	16,165,964

Fiscal year ended March 31, 2023

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	455,330	418,223	15,271,863	(200,791)	15,944,625
Changes during period					
Dividends of surplus			(560,741)		(560,741)
Profit attributable to owners of parent			1,475,202		1,475,202
Exercise of share acquisition rights					–
Purchase of treasury shares				(41)	(41)
Disposal of treasury shares		(17,485)		88,119	70,634
Transfer of loss on disposal of treasury shares		17,485	(17,485)		–
Net changes in items other than shareholders' equity					
Total changes during period	–	–	896,975	88,078	985,054
Balance at end of period	455,330	418,223	16,168,839	(112,713)	16,929,679

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	3,532	2,171	5,704	215,634	16,165,964
Changes during period					
Dividends of surplus					(560,741)
Profit attributable to owners of parent					1,475,202
Exercise of share acquisition rights					–
Purchase of treasury shares					(41)
Disposal of treasury shares					70,634
Transfer of loss on disposal of treasury shares					–
Net changes in items other than shareholders' equity	1,322	48,277	49,600	–	49,600
Total changes during period	1,322	48,277	49,600	–	1,034,654
Balance at end of period	4,855	50,449	55,304	215,634	17,200,618

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	2,147,725	2,110,274
Depreciation	692,314	669,912
Increase (decrease) in provision for bonuses	(7,997)	40,556
Increase (decrease) in provision for bonuses for directors (and other officers)	15,694	893
Interest and dividend income	(797)	(1,122)
Surrender value of insurance policies	(13,430)	(12,390)
Loss (gain) on sale of non-current assets	(1,606)	(3,655)
Loss on retirement of non-current assets	10,321	718
Loss (gain) on valuation of investment securities	–	24,289
Decrease (increase) in trade receivables	3,902	(9,231)
Decrease (increase) in inventories	(82,340)	(479,520)
Decrease (increase) in other current assets	49,914	(22,765)
Increase (decrease) in trade payables	19,070	39,455
Increase (decrease) in other current liabilities	(133,218)	(18,539)
Other, net	53,260	60,848
Subtotal	2,752,811	2,399,723
Interest and dividends received	797	1,122
Income taxes paid	(492,127)	(786,491)
Net cash provided by (used in) operating activities	2,261,481	1,614,354
Cash flows from investing activities		
Payments into time deposits	(100,000)	(100,000)
Proceeds from withdrawal of time deposits	400,000	100,000
Purchase of property, plant and equipment	(650,571)	(684,059)
Proceeds from sale of property, plant and equipment	4,391	4,523
Purchase of intangible assets	(8,965)	(2,490)
Proceeds from cancellation of insurance funds	13,541	12,560
Purchase of insurance funds	(1,596)	(469,457)
Other, net	(5,661)	1,670
Net cash provided by (used in) investing activities	(348,860)	(1,137,251)
Cash flows from financing activities		
Purchase of treasury shares	(199,866)	(41)
Dividends paid	(563,324)	(560,820)
Other, net	23	–
Net cash provided by (used in) financing activities	(763,166)	(560,861)
Effect of exchange rate change on cash and cash equivalents	19,565	37,949
Net increase (decrease) in cash and cash equivalents	1,169,019	(45,809)
Cash and cash equivalents at beginning of period	7,274,235	8,443,254
Cash and cash equivalents at end of period	8,443,254	8,397,445