

# Annual Securities Report

The 103rd      From April 1, 2021  
fiscal year      to March 31, 2022



**Asahi Diamond Industrial Co., Ltd.**

## Cover

Document submitted	Annual Securities Report ( <i>Yukashoken Hokokusho</i> )
Clause of stipulation	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Submitted to	Director-General, Kanto Local Finance Bureau
Filing date	June 27, 2022
Fiscal year	The 103rd fiscal year (April 1, 2021 through March 31, 2022)
Company name	Asahi Daiyamondo Kogyo Kabushiki Kaisha
Company name in English	Asahi Diamond Industrial Co., Ltd.
Title and name of representative	Kazuki Kataoka, President and Representative Director
Address of registered headquarters	4-1, Kioi-cho, Chiyoda-ku, Tokyo
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Telephone number	+81-3-3222-6311 (main)
Name of contact person	Masami Koura, Executive Officer and Administration Division Director
Place for public inspection	Tokyo Stock Exchange, Inc.  (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)  Osaka Branch, Asahi Diamond Industrial Co., Ltd.  (3-4-30, Miyahara, Yodogawa-ku, Osaka-shi, Osaka)  Nagoya Branch, Asahi Diamond Industrial Co., Ltd.  (1-16-34, Aoi, Higashi-ku, Nagoya-shi, Aichi)  North Kanto Branch, Asahi Diamond Industrial Co., Ltd.  (1-20-1, Azuma, Kitamoto-shi, Saitama)

## Section 1 Company Information

### I. Overview of Company

#### 1. Key Financial Data

(1) Consolidated financial data

Fiscal year		99th	100th	101st	102nd	103rd
Year ended		March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Net sales	(million yen)	45,458	41,046	35,304	30,143	37,161
Ordinary profit (loss)	(million yen)	5,074	3,108	591	(337)	3,650
Profit (loss) attributable to owners of parent	(million yen)	1,614	2,321	(340)	(331)	3,288
Comprehensive income	(million yen)	3,246	168	(1,497)	992	4,187
Net assets	(million yen)	59,708	59,028	56,833	57,297	60,869
Total assets	(million yen)	74,678	73,047	70,007	68,144	72,241
Net assets per share	(yen)	1,048.95	1,040.37	1,000.06	1,008.33	1,067.79
Earnings (loss) per share	(yen)	29.00	41.76	(6.13)	(5.97)	59.23
Diluted earnings per share	(yen)	–	–	–	–	–
Shareholders' equity ratio	(%)	78.2	79.0	79.3	82.1	82.1
Return on equity (ROE)	(%)	2.8	4.0	(0.6)	(0.6)	5.7
Price earnings ratio	(times)	38.6	18.3	(75.5)	(89.0)	10.0
Cash flows from operating activities	(million yen)	6,439	4,449	4,805	(90)	5,948
Cash flows from investing activities	(million yen)	(2,393)	(5,144)	(4,990)	(4,289)	(356)
Cash flows from financing activities	(million yen)	(939)	(914)	(732)	(604)	(1,077)
Cash and cash equivalents at end of period	(million yen)	18,468	16,548	15,685	10,649	15,548
Number of employees [separately, average number of temporary employees]		2,157 [346]	2,208 [333]	2,139 [331]	2,050 [301]	2,057 [393]

- Notes:
- 1 The information related to diluted earnings per share is omitted because there are no residual shares.
  - 2 The Company introduced a stock compensation plan in the 100th fiscal year. For calculating net assets per share, the Company includes its shares remaining in the stock compensation plan, which are recorded as treasury shares, into the treasury shares to be deducted in calculation of issued shares at end of period. For calculating basic earnings (loss) per share, the Company includes such shares into the treasury shares to be deducted in calculation of the average number of shares of common stock during the period.
  - 3 Since the beginning of the 103rd fiscal year, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020) and other standards. Key financial data for the 103rd fiscal year are figures after the application of such standards.

## (2) Financial data of the reporting company (Non-consolidated)

Fiscal year		99th	100th	101st	102nd	103rd
Year ended		March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Net sales	(million yen)	36,400	31,964	27,740	24,549	29,186
Ordinary profit	(million yen)	3,876	2,059	596	76	2,103
Profit	(million yen)	995	1,684	332	201	1,899
Share capital	(million yen)	4,102	4,102	4,102	4,102	4,102
Total number of shares issued		55,700,000	55,700,000	55,700,000	55,700,000	55,700,000
Net assets	(million yen)	46,611	46,272	44,905	45,851	46,993
Total assets	(million yen)	58,594	57,446	55,336	54,636	56,027
Net assets per share	(yen)	836.91	833.71	808.97	826.04	846.30
Dividend per share (of which, the amount of interim dividend paid per share)	(yen)	13.00 (8.00)	14.00 (6.00)	10.00 (4.00)	6.00 (3.00)	24.00 (8.00)
Basic earnings per share	(yen)	17.87	30.31	5.99	3.64	34.21
Diluted earnings per share	(yen)	–	–	–	–	–
Shareholders' equity ratio	(%)	79.5	80.5	81.1	83.9	83.9
Return on equity (ROE)	(%)	2.2	3.6	0.7	0.4	4.1
Price earnings ratio	(times)	62.7	25.2	77.3	146.0	17.3
Payout ratio	(%)	72.7	46.2	167.0	165.0	70.2
Number of employees [separately, average number of temporary employees]		1,042 [300]	1,037 [302]	1,019 [318]	1,010 [286]	998 [378]
Total shareholder return [Benchmark: TOPIX Total Return Index]	(%) (%)	113.9 [132.9]	80.0 [126.2]	51.1 [114.2]	58.5 [162.3]	80.6 [144.3]
Highest share price	(yen)	1,420	1,147	823	584	743
Lowest share price	(yen)	777	537	403	413	498

- Notes:
- 1 The information related to diluted earnings per share is omitted because there are no residual shares.
  - 2 The highest and lowest share prices are quoted prices on the First Section of the Tokyo Stock Exchange.
  - 3 The Company introduced a stock compensation plan in the 100th fiscal year. For calculating net assets per share, the Company includes its shares remaining in the stock compensation plan, which are recorded as treasury shares, into the treasury shares to be deducted in calculation of issued shares at end of period. For calculating basic earnings per share, the Company includes such shares into the treasury shares to be deducted in calculation of the average number of shares of common stock during the period.
  - 4 Since the beginning of the 103rd fiscal year, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020) and other standards. Key financial data for the 103rd fiscal year are figures after the application of such standards.

## 2. History

- October 1937 Asahi Diamond Industrial Co., Ltd. established in Ota-ku, Tokyo for manufacturing and marketing diamond tools.
- January 1944 Ueno Factory (formerly Mie Factory) completed in Ueno-shi (currently Iga-shi), Mie.
- December 1945 Corporate name changed to Asahi Kogei Co., Ltd. Production of Shippo (cloisonne enamel) crafts started.
- May 1950 Head office moved to Chuo-ku, Tokyo.
- May 1952 Corporate name changed to Asahi Diamond Industrial Co., Ltd. Full-scale production of diamond tools started.
- July 1959 Asahi Electric Wire Co., Ltd. merged by absorption.
- March 1963 Asahi Diamond Trading Co., Ltd. merged by absorption.
- September 1965 Tamagawa Factory completed in Takatsu-ku, Kawasaki-shi.
- April 1966 Asahi Trading Co., Ltd. merged by absorption.
- September 1972 Participation in the management of Sun Diamond Kogyo Co., Ltd. (currently Yamanashi Asahi Diamond Industrial Co., Ltd., a consolidated subsidiary).
- October 1972 Listed on the 2nd Section of the Tokyo Stock Exchange.
- May 1978 Shinhan Diamond Industrial Co., Ltd., a joint venture (currently an equity-method affiliate), established in South Korea.
- September 1978 Listed on the 1st Section of the Tokyo Stock Exchange.
- August 1984 Mie No.2 Factory completed in Ueno-shi (currently Iga-shi), Mie.
- March 1989 Chiba Tsurumai Factory and Research and Development Center completed in Ichihara-shi, Chiba. (Shut down in February 2021.)
- July 1991 Head office moved to the current location.
- December 1993 Acquired all shares of Triefus France (currently Asahi Diamond Industrial Europe SAS, a consolidated subsidiary), and Triefus Australia (currently Asahi Diamond Industrial Australia Pty., Ltd., a consolidated subsidiary).
- November 1995 Acquired additional shares of Taiwan Asahi Diamond Industrial Co., Ltd. (Established as a joint venture in May 1968.)
- March 1999 Chiba No.2 Factory completed in Chonan-machi, Chosei-gun, Chiba.
- July 2002 Acquired all shares of P.T. Asahi Diamond Industrial Indonesia (currently a consolidated subsidiary).
- July 2002 Asahi Diamond America, Inc. established in the United States (currently a consolidated subsidiary).
- July 2002 Shanghai Xu Hui Diamond Industrial Co., Ltd. established in China (currently a consolidated subsidiary).
- June 2006 Mie and Mie No. 2 Factories integrated to launch the current Mie Factory in Iga-shi, Mie.
- December 2011 Acquired additional shares of Asahi Diamond (Thailand) Co., Ltd. (currently a consolidated subsidiary).
- July 2013 Acquired all shares of Koremura Co., Ltd., a company manufacturing and selling whetstones (currently Koremura Asahi Diamond Industrial Co., Ltd., a consolidated subsidiary).
- January 2015 Asahi Diamond Industrial Germany GmbH established in Germany (currently a consolidated subsidiary).
- July 2015 Asahi Diamond Industrial Scandinavia AB established in Sweden (currently a consolidated subsidiary).
- July 2015 Asahi Diamond Industrial Malaysia Sdn. Bhd. established in Malaysia (currently a consolidated subsidiary).
- August 2015 Asahi Diamond de Mexico, S.A. de C.V. established in Mexico (currently a consolidated subsidiary).
- July 2020 Chiba Factory completed in Sodegaura-shi, Chiba.
- February 2021 Research & Development Center established in Takatsu-ku, Kawasaki-shi.
- August 2021 North Kanto Branch opened in Kitamoto-shi, Saitama.

Note: Due to the restructuring of the market segments of the Tokyo Stock Exchange, the Company moved from the 1st Section to the Prime Market in April 2022.

### 3. Description of Business

The Asahi Diamond Group (Asahi Diamond Industrial Co., Ltd. and its subsidiaries and affiliates; the “Group”) operates a single segment of manufacturing and sale of diamond tools (including CBN tools and whetstones), mainly for the industries such as electronics and semiconductor, transportation equipment, machinery, and stone and construction.

The scope of business of the Company and its group companies in the diamond tool business are as follows.

The Group supplies products to Koremura Asahi Diamond Industrial Co., Ltd., overseas manufacturing and sales subsidiaries, overseas sales subsidiaries, and overseas affiliates.

#### *Domestic Companies*

Asahi Diamond Industrial Co., Ltd. (the “Company”) sells products mainly in Japan, Asia, Oceania, Europe, and North America regions.

Yamanashi Asahi Diamond Industrial Co., Ltd. supplies products to the Company.

Koremura Asahi Diamond Industrial Co., Ltd. sells products mainly in Japan and Asia and Oceania regions.

#### *Overseas manufacturing and sales subsidiaries*

Asahi Diamond Industrial Europe SAS sells products mainly in Europe region.

Taiwan Asahi Diamond Industrial Co., Ltd. sells products mainly in Asia and Oceania regions.

Shanghai Xu Hui Diamond Industrial Co., Ltd. sells products mainly in Asia and Oceania regions.

P.T. Asahi Diamond Industrial Indonesia sells products mainly in Asia and Oceania regions.

Asahi Diamond (Thailand) Co., Ltd. sells products mainly in Asia and Oceania regions.

#### *Overseas sales subsidiaries*

Asahi Diamond America, Inc. sells products mainly in North America region.

Asahi Diamond de Mexico, S.A. de C.V. sells products mainly in Central America region.

Asahi Diamond Industrial Germany GmbH sells products mainly in Europe region.

Asahi Diamond Industrial Scandinavia AB sells products mainly in Europe region.

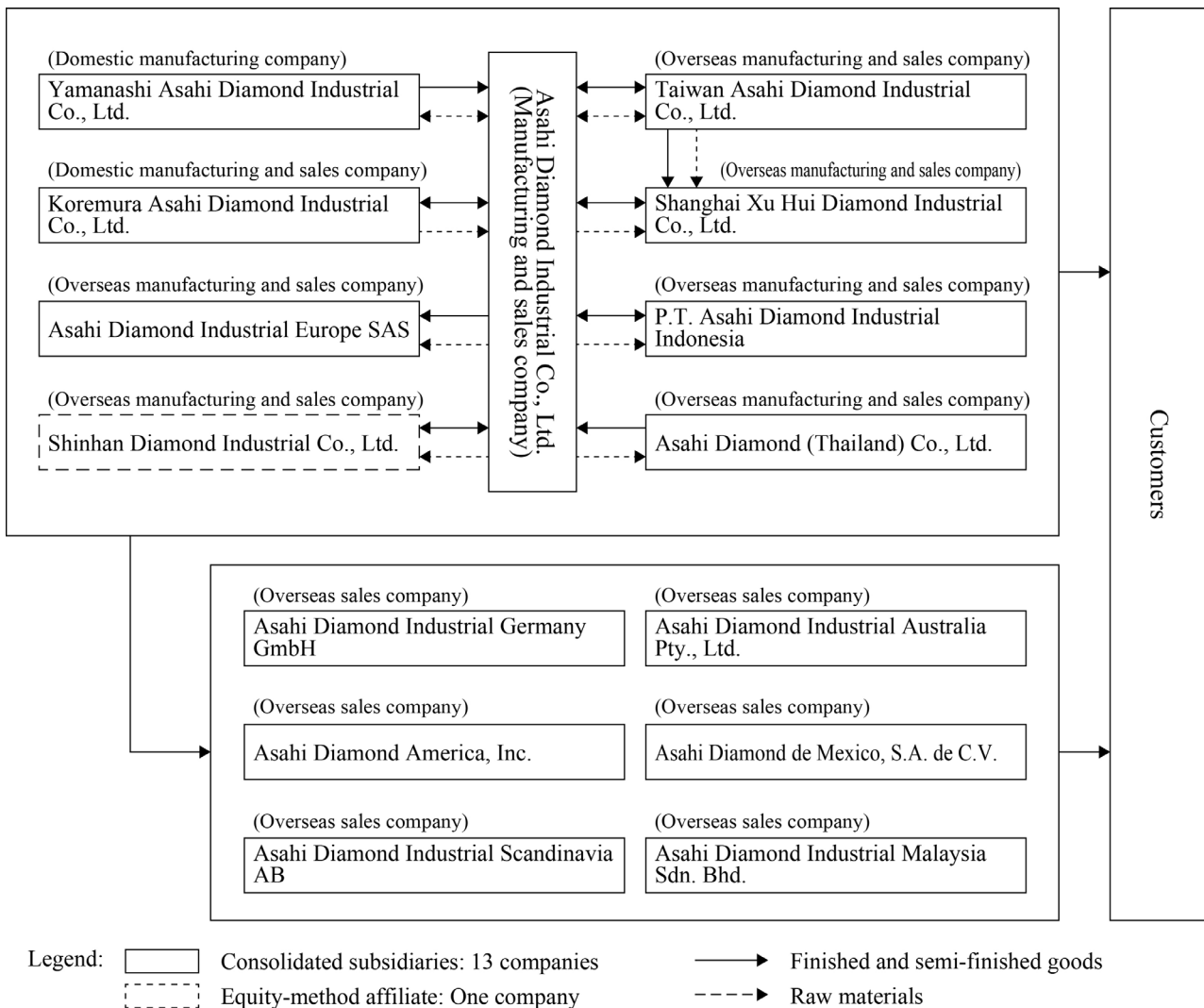
Asahi Diamond Industrial Australia Pty., Ltd. sells products mainly in Asia and Oceania regions.

Asahi Diamond Industrial Malaysia Sdn. Bhd. is engaged in sales support business for our customers in Asia and Oceania regions.

#### *Overseas Affiliates*

Shinhan Diamond Industrial Co., Ltd., an affiliate, sells products mainly in Asia and Oceania regions.

The chart below summarizes the structure of the Group's businesses.



#### 4. Subsidiaries and Other Affiliated Entities

Company name	Location	Share capital	Ratio of voting rights held (%)	Description of relationship					
				Number of officers concurrently serving for the Company and subsidiaries/affiliated entities			Business transactions	Financial assistance	Leasing of facilities
				Officer	Executive Officer	Employee			
<i>Consolidated subsidiaries</i>									
Yamanashi Asahi Diamond Industrial Co., Ltd. (Note 2)	Nirasaki-shi, Yamanashi	¥48,000 thousand	100.0	–	–	–	Purchase of products / purchase and sale of materials	–	Land leasing
Koremura Asahi Diamond Industrial Co., Ltd.	Kamakura-shi, Kanagawa	¥13,000 thousand	100.0	–	–	1	Sale and purchase of products / purchase of materials	–	No
Asahi Diamond Industrial Europe SAS	Eure-et-Loir, France	EUR 830 thousand	100.0	1	–	1	Sale and purchase of products / sale of materials	Fund lending and loan guarantee	No
Asahi Diamond Industrial Germany GmbH	Dortmund, Germany	EUR 25 thousand	100.0	–	–	1	Sale of products	Fund lending	No
Taiwan Asahi Diamond Industrial Co., Ltd. (Note 2)	Taoyuan, Taiwan	NT\$155,221 thousand	69.1	3	1	–	Sale and purchase of products and materials	–	No
Shanghai Xu Hui Diamond Industrial Co., Ltd.	Shanghai, China	US\$3,330 thousand	100.0 (21.6)	2	2	–	Sale and purchase of products / sale of materials	–	No
P.T. Asahi Diamond Industrial Indonesia	Bekasi Regency, Indonesia	IDR 8,406 million	100.0	1	1	–	Sale and purchase of products / sale of materials	–	No
Asahi Diamond (Thailand) Co., Ltd.	Bangkok, Thailand	THB 106,000 thousand	90.0	–	–	3	Sale and purchase of products / sale of materials	–	No
Asahi Diamond America, Inc.	Ohio, U.S.A.	US\$100 thousand	100.0	1	–	2	Sale of products	–	No
Asahi Diamond Industrial Scandinavia AB	Orebro, Sweden	SEK50 thousand	100.0	1	–	1	Sale of products	–	No
Asahi Diamond Industrial Australia Pty., Ltd.	Mona Vale, Australia	AUS\$2,500 thousand	100.0	1	1	–	Sale of products	–	No
Asahi Diamond de México, S.A. de C.V.	Leon, Mexico	MXN 4,000 thousand	100.0	–	–	1	Sale of products	–	No
Asahi Diamond Industrial Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	MYR 1,000 thousand	100.0	–	–	2	Sale of products	–	No
<i>Equity-method affiliate</i>									
Shinhan Diamond Industrial Co., Ltd.	Incheon, South Korea	KRW6,500 million	28.5	2	1	–	Sale and purchase of products / sale of materials	–	No

Notes: 1 All of the subsidiaries and affiliates are mainly engaged in diamond tool businesses.

2 The Companies with Note 2 are specified subsidiaries.

3 The figure in parentheses in the ratio of voting rights held (%) shows the ratio of the voting rights the Company holds indirectly, which is included in the figure without parentheses.



## 5. Employees

### (1) Information about consolidated companies

As of March 31, 2022

Business Division	Number of employees
Diamond tools business division	2,057 [393]

- Notes:
- 1 The number of employees excludes nine Executive Officers and includes those seconded from outside to the Group.
  - 2 The number of temporary employees, including part-time employees and agency workers, in the current fiscal year is shown separately in square brackets. Note that the number of part-time employees is the average number employed (converted at eight hours a day), and the number of agency workers is the number at end of the current fiscal year.
  - 3 The number of temporary employees increased by 92 year on year, which was mainly due to recruitment during the period to deal with production demand.

### (2) Information about the reporting company

As of March 31, 2022

Number of Employees	Average age (years old)	Average length of service (years)	Average annual salary (thousand yen)
998 [378]	43.69	20.67	6,514

- Notes:
- 1 The number of employees excludes nine Executive Officers and 32 employees that have been seconded to outside companies.
  - 2 The number of temporary employees, including part-time employees and agency workers, in the current fiscal year is shown separately in square brackets. Note that the number of part-time employees is the average number (converted at eight hours a day), and the number of agency workers is the number at end of the current fiscal year.
  - 3 Average annual salary includes bonuses and extra wages.
  - 4 All employees of the Company are engaged in diamond tool businesses.
  - 5 The number of temporary employees increased by 92 year on year, which was mainly due to recruitment during the period to deal with production demand.

### (3) Labor union

The labor union of the Company and Yamanashi Asahi Diamond Industrial Co., Ltd. (519 union members) belongs to an industrial union JAM (Japanese Association of Metal, Machinery, and Manufacturing Workers).

There are no special matters to be noted as to the labor-management relations.

## II. Overview of Business

### 1. Management Policy, Business Environment, and Issues to Address

This document contains forward-looking statements, which are based on the Group's estimates and assumptions made as of the filing date of this Annual Securities Report.

#### (1) Management Policy

The Group holds "Manufacturing excitement through innovation" as its corporate philosophy. In the world of manufacturing, where the pace of technological progress is ever accelerating, tackling complex problems is a daily challenge. Together with our customers, the Group strives to enhance manufacturing processes, contributing to the development of society.

Under such corporate philosophy, the Group holds as its vision One and Only, Eternal Growth, and Job Satisfaction. In addition, Challenge, Customer, Cooperation, Character, and Speed are held as its Values.

#### (2) Management strategies over the medium- to long-term

The Group set forth the Medium-term Management Plan 2022 at the Board of Directors meeting held on May 15, 2020. The main items and progress of the plan are stated below in (4) Business environment and operational and financial issues to be addressed.

#### (3) Target key management metrics

The Group regards the following targets as key management metrics for achieving sustainable growth and increasing the interests of all stakeholders: consolidated net sales, consolidated operating profit, consolidated operating profit ratio, profit attributable to owners of parent, and return on equity (ROE).

#### (4) Business environment and operational and financial issues to be addressed

In the current fiscal year, worldwide spread of the COVID-19 and the soaring prices of raw materials had enormous impacts on various industries and consumption trends. The uncertainty over when the pandemic will end seems to remain and continue to limit economic activity in the next fiscal year.

Under such circumstance, the Group has formulated in 2020 the Medium-term Management Plan 2022, with the year 2022 set for its final year, and set forth the VISION 2030 below as our vision for 2030. We are now striving to establish a secure basis for growth under the three priority themes.

#### VISION2030

The Group has visualized how it should be after 10 years as "a global diamond tool manufacturer who develops strategic products on the axis of region and industry," aiming to keep enhancing its value through sustainable growth and high profitability on global perspective.

#### Priority themes of Medium-term Management Plan 2022

##### i. Integrated response to highly specialized customer needs

The Group has been working on development of products that catch the market trend and meet customer needs in four product development projects centered on electronic semiconductor-related products, and we have started to see the results in sales. In addition, we are working to strengthen systems to further increase efficiency by improving manufacturing bases in Japan. We will continue developing products strategically, effectively utilizing our production and development bases.

##### ii. Optimization and acceleration of global expansion

We established a sales subsidiary in Germany to enhance sales organization in Europe, which has enabled us to provide more flexible and tailored services. In addition, we have begun to see the fruits of the business alliance with TYROLIT; by complimenting the products and promoting mutual utilization of sales network, we have accelerated the transition of phase from testing to adoption. While we optimize the Group, we will strive to strengthen both sales and technical functions to accelerate global expansion.

iii. Strengthened management infrastructure and management systems

In terms of improving management infrastructure and management systems, we utilize every data effectively, aiming for complete profit management. In the current fiscal year, we launched a project in order to strategically renew the core systems; we organized a team dedicated to review the entire system and promote the introduction, and established a system to ensure its implementation. We will, in addition to profitability of the Group, continue to enhance group-wide governance.

## 2. Business Risks

Of the matters related to an overview of business and the financial information stated in this Annual Securities Report, the items listed below constitute major risk factors that may have a material impact on investors' decisions.

This document contains forward-looking statements, which are based on the Group's estimates and assumptions made as of the end of the fiscal year ended March 31, 2022.

### (1) Continuity of product trading

The Group has not entered into long-term contracts with major customers regarding quantity and price. In the future, if orders are not sufficiently secured, the Group's financial position and business performance may be adversely affected.

### (2) Procurement of raw materials

The Group uses natural and artificial diamonds and many kinds of metals and resins as main raw materials for production. In the future, the Group may be unable to procure these raw materials owing to the suspension of operations or reduced supply capacity on the part of suppliers, or we may experience boost in production cost due to higher raw material prices, and the Group's performance may be adversely affected.

### (3) Economic trends

The Group supplies diamond tools to a wide range of industries such as electronics and semiconductor, transportation equipment, or stone and construction. If changes in economic conditions affect our customers in those industries, the demand for diamond tools may also be affected. If orders are not sufficiently secured in the future, the Group's financial position and business performance may be adversely affected.

### (4) Competition with other companies

The Group strives to enhance product quality, shorten delivery times, and upgrade its technical service capabilities while always competing with other companies in terms of technology, delivery times, price, etc. In the future, the Group may be unable to secure sufficient profitability if it does not keep pace with competitors and the Group's financial position and business results may be adversely affected.

### (5) Quality problems

Although the Group adheres to quality control standards in manufacturing, the Group cannot guarantee that all products will be free of defects or that product-related claims will not be incurred. In the future, the advent of large claims may impose major costs on the Group and the Group's financial position and operating results may be adversely affected.

### (6) Overseas business

The Group has manufacturing sites in Japan, Taiwan and China, and conducts overseas operations mainly in other parts of Asia, Oceania, Europe, and North America regions. Overseas sales account for approximately 50% of consolidated sales by geographic region. In the future, unexpected problems may arise, including but not limited to political instability, changes in regulations, exchange rate volatility, financial instability, rise in wages, trade wars, and acts of terror or war, in regions where the Group operates and the Group's financial position and business performance may be adversely affected.

### (7) Risks relating to business alliances and corporate acquisitions

The Group recognizes that business alliances with other companies and corporate acquisitions are indispensable for securing future growth potential and profitability. The Group will give careful consideration to the implementation of such activities but if it is unable to achieve the synergies anticipated in the initial business plan, the Group's financial position and operating results may be adversely affected.

(8) Natural disasters

The Group strives to mitigate damages to manufacturing sites in Japan and overseas as a result of natural disaster, including but not limited to an earthquake, a storm, or flooding. However, direct damages to the Group's production facilities and information systems, shortages of electricity owing to destruction of infrastructure or shortages of materials from suppliers may adversely affect the Group's financial position and operating results.

(9) Environmental issues

The Group has established an environmental management system. All factories and subsidiaries in Japan, as well as some overseas subsidiaries have acquired ISO 14001 certification. Its efforts to protect the environment include reducing CO2 emissions, and conserving and making effective use of resources. If an environmental problem occurs in the future under unforeseen circumstance, it may cause damage compensation, administrative sanctions, declining social evaluation and production suspension, which may impose additional expenses on the Group. In that case, the Group's financial position and operating results may be adversely affected.

(10) COVID-19

In response to the global COVID-19 pandemic, the Group is implementing measures that place the health and safety of employees first, including comprehensive hygiene management, telecommuting, and flextime operations, in efforts to prevent the occurrence and spread of infection. If the production and sales activities of the Group are restricted for reasons such as the further increase in infected areas or the further increase in the number of infected persons, the Group's financial position and operating results may be adversely affected.

(11) Information Security

The Group can collect personal and classified information on customers and business partners through its business activities. Furthermore, the Group also has its own classified information regarding marketing and technology. Although the Group strives for stringent management of such information, unexpected problems such as computer viruses and unauthorized access may arise, resulting in the leak or loss of information, as well as the destruction or tampering of significant data, which may adversely affect the Group's financial position and operating results.

### 3. Management's Discussion and Analysis of Financial Position, Operating Results and Cash Flows

#### (1) Summary of Operating Results, etc.

Financial position, operating results, and cash flows ("Operating Results, etc.") of the Group for the current fiscal year were as follows.

##### i. Financial position and operating results

During the fiscal year ended March 31, 2022, the Japanese economy saw a recovery from the previous year, but business confidence came to a standstill in the second half amid resurgence of COVID-19; consumption slowed down due to restrictions imposed on some activities, and production activities stagnated due to a shortage of parts. The world economy also experienced a rapid recovery in the first half of the current fiscal year, but the recovery slowed down in the second half mainly due to the semiconductor shortage.

Under these circumstance, the Group significantly increased its sales from the previous year owing to product development and production system reconstruction to meet customer demand. Sales in the electronics and semiconductor industries, which makes up a large portion of the Group's sales, increased significantly thanks to the active market. Furthermore, production in the transportation equipment and machinery industries was strong in the first half of the fiscal year, resulting in a year-on-year increase in sales of related tools.

As a result of above, financial position and operating results for the current fiscal year were as follows.

##### a. Financial position

Total assets as of March 31, 2022 was ¥72,241 million, an increase of ¥4,097 million from the end of the previous fiscal year (up 6.0% YoY).

Total liabilities as of March 31, 2022 was ¥11,372 million, an increase of ¥525 million from the end of the previous fiscal year (up 4.8% YoY).

Total net assets as of March 31, 2022 was ¥60,869 million, an increase of ¥3,572 million from the end of the previous fiscal year (up 6.2% YoY).

##### b. Operating results

Net sales for the current fiscal year were ¥37,161 million, an increase of ¥7,018 million from the previous fiscal year (up 23.3% YoY).

Operating profit for the current fiscal year amounted to ¥2,811 million (operating loss of ¥732 million in the previous fiscal year).

Ordinary profit for the current fiscal year amounted to ¥3,650 million (ordinary loss of ¥337 million in the previous fiscal year).

Profit attributable to owners of parent for the current fiscal year amounted to ¥3,288 million (loss attributable to owners of parent of ¥331 million in the previous fiscal year).

Operating results by industry were as follows.

##### (a) Electronics and semiconductor

Net sales in the electronics and semiconductor industry amounted to ¥13,752 million, an increase of ¥2,682 million from the previous fiscal year (up 24.2% YoY).

##### (b) Transportation equipment

Net sales in the transportation equipment industry amounted to ¥8,115 million, an increase of ¥1,314 million from the previous fiscal year (up 19.3% YoY).

##### (c) Machinery

Net sales in the machinery industry amounted to ¥9,832 million, an increase of ¥2,371 million from the previous fiscal year (up 31.8% YoY).

(d) Stone and construction

Net sales in the stone and construction industry amounted to ¥4,124 million, an increase of ¥489 million from the previous fiscal year (up 13.5% YoY).

(e) Other (universities, research institutes, ceramic and jewelry industries, etc.)

Net sales in other industries amounted to ¥1,335 million, an increase of ¥159 million from the previous fiscal year (up 13.6% YoY).

ii. Cash Flows

Cash and cash equivalents (“funds”) as of March 31, 2022 was ¥15,548 million, an increase of ¥4,898 million from the end of the previous fiscal year.

***Cash flows from operating activities***

Funds provided by operating activities amounted to ¥5,948 million (compared with ¥90 million used in the previous fiscal year). The main factors were profit before income taxes of ¥4,408 million, depreciation of ¥2,961 million, and an increase in trade receivables of ¥1,287 million.

***Cash flows from investing activities***

Funds used in investing activities amounted to ¥356 million (compared with ¥4,289 million used in the previous fiscal year). The main factors were proceeds from sale of securities of ¥1,000 million, and purchase of property, plant and equipment of ¥1,701 million.

***Cash flows from financing activities***

Funds used in financing activities amounted to ¥1,077 million (compared with ¥604 million used in the previous fiscal year). The main factor was dividends paid of ¥612 million.

iii. Actual amount of production and orders received

Although the Group operates single a segment of diamond tools business, it produces and sells a wide variety of items. Products of the same type may have different shapes and some products are not made-to-order products. For these reasons, the Group does not report the amount of production and orders by segment.

(2) Analysis and discussion of the Operating Results, etc. from the management’s perspective

Views and analysis and discussion of the Group’s operating results, etc. from the management’s perspective are as follows. Forward-looking statements are based on the estimates and assumptions made as of March 31, 2022.

i. Significant accounting estimates and assumptions thereof

The Group’s consolidated financial statements are prepared based on accounting principles generally accepted in Japan. The information on significant accounting policies adopted by the Group for preparing consolidated financial statements is stated in V. Financial Information, 1. Consolidated Financial Statements, etc., Notes to Consolidated Financial Statements, *Significant accounting policies for preparation of consolidated financial statements*. Of the significant policies, we consider the following items have significant impact on the estimates and judgements for preparing consolidated financial statements. When making important decisions and formulating estimates and plans for preparing the consolidated financial statements, the Company’s management makes decisions based on reasonable consideration of past results and present circumstances. However, because of their inherent uncertainties, they may differ significantly from actual results.

***Inventories***

The Group evaluates inventories using a method in which book value is written down based on any decline in profitability. Valuation losses are recorded mainly on inventories that exceed a certain holding period, assuming that they are stagnant or obsolete. If the market environment deteriorates and the inventory becomes stagnant or obsolete in the future, it may be necessary to record an additional valuation loss.

#### *Allowance for doubtful accounts*

In order to properly evaluate receivables such as accounts receivable - trade and accounts receivable - other, the Group records the uncollectible amount based on the historical rate of credit loss for general receivables and based on individual recoverability for doubtful accounts and certain other receivables. If the financial condition of the debtor of the receivables deteriorates further and its ability to make payment declined, an additional allowance may be recorded or bad debt expenses may be incurred. If changes in external environment, such as significant deterioration of market environment due to the spread of COVID-19, increase the credit risk of receivables, the estimates may be adjusted as necessary.

#### *Securities*

The Group holds securities that are judged, based on consideration on the rationality of holding, to contribute to the sustainable growth of the Group and the improvement of its corporate value over the medium to long term. Those securities include highly volatile securities with market prices and securities without market prices. If real value of the securities held drops significantly, the Group recognizes an impairment loss for the securities unless there is a possibility of recovery. If the market price of securities with market prices at the end of the period falls by 50% or more compared to the acquisition prices, it is considered to be unrecoverable and an impairment loss will be recognized. If the market price falls by 30% or more and less than 50%, the recoverability will be assessed before recognizing an impairment loss. As for securities without market prices, an impairment will be recognized if net assets per share of the issuing company falls by 50% or more compared to the acquisition prices, except when judged recoverable in the light of future prospect. Other cases that may cause impairment loss recognition include an occurrence of loss due to future market deterioration or poor performance of the investee, which is not reflected in the current book value, or a situation in which the book value becomes unrecoverable.

#### *Deferred tax assets*

The Group records deferred tax assets after assessing their recoverability based on future taxable income derived from the "medium- to long-term profit and loss forecasts." For recognized deferred tax assets, we reassess their recoverability and make adjustment every fiscal year. Although the end of the COVID-19 pandemic is yet to be seen and the outlook remains uncertain, the Group has made accounting estimates based on the assumption that its impact on operating results and financial conditions would be minor.

#### *Impairment of non-current assets*

When determining impairment of non-current assets, the Group divides the assets in the minimal unit that generates largely independent cash flows based on the classification of managerial accounting. For asset groups with declined profitability, if the recoverable amount in the future is lower than the book value, the book value is reduced to the recoverable amount, and the reduced amount is recorded as an impairment loss. Since the recoverable amount is calculated using assumptions such as future cash flows or net realizable value, changes in those assumptions due to a change in business plan or deterioration in market environment may cause an impairment loss recognition.

#### *Retirement benefits*

The Group calculates retirement benefit expenses and retirement benefit liability for employees based on actuarial assumptions. These assumptions include discount rates, rates of increases in salary, employee turnover rates, long-term expected rates of return on assets and rates of mortality based on the latest statistics. If the actual results differ from the assumptions or if the assumptions are revised, it may affect actuarial gains and losses, resulting in affecting retirement benefit obligations and retirement benefit expenses of the Group.

#### *Business restructuring*

Business restructuring is underway in order to stabilize the earnings structure of Asahi Diamond Industrial Europe SAS, a consolidated subsidiary. The amount of estimated costs for integrating manufacturing bases is recorded as provision for business restructuring. If there is a change in plan in response to changes in market environment, it may incur additional business restructuring costs.



ii. Views and analysis and discussion of the financial position and the operating results

a. Analysis of financial position

*Assets*

Total assets as of March 31, 2022 was ¥72,241 million, an increase of ¥4,097 million from the end of the previous fiscal year (up 6.0% YoY). The increase in assets was mainly due to an increase in cash and deposits of ¥4,122 million and an increase in notes and accounts receivable-trade of ¥1,494 million, offsetting a decrease in property, plant and equipment of ¥1,100 million.

*Liabilities*

Total liabilities as of March 31, 2022 was ¥11,372 million, an increase of ¥525 million from the end of the previous fiscal year (up 4.8% YoY). The increase in liabilities was mainly due to an increase in income taxes payable of ¥461 million.

*Net assets*

Net assets as of March 31, 2022 was ¥60,869 million, an increase of ¥3,572 million from the end of the previous fiscal year (up 6.2% YoY). The increase in net assets was mainly due to an increase of ¥3,288 million in profit attributable to owners of parent and an increase of ¥929 million in foreign currency translation adjustment, offsetting a decrease of ¥612 million due to dividends of surplus.

As a result, the shareholders' equity ratio was 82.1%, and net assets per share was ¥1,067.79.

b. Analysis of operating results

*Net sales*

Net sales for the current fiscal year was ¥37,161 million, an increase of ¥7,018 million from the previous fiscal year (up 23.3% YoY).

*Operating profit*

Operating profit for the current fiscal year was ¥2,811 million (operating loss of ¥732 million in the previous fiscal year).

*Ordinary profit*

Ordinary profit for the current fiscal year was ¥3,650 million (ordinary loss of ¥337 million in the previous fiscal year).

*Profit attributable to owners of parent*

Profit attributable to owners of parent for the current fiscal year was ¥3,288 million (loss attributable to owners of parent of ¥331 million in the previous fiscal year).

c. Factors that have a material impact on the Group's operating results

Factors that have material impact on the Group's operating results are as stated in II. Overview of Business, 2. Business Risks.

Views and analysis and discussion of the operating results by industry are as follows.

Electronics and Semiconductor

In the electronics and semiconductor industry, the production of electronics and semiconductor-related equipment rose in line with the increase in teleworking and remote working resulting from the spread of COVID-19, and production of mobile phones and other communications equipment remained strong due to the full-scale roll-out of 5G.

The Group focused on sales of related tools for information equipment such as portable device components, whose production was strong, and related tools for substrate materials, resulting in a significant increase in sales of electronics and semiconductor related tools.

Transportation equipment

In the automotive-related industry, while production fell again in the second half of the fourth quarter, full-year production volume increased but only slightly from the previous year due to strong production in the first half of the current fiscal year. The Group focused on selling recently developed cutting tools, as well as grinding wheels and gear processing tools, resulting in an increase in sales of the related tools. On the other hand, sales of related tools declined in the aircraft-related industry due to a prolonged slump in the demand for aircraft in spite of movement restrictions relaxed in the countries.

#### Machinery

In the bearings and machine tools industry, there was recovery of production for automobiles and other transportation equipment and for general industry. In the cemented carbide industry, increased demand for automobile and machinery components resulted in increased production. The Group strengthened sales by developing new sales channels and launching new products. As a result, sales of machinery related tools increased.

#### Stone and Construction

In the construction industry in Japan, both public and private construction volumes performed steadily owing to measures for improving national land resilience including repair work on expressways. Sales for the stone industry decreased due to sluggish demand for headstones and construction materials, etc. However, in overall, sales in the stone and construction industry increased as the Group focused on selling tools related to dismantling and repair work.

#### iii. Analysis and discussion of cash flows, and information on capital resources and the liquidity of funds

Cash and cash equivalents (“Funds”) as of March 31, 2022 was ¥15,548 million, an increase of ¥4,898 million from the end of the previous fiscal year (up 46.0% YoY).

Status of cash flows is stated in (1) Summary of Operating Results, etc., ii. Cash Flows.

The Group can self-finance almost all of the working capital and capital investment funds.

#### **4. Material Contracts, etc.**

Not applicable.

## 5. Research and Development Activities

The Group's R&D is led by the Research & Development Center, consisting of our research department, the production technology departments at factories, and technology-related departments. We conduct a wide range of activities from basic research for securing the foundation of future businesses to application development reflecting environmental considerations and the need to use resources efficiently, in close collaboration with sales departments.

The Group's R&D expenses for the current fiscal year was ¥1,811 million and the research results by industry are as follows.

### (1) Electronics and Semiconductor

For higher performance semiconductor packages such as organic packages and ceramic packages, requirement for accuracy and precision in cutting process is getting stricter year by year. To meet such demand, the Group introduced to the market a new cutting blade, Melius Metal. Achieving high efficiency and high precision in cutting at the same time, it is expected to contribute to the ever-expanding semiconductor market.

### (2) Transportation equipment

For processing bearings, the Group has developed KD Dresser, a new roller dresser which is sharper than conventional ones. Roller dressers are indirect tools used for shaping general whetstones and are required to have profile accuracy and retention thereof. By achieving both sharpness and profile retention, which are contradictory properties, it reduces resistance during processing, which contributes to improved sharpness of general whetstones.

### (3) Machinery

In the tool industry, they are increasingly adopting, in particular, Supremo, a metal wheel suitable for flute grinding. Compared to conventional models, it has excellent sharpness and stable grinding performance, which improves processing efficiency for users.

### (4) Stone and Construction

We are working to improve the performance of concrete-cutting blades used for demolition and renovation of reinforced concrete buildings. Out of that effort, we developed and introduced to the market a concrete-cutting blade for demolition of high-rise buildings. As to the bits used in geological survey and resource exploration, we plan to increase the production ratio at overseas subsidiaries in order to enhance our price competitiveness in the market in Japan.

### III. Information about Facilities

#### 1. Overview of Capital Expenditures

The Group is emphasizing development of diamond tool products capable of keeping abreast of rapid technological innovations in the Group's strategic fields, namely, the electronics and semiconductor industry and the transportation equipment industry. The Group is also executing capital investment aimed at labor saving and enhancing product reliability.

The Group's total capital investment in the current fiscal year amounted to ¥1,605 million (book value of property, plant and equipment received).

The Group solely used its own funds to finance the above capital investment.

#### 2. Major Facilities

The Group's major facilities related to the diamond tools business division are as follows.

##### (1) Reporting company

As of March 31, 2022

Office (Location)	Description of facilities	Book value (million yen)					Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area: thousand m <sup>2</sup> )	Other	Total	
Mie Factory (Iga-shi, Mie)	Production facility and test facility	2,410	1,069	1,945 (128)	128	5,553	341 [70]
Chiba Factory (Sodegaura-shi, Chiba)	Production facility	5,938	1,443	1,826 (79)	131	9,339	188 [158]
Chiba No.2 Factory (Chonan-machi, Chosei- gun, Chiba)	Production facility	454	287	116 (16)	50	909	72 [96]
Tamagawa Factory (Takatsu-ku, Kawasaki- shi)	Production facility	809	468	825 (6)	50	2,152	108 [49]
Research & Development Center (Takatsu-ku, Kawasaki- shi)	Research and development facility	1,230	340	241 (2)	54	1,866	42 [-]
Head Office, etc. (Chiyoda-ku, Tokyo and other locations)	Facilities for head office, etc.	125	16	953 (39)	110	1,206	247 [5]

- Notes: 1 The book values stated under Other are the total amount of tools, equipment, fixtures and leased assets, and they do not include construction in progress.
- 2 There are no major facilities that are currently out of operation.
- 3 The book value is the amount after the impairment loss is recorded.
- 4 The number of temporary employees is shown separately in square brackets.
- 5 Head office, etc. includes ¥874 million for the land (22 thousand m<sup>2</sup>) lent to Yamanashi Asahi Diamond Industrial Co., Ltd. (a consolidated subsidiary in Japan). The facilities of head office, branches and sales offices are leased and the annual rent expenses totals ¥236 million.

##### (2) Domestic subsidiary

As of March 31, 2022

Company name (Location)	Description of facilities	Book value (million yen)					Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area: thousand m <sup>2</sup> )	Other	Total	
Yamanashi Asahi Diamond Industrial Co., Ltd. (Nirasaki-shi, Yamanashi)	Production facility	201	264	- (-)	32	498	135 [2]

- Notes: 1 The book values stated under Other are the total amount of tools, equipment, fixtures and leased assets, and they do not include construction in progress.
- 2 The book value is the amount after the impairment loss is recorded.
- 3 The number of temporary employees is shown separately in square brackets.

## (3) Foreign subsidiaries

As of March 31, 2022

Company name (Location)	Description of facilities	Book value (million yen)					Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land (Area: thousand m <sup>2</sup> )	Other	Total	
Taiwan Asahi Diamond Industrial Co., Ltd. (Taoyuan, Taiwan)	Production facility	585	605	359 (12)	143	1,693	353 [6]
Asahi Diamond Industrial Europe SAS (Eure-et-Loir, France)	Production facility	105	403	14 (22)	66	589	122 [-]
P.T. Asahi Diamond Industrial Indonesia (Bekasi Regency, Indonesia)	Production facility	126	396	83 (15)	4	611	155 [-]

- Notes: 1 The book values stated under Other are the total amount of tools, equipment, fixtures and leased assets, and they do not include construction in progress.
- 2 There are no major facilities that are currently out of operation.
- 3 The number of temporary employees is shown separately in square brackets.

### 3. Planned Additions, Disposals and Other Changes of Facilities

The Group formulates a capital investment plan every year by comprehensively considering production plans, demand forecasts, capital investment efficiency, etc. In principle, the companies in the Group formulate their plans individually and then the Company's Board of Directors makes adjustment to avoid overlapping investment within the Group.

As of March 31, 2022, the investment planned for the additions, etc. of important facilities totaled ¥4.2 billion, and all of that is for the diamond tools business division. The Group is planning to self-finance most of the necessary funds.

Planned additions, etc. of important facilities are as follows.

#### (1) Additions, etc. of important facilities

Company name	Description of facilities	Planned investment amount		Funding methods	Schedule		Purpose of capital investment
		Total (million yen)	Amount already paid (million yen)		Commencement	Completion	
The reporting company Mie Factory and 3 other factories	Production facility	2,500	–	Self-financing	April 2022	March 2023	Renewal of production facilities
13 subsidiaries	Production facility	1,500	–	Self-financing and borrowings	April 2022	March 2023	Renewal of production facilities
The reporting company	Other	200	–	Self-financing	April 2022	March 2023	–
Total	–	4,200	–	–	–	–	–

#### (2) Disposals and sale, etc. of important facilities

The Company has no plans to dispose of or sell important facilities.

## IV. Information on the Reporting Company

### 1. Company's Shares, etc.

(1) Total number of shares, etc.

i. Total number of shares

Type	Total number of shares authorized to be issued
Common stock	190,300,000
Total	190,300,000

ii. Issued shares

Type	Number of issued shares as of fiscal year end (March 31, 2022)	Number of issued shares as of filing date (June 27, 2022)	Name of the financial instruments exchange where the Company is listed or registered financial instruments dealers association	Description
Common stock	55,700,000	55,700,000	First Section (as of March 31, 2022) Prime Market (as of the filing date) of the Tokyo Stock Exchange	Number of shares per unit: 100
Total	55,700,000	55,700,000	–	–

(2) Share acquisition rights

i. Share option plans

Not applicable.

ii. Rights plans

Not applicable.

iii. Other stock acquisition rights

Not applicable.

(3) Execution status of moving strike convertible bonds, etc.

Not applicable.

## (4) Changes in number of issued shares, share capital and legal capital surplus

Date	Increase (decrease) in total number of issued shares	Balance of total number of issued shares	Increase (decrease) in share capital (million yen)	Balance of share capital (million yen)	Increase (decrease) in capital surplus (million yen)	Balance of capital surplus (million yen)
February 24, 2017 (Note)	(1,010,000)	55,700,000	–	4,102	–	7,129

Note: The decrease was due to the cancelation of treasury shares.

## (5) Shareholding by shareholder category

As of March 31, 2022

Category	Shares (one unit = 100 shares)								Shares less than one unit (shares)
	National and local governments	Financial institutions	Financial service providers	Other corporations	Foreign investors, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders	–	21	43	178	107	33	12,860	13,242	–
Number of shares held (units)	–	141,868	20,742	48,273	84,772	684	259,329	555,668	133,200
Percentage of shareholdings (%)	–	25.53	3.73	8.69	15.26	0.12	46.67	100.00	–

- Notes:
- 1 Of the 11,037 treasury shares, 110 units are included in individuals and others and 37 shares are included in shares less than one unit.
  - 2 Figures of other corporations and shares less than one unit include 3 units and 85 shares, respectively in the name of Japan Securities Depository Center, Incorporated.
  - 3 Figures of financial institutions include 1,612 units of the Company shares held by the trust relating to stock compensation plan. The said shares are categorized in treasury shares in the consolidated and non-consolidated financial statements.



## (6) Major shareholders

As of March 31, 2022

Name	Location	Number of shares held (thousand shares)	Shareholding ratio (excl. treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	7,088	12.73
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	2,391	4.30
Asahi Diamond Employee Stock Ownership Association	4-1, Kioi-cho, Chiyoda-ku, Tokyo	1,905	3.42
MUFG Bank, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	1,384	2.49
Union Tool Co.	6-17-1, Minamioi, Shinagawa-ku, Tokyo	1,310	2.35
Asahi Diamond Partner Company Stock Ownership Association	4-1, Kioi-cho, Chiyoda-ku, Tokyo	1,266	2.28
State Street Bank and Trust Company 505103 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	P.O. Box 351 Boston Massachusetts 02101 U.S.A. 2-15-1, Konan, Minato-ku, Tokyo	1,082	1.94
Nippon Life Insurance Company (Standing proxy: The Master Trust Bank of Japan, Ltd.)	1-6-6, Marunouchi, Chiyoda-ku, Tokyo Securities Operations Department, Nippon Life Insurance Company (2-11-3, Hamamatsucho, Minato-ku, Tokyo)	1,039	1.87
DFA International Small Cap Value Portfolio (Standing proxy: Citibank, N.A., Tokyo Branch)	Palisades West, 6300 Beecave Road, Building One Austin TX 78746 US (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	882	1.58
JP Morgan Chase Bank 385781 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom 2-15-1, Konan, Minato-ku, Tokyo	639	1.15
Total	—	18,989	34.10

Notes: 1 Of the above number of shares held, the number of shares related to trust business is as follows.  
The shares held by Custody Bank of Japan, Ltd. (trust account) include 161 thousand shares of the Company related to stock compensation plan.

The Master Trust Bank of Japan, Ltd. (Trust Account): 7,088 thousand shares  
Custody Bank of Japan, Ltd. (Trust Account): 2,391 thousand shares

2 According to the Statement of Changes to a Statement of Large-Volume Holdings, which was made available for public inspection on March 4, 2022, shares of the Company were held by Sumitomo Mitsui Trust Bank, Limited, and its joint holders, namely Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd., as of February 28, 2022 with the detail shown below. However, the Company did not include such information in the table above because it could not confirm the number of shares effectively held by these companies as of March 31, 2022.

The detail of the Statement of Changes to a Statement of Large-Volume Holdings is as follows:

Name	Location	Number of share certificates held (thousand shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1, Shibakoen, Minato-ku, Tokyo	1,855	3.33
Nikko Asset Management Co., Ltd.	9-7-1, Akasaka, Minato-ku, Tokyo	850	1.53
Sumitomo Mitsui Trust Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	635	1.14
Total	—	3,340	6.00

(7) Voting rights

i. Issued shares

As of March 31, 2022

Category	Number of shares	Number of voting rights	Description
Shares with no voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (other)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common stock 11,000	–	–
Shares with full voting rights (other)	Common stock 55,555,800	555,558	–
Shares less than one unit	Common stock 133,200	–	Shares less than one unit (100 shares)
Total number of issued shares	55,700,000	–	–
Voting rights held by all shareholders	–	555,558	–

- Notes:
- 1 Shares with full voting rights (other) of common stock includes 300 shares (3 voting rights) in the name of Japan Securities Depository Center, Incorporated, and 161,200 shares (1,612 voting rights) held by the trust relating to stock compensation plan.
  - 2 Share less than one unit of common shares include 85 shares in the name of Japan Securities Depository Center, Incorporated, 37 treasury shares held by the Company and 27 shares held by the trust relating to stock compensation plan.
  - 3 The table above does not include 161,200 shares of the Company held by the trust relating to stock compensation plan as of March 31, 2022, which are included in treasury shares on the balance sheet.

ii. Treasury shares, etc.

As of March 31, 2022

Name of shareholder	Address of shareholder	Number of shares held in own name	Number of shares held in others' names	Total number of shares held	Shareholding ratio (%)
(Treasury shares) Asahi Diamond Industrial Co., Ltd.	4-1, Kioi-cho, Chiyoda-ku, Tokyo	11,000	–	11,000	0.02
Total	–	11,000	–	11,000	0.02

Note: In addition to the above, 161,200 shares of the Company (1,612 voting rights) held by the trust relating to stock compensation plan are included in treasury shares on the balance sheet.

(8) Share ownership plan for Directors and other officers and employees

i. Overview of the stock compensation plan for Directors and other officers

The Company resolved at the 99th General Meeting of Shareholders on June 26, 2018 to introduce a stock compensation plan (the “Plan”) for Directors, etc.

The Plan was introduced to motivate Directors, etc. in contributing to the improvement of the Company’s business performance and the enhancement of corporate value over the medium- to long-term by further clarifying the link between the compensation of Directors, etc. and the Company’s stock value, and make them share with the shareholders the profit and risk from stock price fluctuations.

Under the Plan, the Company contributes funds and the established trust (the “Trust”) acquires shares of the Company. Through the Trust, the number of shares of the Company corresponding to the number of points that the Company grants to Directors, etc. shall be delivered to Directors.

*Outline of the trust agreement*

• Type of trust	Monetary trust other than a specified solely-administered monetary trust (third-party benefit trust)
• Purpose of trust	To introduce stock compensation plan for Directors, etc.
• Entruster	The Company
• Trustee	Sumitomo Mitsui Trust Bank, Limited (Re-trust trustees: Custody Bank of Japan, Ltd.)
• Beneficiary	Directors and Executive Officers who meet the beneficiary requirements
• Trust administrator	A third party with no interests in the Company and its Directors and other officers
• Date of agreement	August 2018
• Trust term	August 2018 to August 2025
• Commencement date	August 2018
• Exercise of voting rights	Voting rights will not be exercised.
• Class of shares to be acquired	Shares of common stock of the Company
• Amount of trust	Up to ¥255 million, the amount resolved at the 99th General Meeting of Shareholders (excluding trust fees and expenses)
• Time of share acquisition	August 2018
• Method of share acquisition	Disposal of treasury stock or acquisition from exchange markets (including off-auction transactions)

ii. Number of shares to be delivered to Directors, etc.

191,700 shares

iii. Persons eligible to receive beneficiary rights and other rights assigned to Directors, etc.

Directors (excluding External Directors) and Executive Officers of the Company, residing in Japan

iv. Extension of the trust period

The original trust agreement will expire in August 2022, but an extension was resolved at the Board of Directors meeting held on June 24, 2022. The extended trust term is from August 2018 to August 2025.

## 2. Acquisition and Disposal of Treasury Shares

Class of shares: Shares of common stock acquired pursuant to Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution of Shareholders' Meeting

Not applicable.

(2) Acquisition by resolution of Board of Directors

Not applicable.

(3) Acquisition not based on resolution of Shareholders' Meeting or Board of Directors

Category	Number of shares	Total value (yen)
Treasury shares acquired during the fiscal year ended March 31, 2022	1,130	659,911
Treasury shares acquired during the period from April 1, 2022 to the filing date of this Annual Securities Report	125	71,625

Note: The number of treasury shares acquired during the period from June 1, 2022 to the filing date of this Annual Securities Report (June 27, 2022) does not include shares less than one unit purchased during that period.

(4) Disposal of acquired treasury shares and number of treasury shares held

Category	Fiscal year ended March 31, 2022		From April 1, 2022 to the filing date of this Annual Securities Report	
	Number of shares	Total amount of disposal (yen)	Number of shares	Total amount of disposal (yen)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that were disposed of	—	—	—	—
Acquired treasury shares that were transferred for merger, share exchange, share issuance and company split	—	—	—	—
Other (transfer of shares less than one unit in response to purchase requests)	—	—	—	—
Treasury shares held	11,037	—	11,162	—

Note: The number of treasury shares held during the period from June 1, 2022 to the filing date of this Annual Securities Report (June 27, 2022) does not include shares less than one unit purchased or requested for additional purchase during that period.

### 3. Dividend Policy

The Company intends to achieve future business development and improve corporate value by aiming to increase capital efficiency while securing financial stability.

The Company pays dividends with the focus on distributing profits according to consolidated performance and maintaining a stable dividend.

Specifically, we will determine the dividend amount based on a dividend payout ratio of 40%, but the annual dividend per share will not be less than ¥6 (an interim dividend of ¥3 and a year-end dividend of ¥3). However, this policy may be revised if profit attributable to owners of parent in the consolidated financial statements is in deficit for three fiscal years in a row or if there is a significant impact on the company due to a disaster or the like.

According to the basic policy, for the fiscal year ended March 31, 2022, we pay an annual dividend of ¥24 per share, including the interim dividend of ¥8.

For the fiscal year ending March 31, 2023, we plan to pay an annual dividend of ¥18 per share (an interim dividend of ¥8 per share and a year-end dividend of ¥10 per share).

Note: Dividends of surplus whose reference date falls within the fiscal year under review are as follows:

Resolution date	Total amount of dividends (million yen)	Dividend paid per share (yen)
Resolution adopted at a meeting of the Board of Directors on November 9, 2021	445	8
Resolution adopted at the General Shareholders' Meeting on June 24, 2022	891	16

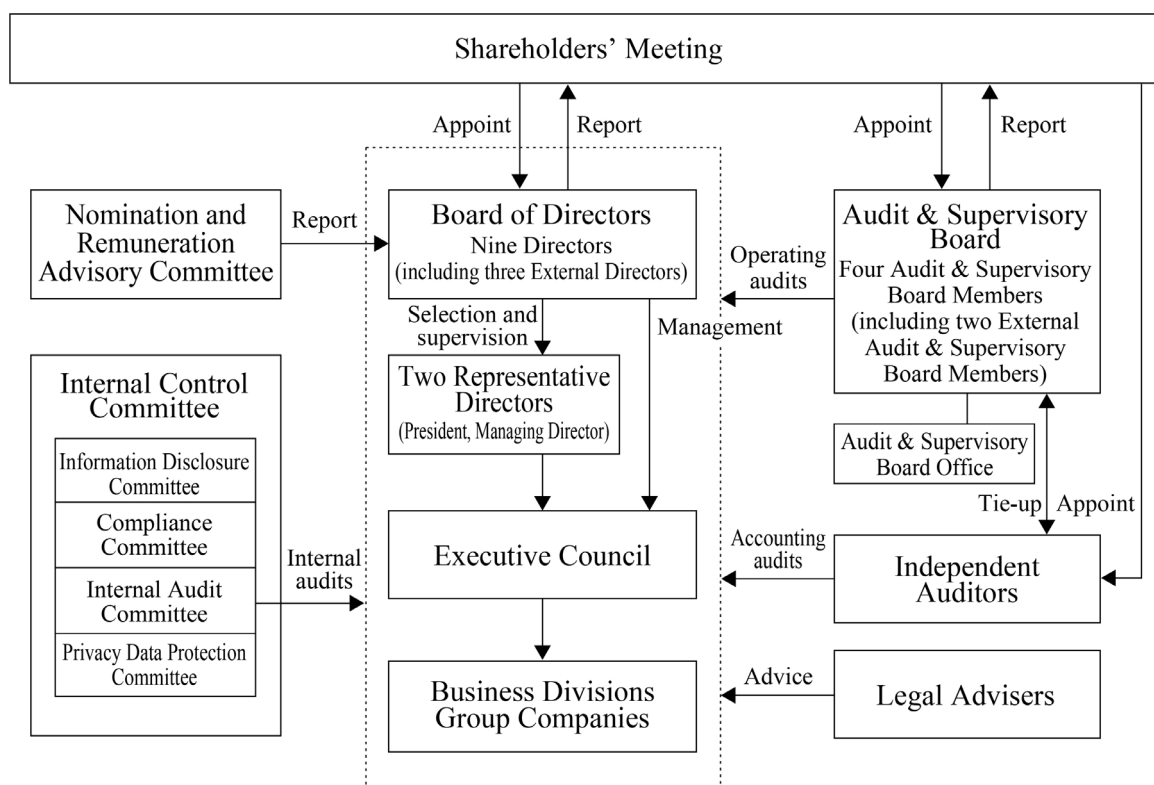
## 4. Corporate Governance

### (1) Overview of corporate governance

#### i. Basic view on corporate governance

The Asahi Diamond Group's basic approach to corporate governance is that we consider enhancing corporate value and upgrading corporate governance to be important management responsibilities. We recognize that we must work hard to earn the trust of all stakeholders, achieve swift and accurate decision-making group-wide, ensure management transparency, clearly define management responsibilities, strengthen oversight functions, and raise the efficiency of business execution.

Illustrated below is the structure of our business execution and management supervision.



#### ii. Overview of the corporate governance system and reasons for adopting such system

The Company's corporate governance system is as follows:

##### (A) Board of Directors

As of June 27, 2022, the Company's Board of Directors is chaired by President and Representative Director Kazuki Kataoka, and consists of nine Directors (three of whom are External Directors), with other members being Directors Tomohiko Hara, Ming-Shong Lan, Toshimasa Hagiwara, Hideo Abe, and Junichi Matsuda, and External Directors Osamu Koyama, Shinichi Nagata and Yuko Ichikawa.

The Company's Board of Directors meets regularly, and also holds ad hoc meetings when necessary. The Board makes important management decisions and supervises business execution. During the fiscal year ended March 31, 2022, the Board of Directors met nine times.

##### (B) Audit & Supervisory Board

The Company adopts an Audit & Supervisory Board Member system. As of June 27, 2022, the Audit & Supervisory Board consists of four Audit & Supervisory Board Members (two of whom are External Audit & Supervisory Board Members), with members being full-time Audit & Supervisory Board Member Takemi Matsuzaki; Audit & Supervisory Board Member Morio Kayama; and External Audit & Supervisory Board Members Yukio Otaka and Masahito Kawashima. The Company's Audit & Supervisory Board meets regularly, and Audit & Supervisory Board Members also attend meetings of the Board of Directors and the Executive Council, where they monitor decision-making and the execution of duties by Directors. During the fiscal year ended March 31, 2022, the Audit & Supervisory Board met nine times. The Company has elected one substitute Audit & Supervisory Board member as prescribed in Article 329, paragraph 3 of the Companies Act in preparation for the possibility of

the number of Audit & Supervisory Board members falling below the number prescribed in laws and regulations.

(C) Audit & Supervisory Board Office

The Company has established an Audit & Supervisory Board Office with four concurrently assigned members which operates independently of management under the Audit & Supervisory Board. In addition to ensuring legal compliance, the Audit & Supervisory Board Office is responsible for assisting the Audit & Supervisory Board in its duties, which include auditing of the design and operation of the Company's internal control, corporate governance, and risk management system.

(D) Executive Officer System

The Company adopts an Executive Officer system. The system speeds up business processes by clarifying the separation of roles between management and job execution, and ensuring the appropriate execution of duties. As of June 27, 2022, the Company is served by eight Executive Officers.

(E) Executive Council

The Company holds a meeting of the Executive Council, which is attended by six Directors (excluding External Directors) and eight Executive Officers, two President Directors of domestic subsidiaries, and two internal Audit & Supervisory Board Members after each Board meeting to ensure that decision-making matters are extensively communicated throughout the Company.

(F) Nomination and Remuneration Advisory Committee

The Company has established a Nomination and Remuneration Advisory Committee as an advisory organ of the Board of Directors, with the aim of ensuring transparency and objectivity of the standards for appointment of candidates for Directors and Audit & Supervisory Board Members and of the procedures pertaining to remuneration of the candidates, etc.

The Committee deliberates the appropriateness of candidates for Directors and Audit & Supervisory Board Members, the adequacy of remuneration, and others, and the Board of Directors makes decisions based on the results of the deliberations.

The Committee consists of External Director Osamu Koyama (chairperson), President and Representative Director Kazuki Kataoka (member), External Directors Shinichi Nagata (member) and Yuko Ichikawa (member).

(G) Overview of liability limitation agreement

Pursuant to Article 427 paragraph 1 of the Companies Act, the Company has concluded agreements with Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members to limit their liability for damage under Article 423, paragraph 1 of the same act. The limit of liability for damage under the agreement is the minimum liability amount provided for in Article 425, paragraph 1 of the Companies Act.

However, this limit will be applicable only if the relevant Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members have acted in good faith and without gross negligence in performing the duties that caused the liability.

(H) Term of office and number of Directors

In order to clarify the mission and management responsibilities of Directors, a Director's term of office is set at one year. The Company's Articles of Incorporation stipulates that the Company shall have no more than 10 Directors.

(I) Appointment of Directors

The Company's Articles of Incorporation stipulate that resolution for election of Directors shall require a majority of the votes of shareholders present at a general meeting of shareholders, where the shareholders holding at least one third of the voting rights of shareholders who are entitled to exercise their voting rights are present, and that such election shall not be conducted by cumulative voting.

(J) Matters to be resolved at Shareholders' Meetings that the Board of Directors can resolve

- Acquisition of treasury shares

Pursuant to Article 165, paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company may acquire treasury shares by resolution of Board of Directors in order to enable timely execution of the management measures such as financial measures in response to changes in economic situation.

- Interim dividends

In order to return profit to shareholders in a flexible manner, the Company's articles of incorporation stipulate that it may, pursuant to Article 454, paragraph 5 of the Companies Act, by resolution of the Board of Directors, pay interim dividends based on the reference date of September 30 of each year.

(K) Requirements for special resolution at a shareholders' meeting

The Company's Articles of Incorporation stipulate that the special resolutions, prescribed in Article 309, paragraph 2 of the Companies Act, shall require at least two thirds of the votes of attending shareholders with attendance of the shareholders holding at least one third of the voting rights of shareholders who are entitled to exercise their voting rights. The purpose is to smoothly manage shareholders' meetings by relaxing the quorum for special resolutions.

(L) Reasons for adopting the system

The Company believes that the system enhances Board of Directors' function of decision making and business execution supervision, securing the structure that enables appropriate managerial decision making.

iii. Other matters regarding corporate governance

At the Board of Directors meeting held on May 13, 2015, the Company partially revised its basic policy on building internal control systems as follows.

1. System to ensure that Directors and employees of the Company perform their duties in accordance with laws, regulations, and Articles of Incorporation

- (1) The Company ensures that every directors and employees comply with laws and regulations by formulating the Asahi Diamond Code of Conduct, which summarizes our management philosophy, behavioral guidelines, and specific examples of compliance.
- (2) The Company has an Internal Control Committee, which is chaired by President and Representative Director, to oversee the internal control system as a whole. Under this committee, four subcommittees have been established; the Information the Disclosure Committee, the Compliance Committee, the Internal Audit Committee, and the Privacy Data Protection Committee, in order to ensure a system in conformity with laws and regulations and the Company's Articles of Incorporation.
- (3) The Company has a helpline for inside and outside the Company as a whistleblowing system concerning compliance, with the aim of strengthening our compliance system.

2. System for the preservation and management of information concerning Directors' execution of their duties

- (1) Information concerning Directors' execution of their duties is recorded in documents and electromagnetically based on the rules of the Board of Directors and regulations for internal decision request, etc. and stored appropriately for a determined storage period.
- (2) These records can be viewed by Directors and Audit & Supervisory Board Members at any time.

3. Regulations and other systems concerning the management of the risk of losses of the Company

- (1) The Compliance Committee and the Internal Audit Committee conduct audit of risk management, and regularly report the results to the Internal Control Committee.
- (2) The Information Disclosure Committee and the Privacy Data Protection Committee shall work on preventing information leaks. Other risks related to environment, quality, safety, brand, etc. shall be managed by relevant sections.
- (3) The Company shall formulate business continuity management (BCM) scheme for the purpose of speedily resuming or continuing operation in the event of unforeseen situations such as disaster of accidents.
- (4) The Company shall consult its legal advisers regarding important legal decisions and compliance matters to make necessary consideration.

4. System to ensure that Directors of the Company perform their duties effectively

- (1) The Company shall hold a Board of Directors meeting regularly to make decisions on important business execution matters as well as to supervise the execution of duties by each Director.
- (2) After a Board of Directors meeting, the Company shall hold an Executive Council meeting that includes executive officers and presidents of domestic subsidiaries in addition to Directors to thoroughly disseminate decisions.
- (3) The Company holds company-wide meetings regularly to set sales targets, based on which strategies for achieving the targets are formulated and measures are decided at production meetings.
- (4) The Company adopts an Executive Officer system to speed up business processes, clarify the separation of roles between business management and execution, and ensure the appropriate execution of duties.

5. System to ensure the corporate group, consisting of the Company and its subsidiaries, conducts business properly

- (1) System concerning the reports to the Company on the execution of duties by directors of subsidiaries



In principle, subsidiaries' independent management is the Company's basic policy. However, with regard to significant matters, based on the Subsidiary Management Rules, the Company requires the directors and corporate auditors, etc. of subsidiaries either to make a prior report or to receive approval from the Board of Directors or by the approval form through the department in charge of the Company.

(2) Regulations and other systems concerning the management of the risk of losses of subsidiaries

Pursuant to the Subsidiary Management Rules, the Company supports its subsidiaries in risk management through appointing its Directors or employees as directors or corporate auditors, etc. of subsidiaries. In addition, the Internal Audit Committee of the Company audits the risk management of each subsidiary.

(3) System to ensure that Directors, etc. of subsidiaries perform their duties effectively

Directors or employees of the Company who assume office of director or corporate auditor, etc. of a subsidiary shall work on effective business operation of the subsidiary.

(4) System to ensure directors and employees of subsidiaries perform their duties in accordance with laws, regulations, and Articles of Incorporation

Pursuant to the Subsidiary Management Rules, the Company encourages its subsidiaries to conduct business in accordance with laws, regulations, and Articles of Incorporation through appointing its Directors or employees as directors or corporate auditors, etc. of subsidiaries.

6. System concerning employees who are requested by Audit & Supervisory Board Members to assist their duties

The Company supports operation of the Audit & Supervisory Board and Audit & Supervisory Board Members by setting the Office of Audit & Supervisory Board under the Audit & Supervisory Board and appointing employees to assist their duties.

7. Matters concerning independence from Directors of employees who assist Audit & Supervisory Board Members with their duties, and ensuring the effectiveness of the instructions of the Audit & Supervisory Board Members to such employees.

(1) The employees who assist Audit & Supervisory Board Members with their duties shall not be supervised or instructed by Directors.

(2) Audit & Supervisory Board Members of the Company shall comply with laws, regulations, Articles of Incorporation, etc. to ensure the effectiveness of the instructions to the employees who assist them with their duties. Audit & Supervisory Board Members shall direct and supervise the employees, while the employees shall follow the command and supervision.

8. System for Directors and employees of the Company and its subsidiaries to report to Audit & Supervisory Board Members of the Company, system concerning such reporting, and system to ensure they are not treated unfavorably because of the reporting

(1) Directors and employees of the Company and its subsidiaries shall report and provide information to Audit & Supervisory Board Members of the Company not only on statutory matters but also on matters including material matters that affect the entire company, matters related to the status of internal auditing and the status of the whistleblowing system (helpline), and other matters that Audit & Supervisory Board Members determine to be reported in accordance with performing their duties.

(2) In accordance with the above (1) statement, the Company prohibits unfavorable treatment of Directors and employees of the Company and its subsidiaries who have made a report to Audit & Supervisory Board Members because of the report they made.

9. Policy on procedures for requesting advances or reimbursements for expenses, or handling of other expenses or financial obligations, incurred as a result of execution of duties by Audit & Supervisory Board Members

The Company promptly makes payments of expenses, etc. incurred as a result of execution of duties by Audit & Supervisory Board Members unless such expenses or financial obligations are considered unnecessary for their duties.

10. Other systems to ensure that Audit & Supervisory Board Members perform audits effectively

Audit & Supervisory Board Members endeavor to establish an effective auditing system. Their activities include attending important meetings such as Board of Directors meetings and Executive Council meetings, regularly meeting and exchanging information and opinions with Directors and Independent Auditors, and requesting report from Independent Auditors when necessary.

## (2) Directors and officers

## i. Directors and Audit &amp; Supervisory Board Members

12 male officers and 1 female officer (Ratio of female Directors and Officers: 8%)

Title	Name	Date of birth	Career summary		Term of office	Number of shares of the Company held (thousand shares)
President and Representative Director	Kazuki Kataoka	March 5, 1952	Apr. 1976 Jul. 2005 Jun. 2008 Jun. 2011 Jun. 2013 Jun. 2015 Jul. 2019	Joined the Company General Manager, Engineering Department, Marketing Division Director; Marketing Division Deputy Director Managing Director; Business Planning Division Director and Marketing Division Deputy Director Representative Executive Managing Director; Marketing Division Director President and Representative Director (present) Nomination and Remuneration Advisory Committee Member (present)	Note 3	143
Representative Managing Director; Production Director and Mie Factory General Manager	Tomohiko Hara	January 10, 1958	Apr. 1980 Feb. 2013 Jun. 2013 Jul. 2017 Jun. 2019 Jun. 2021 Jun. 2022	Joined the Company International Department General Manager (temporarily transferred to P.T. Asahi Diamond Industrial Indonesia) Executive Officer; President, P.T. Asahi Diamond Industrial Indonesia Executive Officer; International Division; Chief Officer for Regional Operations (ASEAN and Australia) (President, P.T. Asahi Diamond Industrial Indonesia) Director; Mie Factory General Manager Director; Production Director and Mie Factory General Manager Representative Managing Director; Production Director and Mie Factory General Manager (present)	Note 3	25
Managing Director	Ming-Shong Lan	March 4, 1953	Sep. 1994 Jul. 1996 Aug. 1996 Jun. 2005 Jul. 2017 Jun. 2019 Nov. 2019 Jan. 2021 Jun. 2022	Joined the Company; Deputy General Manager Reporting to Managing Division Director Left the Company President, Taiwan Asahi Diamond Industrial Co., Ltd. (present) Director, International Department, the Company Director; International Division Director Managing Director; International Division Director Managing Director; Global Business Management Division Director Managing Director; Group Companies Management Division Director Managing Director (present)	Note 3	50
Director; Marketing Division Director and East Japan Regional General Manager	Toshimasa Hagiwara	November 10, 1959	Apr. 1982 Jun. 2009 Jun. 2014 Apr. 2015 Apr. 2015 Jul. 2017 Nov. 2019 Jun. 2021 Sep. 2021 Jun. 2022	Joined the Company Executive Officer; Nagoya Branch General Manager Director; Nagoya Branch General Manager President, Shanghai Xu Hui Diamond Industrial Co., Ltd. Director; Representative of China Division (President, Shanghai Xu Hui Diamond Industrial Co., Ltd.) Director; International Division; Chief Officer for Regional Operations (China and Taiwan) (President, Shanghai Xu Hui Diamond Industrial Co., Ltd.) Director; Global Business Management Division; Chief Officer for Regional Operations (China and Taiwan) (President, Shanghai Xu Hui Diamond Industrial Co., Ltd.) Director; Marketing Division Deputy Director; General Manager, International Marketing Dept. Director; Marketing Division Deputy Director and East Japan Regional General Manager Director; Marketing Division Director and East Japan Regional General Manager (present)	Note 3	46

Title	Name	Date of birth	Career summary		Term of office	Number of shares of the Company held (thousand shares)
Director; Engineering Director and Chiba Factory General Manager	Hideo Abe	July 15, 1957	Apr. 1980 Jul. 2010 Jun. 2013 Jun. 2019 Jan. 2021 Jun. 2021	Joined the Company General Manager, Manufacturing Department No. 1, Tamagawa Factory Executive Officer; Tamagawa Factory General Manager Director; Tamagawa Factory General Manager Director; Tamagawa Factory General Manager; Engineering and Development Center Director Director; Engineering Director and Chiba Factory General Manager (present)	Note 3	21
Director; Group Companies Management Division Director	Junichi Matsuda	April 11, 1961	Apr. 1986 Jul. 2009 Jun. 2013 Jun. 2015 Oct. 2018 Nov. 2019 Jan. 2021 Jun. 2022	Joined the Company Research and Development Center Director Executive Officer; Research and Development Center Director Executive Officer; Business Planning Division Director Executive Officer; Management Strategy Division Director and International Department General Manager Executive Officer; Management Strategy Division Director Executive Officer; Management Strategy Division Director and Group Companies Management Division Overseas Dept. Director Director; Group Companies Management Division Director (present)	Note 3	10
Director	Osamu Koyama	August 8, 1948	Apr. 2005 Apr. 2009 Jan. 2013 Jun. 2014 Apr. 2017 Jul. 2019	Executive Officer, Mitsui & Co., Ltd. and Executive Vice President, Mitsui & Co. (U.S.A.), Inc. Executive Managing Officer, Mitsui & Co., Ltd. and President & CEO, Mitsui Global Strategic Studies Institute Director, Keimei Gakuen Director of the Company (present) Auditor, International University of Japan (present) Member of Nomination and Remuneration Advisory Committee of the Company (present)	Note 3	-
Director	Shinichi Nagata	January 31, 1948	Jul. 1998 Jul. 2006 Jun. 2008 Jun. 2015 Jul. 2019	Associate Director-General, Loan Planning Department, The Fuji Bank, Ltd. (current Mizuho Bank, Ltd.) Managing Executive Officer, Fine Credit Co., Ltd. (current Yamato Credit & Finance Co., Ltd.) Audit & Supervisory Board Member of the Company Director of the Company (present) Member of Nomination and Remuneration Advisory Committee of the Company (present)	Note 3	1
Director	Yuko Ichikawa	December 26, 1970	Jun. 2016 Mar. 2018 May 2019 Mar. 2020 Jun. 2021 Jun. 2021	General Manager, Investor Relations Department, Rakuten, Inc. (current Rakuten Group, Inc.) External Director, Allied Architects, Inc. Founded Market River Corporation; Representative Director, Market River Corporation (present) External Director (Audit & Supervisory Board Member), Allied Architects, Inc. Director of the Company (present) Member of Nomination and Remuneration Advisory Committee of the Company (present)	Note 3	-
Full-time Audit & Supervisory Board Member	Takemi Matsuzaki	July 7, 1961	Apr. 1985 Jul. 2016 Jul. 2017 Jul. 2021 Jun. 2022	Joined the Company Deputy General Manager, Accounting Department, Administration Division Deputy General Manager, Finance Section, Accounting Department, Administration Division Senior Expert, Accounting Department, Administration Division Audit & Supervisory Board Member (full time) (present)	Note 4	18

Title	Name	Date of birth	Career summary		Term of office	Number of shares of the Company held (thousand shares)
Audit & Supervisory Board Member	Morio Kayama	April 6, 1955	Apr. 1985 May 2009 Apr. 2010 Apr. 2015 Jun. 2016 Jun. 2022	General Manager, Machida Branch, The Chuo Mitsui Trust and Banking Co., Ltd. (current Sumitomo Mitsui Trust Bank, Limited) Director; General Manager, Planning Division; General Manager, Administration Division, Chuo Mitsui Guarantee Company, Limited (current Sumitomo Mitsui Trust Guarantee Co., Ltd.) Joined the Company; Deputy General Manager, Planning Department, Business Planning Division Junior Counsellor, General Affairs Department, Administration Division Full-time Audit & Supervisory Board Member Audit & Supervisory Board Member (present)	Note 5	17
Audit & Supervisory Board Member	Yukio Otaka	October 23, 1955	May 2004 Jun. 2007 Jun. 2008 Oct. 2010 Jun. 2015 Jun. 2015 Jun. 2017	Chief Representative, Bahrain Representative Office, Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.) General Manager, Dubai Branch; Chief Representative, Bahrain Representative Office, Europe Structured Finance Department, Mizuho Corporate Bank, Ltd. General Manager, Treasury Division, Daiwa Can Company Executive General Manager, Overseas Business Division, Zebra Co., Ltd. Director (External Director), Kinugawa Rubber Industrial Co., Ltd. Audit & Supervisory Board Member of the Company (present) External Audit and Supervisory Board Member, CMK Corporation	Note 5	–
Audit & Supervisory Board Member	Masahito Kawashima	August 5, 1953	May 2004 Feb. 2006 Jun. 2006 Jun. 2009 Apr. 2011 Jun. 2011 Jun. 2017	Deputy General Manager, Osaka Office, The Bank of Tokyo-Mitsubishi, Ltd. (current MUFG Bank, Ltd.) Managing Executive Officer, Mitsubishi UFJ Capital Co., Ltd. Representative Director, Managing Director, Mitsubishi UFJ Capital Co., Ltd. Representative Director, Executive Vice President, MU Frontier Servicer Co., Ltd. Executive Vice President, CFO, Chiyoda Corporation Representative Director and Executive Vice President, CFO, Chiyoda Corporation Audit & Supervisory Board Member of the Company (present)	Note 5	–
Total						335

- Notes:
- 1 Directors Osamu Koyama, Shinichi Nagata and Yuko Ichikawa are External Directors.
  - 2 Audit & Supervisory Board Members Yukio Otaka and Masahito Kawashima are External Audit & Supervisory Board Members.
  - 3 The term of office of Directors and Audit & Supervisory Board Members with Note 3 above is from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2022 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2023.
  - 4 The term of office of Directors and Audit & Supervisory Board Members with Note 4 above is from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2022 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2026.
  - 5 The term of office of Directors and Audit & Supervisory Board Members with Note 5 above is from the conclusion of the Annual General Meeting of Shareholders for the fiscal year ended March 31, 2020 to the conclusion of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2024.
  - 6 The Company adopts an Executive Officer system to clarify the separation of roles between management and execution and ensure the appropriate execution of duties. The Company had eight Executive Officers as of the filing date of this Annual Securities Report (June 27, 2022): Masashi Mochizuki, Chiba No. 2 Factory General Manager; Hideki Matsukawa, President, Shanghai Xu Hui Diamond Industrial Co., Ltd.; Masami Koura, Administration Division Director; Kimikazu Sato, West Japan Regional General Manager and Osaka Branch General Manager; Minoru Sawada, President, P.T. Asahi Diamond Industrial Indonesia; Hitoshi Kusakabe, Tamagawa Factory General

Manager And Group Companies Management Division Domestic Dept. Director; Hiroaki Kawai, Central Japan Regional General Manager and Nagoya Branch General Manager; and Tomoki Takahashi, Management Strategy Division Director.

- 7 To prepare for the event that the number of Audit & Supervisory Board Members falls below the number required by laws and regulations, the Company has elected one Substitute Audit & Supervisory Board Member as prescribed in Article 329, paragraph 3 of the Companies Act. A career summary of the substitute Audit & Supervisory Board Member is as follows.

Name	Date of birth	Career summary	Number of shares of the Company held (thousand shares)
Eriko Kawajiri	August 18, 1975	Oct. 2003 Assistant Judge, Tokyo District Court Apr. 2008 Public Prosecutor Jul. 2011 Assistant Judge, Tokyo District Court; Judge, Tokyo Summary Court Apr. 2012 Assistant Judge, Morioka District/Family Court; Chief of Branch, Miyako Branch of Morioka District/Family Court; Judge, Morioka Summary Court Oct. 2013 Judge, Morioka District/Family Court; Chief of Branch, Miyako Branch of Morioka District/Family Court; Judge, Morioka Summary Court May 2015 Registered as lawyer and joined HARRO Law Office (present) Jul. 2019 External Director, GiG Works AddValue Inc. (present) Jun. 2020 External Director, HCS HOLDINGS CO., LTD. (present)	-

## ii. External Directors and Audit & Supervisory Board Members

### 1. Number of External Directors and External Audit & Supervisory Board Members

The Company has three External Directors and two External Audit & Supervisory Board Members.

### 2. Personal, capital or business relationships or any other conflicts of interests between External Directors and External Audit & Supervisory Board Members and the Company

The Company has appointed five External Directors and External Audit & Supervisory Board Members. The External Directors are Osamu Koyama, Shinichi Nagata and Yuko Ichikawa, and the External Audit & Supervisory Board Members are Yukio Otaka and Masahito Kawashima.

External Director Osamu Koyama is from Mitsui & Co., Ltd. and is currently an auditor at the International University of Japan. He has no special interests in the Group, since the purchase of materials worth ¥316 million from the Mitsui & Co., Ltd. group only accounts for 0.9% of the consolidated net sales of the Company, or 0.003% of the consolidated net sales of Mitsui & Co., Ltd.

External Director Shinichi Nagata and External Audit & Supervisory Board Member Yukio Otaka are from Mizuho Bank, Ltd. They have no special interests in the Group, since the borrowings of ¥122 million from the bank only accounts for 0.17% of the consolidated total assets of the Company.

External Audit & Supervisory Board Member Masahito Kawashima is from MUFG Bank, Ltd. He has no special interests in the Group, since the borrowings from the bank is as small as ¥36 million, accounting for only 0.05% of the consolidated total assets of the Company.

External Director Yuko Ichikawa is Representative Director of Market River Corporation, which has no special interests in the Group.

### 3. Functions and roles of External Directors and External Audit & Supervisory Board Members in corporate governance

External Director Osamu Koyama has great experience and profound insight as a manager and is expected to fulfill the role and responsibilities of External Director, including management oversight and provision of advice on overall management. In addition, he chairs the Nomination and Remuneration Advisory Committee, exerting a management oversight function.

External Director Shinichi Nagata has great experience and profound insight gained through his career at financial institutions and is expected to fulfill the role and responsibilities of External Director, including management oversight and provision of advice on overall management. In addition, he is a member of the Nomination and Remuneration Advisory Committee, exerting a management oversight function.

External Director Yuko Ichikawa has extensive knowledge about investor relations and corporate governance and is expected to fulfill the role and responsibilities of External Director, including management oversight and provision of advice on overall management. In addition, she is a member of the Nomination and Remuneration Advisory Committee, expected to exert a management oversight function.

External Audit & Supervisory Board Member Yukio Otaka has abundant business experience, profound insight, and extensive knowledge of finance and accounting gained through his career as a banker. Therefore, the Company expects him to fulfill the role and responsibilities of External Audit & Supervisory Board Member.

External Audit & Supervisory Board Member Masahito Kawashima has abundant business experience, profound insight and extensive knowledge about finance and accounting gained through his career at financial institutions. Therefore, the Company expects him to fulfill the role and responsibilities of External Audit & Supervisory Board Member.

### 4. Criteria and policy on independence from the Company for appointing External Director/Audit & Supervisory Board Member

The Company has clarified the criteria for independence for appointing External Director/Audit & Supervisory Board Member (“External Officer”), and has set forth it as follows.

Based on the criteria, the Company shall appoint a person as independent External Director/Audit & Supervisory Board Member who meets the requirements for outside directors/auditors prescribed by the Company Law, the requirements for independent directors/auditors prescribed by the Tokyo Stock Exchange and the independence criteria of the Company below, and has experience and knowledge required for fulfilling the role and responsibilities expected of an Independent External Director/Audit & Supervisory Board Member.

The Company has notified Tokyo Stock Exchange of its appointment of Osamu Koyama, Shinichi Nagata and Yuko Ichikawa as independent directors.

#### Independence Criteria for External Directors and External Audit & Supervisory Board Members

If none of the following attributes applies to an External Director or External Audit & Supervisory Board Member, the Company judges that such person is independent from the Company.

- (1) A person affiliated with a major shareholder that substantially holds 10% or more of the voting rights of the Company
- (2) A person affiliated with an entity that substantially holds 10% or more of the voting rights of the Company
- (3) A person affiliated with a business partner whose purchases from the Company accounted for 3% or more of the Company's consolidated net sales for the previous year
- (4) A person affiliated with a business partner whose annual sales to the Company accounted for 3% or more of the business partner's consolidated net sales for the previous year
- (5) A person affiliated with a financial institution that is indispensable for the Company's financing and on whom the Company is dependent to the extent that it is irreplaceable
- (6) A consultant, an accounting professional or a legal professional who received money or other assets amounting to 10 million yen or more from the Company in the previous year other than the Director's or Audit & Supervisory Board Member's remuneration (If the person receiving money, etc. is an organization such as a legal entity, a person affiliated with such organization)
- (7) A person affiliated with a legal entity that received donations amounting to 10 million yen or more from the Company in the previous year
- (8) A person to whom any of (1) to (7) above applied in the past three years
- (9) The spouse or relative in the second degree of kinship of a person to whom any of (1) to (8) above apply

#### iii. Mutual cooperation among supervision or audits by External Directors and External Audit & Supervisory Board Members, internal audits, audits by Audit & Supervisory Board Members and audits by Independent Auditors, and relationship with the internal control division

The Company has a system where External Directors are provided with enough explanation for prior consideration on matters to be addressed at Board of Directors meetings, and able to smoothly supervise management and sufficiently fulfill their duties in enhancing the Company's corporate governance.

The Company has a system where External Audit & Supervisory Board Members regularly receive reports from full-time Audit & Supervisory Board Members concerning auditing, or reports from the Internal Audit Committee concerning the development and operational status of internal audit and internal control.

In addition, at meetings consisting of External Directors and External Audit & Supervisory Board Members, they exchange information and share awareness from the standpoint of External Officers, and also exchange information with the independent auditor and Internal Audit Committee members.

### (3) Audits

#### i. Audits by Audit & Supervisory Board Members

The Company's Audit & Supervisory Board consists of one full-time Audit & Supervisory Board Member and three part-time Audit & Supervisory Board Members. Full-time Audit & Supervisory Board Member Takemi Matsuzaki has considerable knowledge of finance and accounting gained through his long career in internal control at the Accounting Dept. of the Company. He was newly elected as Audit & Supervisory Board Member at the 103rd General Meeting of Shareholders held on June 24, 2022. All of the part-time Audit & Supervisory Board Members have abundant work experience and profound insight gained through their careers at financial institutions and considerable knowledge of finance and accounting. They perform audits on decision making and execution of duties at important meetings including Board of Directors meetings and regular meetings with Representative Director. In addition, the full-time Audit & Supervisory Board Member conducts inspections of important approval documents, attends various meetings, conducts interviews with each department, visits factories, sales offices and subsidiaries, and is in attendance during internal audits and audits conducted by the Independent Auditor.

During the fiscal year ended March 31, 2022, the Audit & Supervisory Board meetings were held nine times to discuss matters related to the formulation of audit policies and audit plans, audit reports, evaluation of the Independent Auditors, and decisions on its reappointment. In addition, the full-time Audit & Supervisory Board Member made reports on the status of audits, and the independent auditor made regular reports on the status of accounting audits at the meetings. With regards to the Key Audit Matters (KAM) on Independent Auditor's Report, the Audit & Supervisory Board select and narrow down the candidate items, and discuss with the independent auditor about the contents to include in the report. Audit & Supervisory Board Members Morio Kayama, Yukio Otaka, Yukio Otaka and Masahito Kawashima attended the Audit & Supervisory Board meetings nine times.

#### ii. Internal audit

The Internal Audit Committee comprising 22 concurrently assigned members evaluates the internal control of each department and subsidiaries of the Company, and conducts internal audits, etc. based on an annual plan. Close interaction is sought by thoroughly sharing information with Independent Auditors and full-time Audit & Supervisory Board Members, and also through methods such as exchanging opinions on issues and being in attendance when audits are taking place.

#### iii. Accounting Audits

##### a. Name of audit firm

ALT Tsukiji Audit LLC

##### b. Continuous period of auditing

Since 1975

The above period of continuous auditing is within the range that can be investigated by the Company, and the actual continuous period may have exceeded the above.

##### c. Certified public accountants who executed the audit duties

Masataka Asano

Toshizo Kamiyama

Kiyoshi Arai

##### d. Composition of assistants involved in the accounting audit

Four certified public accountants were involved in the accounting audit of the Company.

##### e. Policy and reasons for appointing audit firm

The Company's Audit & Supervisory Board has established a Policy for Determining the Appointment of Independent Auditor in order to appropriately select a successor to the independent auditor in the event that the Audit & Supervisory Board dismisses or fails to reappoint the independent auditor, or in the event that the independent auditor resigns.

##### f. Evaluation of the audit firm by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board Members and the Audit & Supervisory Board make evaluation of audit firm based on the Standard for Independent Auditor Evaluation set forth by the Audit & Supervisory Board. Based on the evaluation for the fiscal year ended March 31, 2022, it is deemed appropriate to reappoint ALT Tsukiji Audit LLC as independent auditor.



iv. Details of audit fees, etc.

a. Audit fees paid to certified public accountants and others who conduct audits

(Millions of yen)

Category	Fiscal year ended March 31, 2021		Fiscal year ended March 31, 2022	
	Audit fees	Non-audit fees	Audit fees	Non-audit fees
The reporting company	46	–	46	–
Consolidated subsidiaries	–	–	–	–
Total	46	–	46	–

b. Fees for organizations that belong to the same network as the certified public accountants and others

Not applicable.

c. Other significant matters related to audit fees

Not applicable.

d. Policy for determining audit fees

The Company does not have a policy for determining audit fees for the certified public accountants and others.

e. Reasons for the Audit & Supervisory Board's consent to the fees for the Independent Auditor

The Audit & Supervisory Board has examined the time and man-hours required for the duties outlined in the presented auditing plan. As a result of careful review, the Audit & Supervisory Board has consented to the audit fees for the Independent Auditor, pursuant to the provisions of Article 399, paragraph 1 of the Companies Act of Japan.

#### (4) Remuneration for Directors and other officers

##### i. Policy for determining remuneration amount for Directors and other officers and the calculation method thereof

The Company's policy for determining remuneration amount for Directors and other officers and the calculation method are as follows.

##### (1) Basic policies

The basic policy for remuneration for Directors is to motivate Directors in contributing to the enhancement of corporate value over the medium- to long-term and sharing the value with the shareholders. It is also designed to set the remuneration level appropriate for the duties and positions of officers of the Company.

The basic policy for remuneration for Audit & Supervisory Board Members is to set appropriate remuneration level to reward them for their fulfilling responsibilities and conducting rigorous audits, as well as to gain understanding of shareholders.

Remuneration for Directors (excluding External Directors) consists of fixed remuneration, performance-based remuneration, and stock remuneration (non-monetary remuneration), while remuneration for External Directors, in consideration to their duties and independence, consists of fixed remuneration only.

Regarding the individual remuneration for Directors, in order to ensure the transparent decision process, the Nomination and Remuneration Advisory Committee present a report on examination of the initial plan including its consistency with the determination policy and the Board of Directors determines based on the report. The members of the Nomination and Remuneration Advisory Committee are stated in (2) Directors and officers.

Regarding the individual remuneration for Audit & Supervisory Board Members, it is determined through discussions by all Audit & Supervisory Board Members over the initial plan proposed by the Nomination and Remuneration Advisory Committee.

##### (2) Date of resolution at the Shareholders' Meeting regarding remuneration for Directors, etc.

Remuneration for Directors, etc. was resolved at the Shareholders' Meeting on June 28, 2007 to be ¥450 million or less per year (excluding the salary portion). The number of Directors at the end of the said General Meeting of Shareholders was nine.

Remuneration for Audit & Supervisory Board Members was resolved at the Shareholders' Meeting on June 28, 2007 to be ¥45 million or less per year. The number of Audit & Supervisory Board Members at the end of the said General Meeting of Shareholders was four.

In addition to these remuneration limits, the introduction of stock compensation plan was resolved at the General Meeting of Shareholders on June 26, 2018. The number of Directors at the end of the said General Meeting of Shareholders was nine. The retirement benefits for Directors and other officers was discontinued in June 2007.

##### (3) Policy for determining remuneration amount

The remuneration for Directors is monthly fixed remuneration with the amount determined after objective and comprehensive consideration of positions, full-time or part-time status, and other companies' remuneration levels provided by external research institutions.

The remuneration for Audit & Supervisory Board Members is monthly fixed remuneration paid regardless of the performance with the amount determined based on comprehensive consideration of full-time or part-time status, sharing status of audit work and the like.

As for the performance-based remuneration, it is determined using profit attributable to owners of parent for the previous fiscal year as an index, aiming to expand business and increase profitability. The amount to be paid is determined according to the certain rate of achievement to the target profit, and is paid from July after the end of the relevant fiscal year adding to the monthly fixed remuneration. If the certain rate of achievement is not reached, the performance-based remuneration will not be paid.

A stock compensation plan is introduced for Directors (excluding Outside Directors and non-residents of Japan) to further clarify the link between the remuneration for Directors and the Company's stock value. Under the plan, Directors are granted with points of certain percentage of the remuneration amounts for their positions, and the stock of the Company equivalent to the accumulated points (one point is equivalent to one share) is paid as compensation at their retirements. For Directors who are non-residents of Japan, the amount corresponding to the points to be granted is paid as monetary remuneration adding to monthly fixed remuneration.

The policy is to set the ratio of fixed, performance-based, and stock remuneration for Directors at 6 : 3 : 1 if the targets are achieved.

Concerning individual Directors' remuneration for the fiscal year ended March 31, 2022, the Company has determined that the initial plan, which was made by the Nomination and Remuneration Advisory Committee in consideration of consistency with the determination policy, is in line with the Company policies.

(4) Activities of the Board of Directors and Nomination and Remuneration Advisory Committee to determine remuneration amount for Directors and other officers

The Nomination and Remuneration Advisory Committee met five times during the fiscal year ended March 31, 2022 for determining remuneration amount for Directors and other officers. The amounts of fixed, performance-based, and stock remuneration for Directors, were determined by the Board of Directors after consulting with the Nomination and Remuneration Advisory Committee.

(5) Targets and results of the indices relating to performance-based remuneration for the fiscal year ended March 31, 2022

The performance-based remuneration is indexed by profit attributable to owners of parent for the previous fiscal year.

As it was difficult to make appropriate and rational calculation at beginning of period, the target relating to the performance-based remuneration was not set for the fiscal year ended March 31, 2022. The result for the current fiscal year was loss attributable to owners of parent of ¥331 million.

ii. Total amount of remuneration by position, type of remuneration and number of recipients

Position	Total amount of remuneration (million yen)	Amount of remuneration by type (million yen)			Number of recipients
		Fixed	Performance-based	Stock	
Director (excluding External Director)	155	132	–	22	7
Audit & Supervisory Board Member (excluding External Audit & Supervisory Board Member)	18	18	–	–	1
External Officer	33	33	–	–	5
Total	207	184	–	22	13

Note: The amount of remuneration for Directors does not include the salary portion to Directors who serve concurrently as employees.

iii. Total amount of consolidated remuneration by Director/Officer

This information is omitted because there is no Director whose total remuneration was ¥100 million or more.

iv. Important salary portion to directors who serve concurrently as employees

Not applicable.

(5) Shareholdings

i. Standards for and views on classification of investment shares

*Investment shares held for pure investment*

Investment shares held for pure investment refers to shares held for the purpose of generating capital gains through changes in stock prices or income through dividends related to the shares.

*Investment shares held for purposes other than pure investment*

Investment shares held for purposes other than pure investment refers to investment shares held as cross-shareholdings or for the purpose of business strategy.

ii. Investment shares held for purposes other than pure investment

a. Shareholding policy, method of verification of holding rationale, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual stocks

In principle, the Company does not newly purchase shares. However, this does not apply if it is determined to contribute to the sustainable growth of the Group and the enhancement of corporate value over the medium to long term. In addition, the number of shares held as cross-shareholdings may increase every year if we are a member of the stock ownership association of the partner company. Also, the Company will dispose of, as appropriate, the shares held as cross-shareholdings that are judged to have no holding rationale as a result of the annual individual verification after negotiating with the relevant partner company and obtaining their agreement on the sales method, time and so forth.

As to the method of verification of holding rationale, we regularly verify the holding rationale of individual stocks from both qualitative and quantitative perspectives. Concerning verification from qualitative perspective, we verify matters from a business strategy perspective such as whether a smooth and good relationship with the partner company is maintained. Concerning the quantitative verification, we verify matters such as whether the profit from shareholding, including related transaction profits and dividends, exceeds the cost of capital.

The Board of Directors verifies the appropriateness of holding individual stocks at a Board of Directors meeting held in May every year; it comprehensively discusses the continuation of holding or disposal and the reduction plan of individual stocks based on the results of the above verification conducted in line with the shareholding policy. Then, shares will be actually disposed of and the Board of Directors will confirm the result of sale.

b. Number of stocks and book value

	Number of stocks	Total book value (millions of yen)
Unlisted shares	3	120
Shares other than unlisted shares	22	5,412

*Stocks whose shares held by the Company increased during the fiscal year ended March 31, 2022*

	Number of stocks	Total amount of acquisition price corresponding to the increased number of shares (million yen)	Reasons for the increase in the number of shares
Unlisted shares	–	–	–
Shares other than unlisted shares	7	23	Shares purchased through stock ownership associations of business partners

*Stocks whose shares held by the Company decreased during the fiscal year ended March 31, 2022*

	Number of stocks	Total amount of selling price corresponding to the decrease in the number of shares (million yen)
Unlisted shares	1	34
Shares other than unlisted shares	6	373

c. Number and book value of specified investment shares and deemed holding shares by issue

Specified investment shares

Stocks	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative contribution, and reasons for increase in the number of shares (Note)	Reciprocal shareholdings
	Number of shares	Number of shares		
	Book value (million yen)	Book value (million yen)		
Union Tool Co.	290,000	290,000	It is a customer of the Company in the cemented carbide tools sector. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	1,104	1,027		
DAIICHI CUTTER KOGYO K.K.	600,000	600,000	It is a customer of the Company in the construction industry. We hold these shares to strengthen and maintain business relationship with the company.	No
	811	885		
Tokyo Seimitsu Co., Ltd.	135,000	135,000	It is a customer of the Company in the electronics and semiconductor industry. We hold these shares so that we will be able to provide goods and services of their needs by maintaining good relationship and exchanging information in a timely and appropriate manner.	Yes
	658	680		
OSG Corporation	275,000	275,000	It is a customer of the Company in the cemented carbide tools sector. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	516	542		
AIDA ENGINEERING, LTD.	400,000	400,000	It is a customer of the Company in the machinery industry. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	422	397		
Mitsubishi UFJ Financial Group, Inc.	500,000	500,000	It is our bank. We hold these shares to facilitate smooth transactions with the bank.	Yes
	380	295		
Okamoto Machine Tool Works, Ltd.	56,500	56,500	It is a customer of the Company in the electronics and semiconductor industry. We hold these shares so that we will be able to provide goods and services of their needs by maintaining good relationship and exchanging information in a timely and appropriate manner.	Yes
	255	177		
Tenryu Saw Mfg. Co., Ltd.	73,000	73,000	It is a customer of the Company in the cemented carbide tools sector. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	221	194		
AGC Inc.	44,183	42,555	It is a customer of the Company in the electronics and semiconductor glass industry. We hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	216	197		
YASUNAGA CORPORATION	140,000	140,000	It is a customer of the Company in the machinery industry. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	116	184		
Kubota Corporation	50,000	148,742	It is a customer of the Company in the automotive industry. We hold these shares to strengthen and maintain business relationship with the company.	No
	115	374		
MinebeaMitsumi Inc.	40,768	40,139	It is a customer of the Group in the bearings industry, and we hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	109	113		

Stocks	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative contribution, and reasons for increase in the number of shares (Note)	Reciprocal shareholdings
	Number of shares	Number of shares		
	Book value (million yen)	Book value (million yen)		
Mitsubishi Electric Corporation	71,200	69,020	It is a customer of the Company in the machinery industry. We hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	100	116		
NACHI-FUJIKOSHI CORP.	20,261	19,314	It is a customer of the Group in the cemented carbide tools industry, and we hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	84	92		
SUMCO Corporation	33,153	32,335	It is a customer of the Company in the semiconductor silicon industry. We hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	67	81		
Dijet Industrial Co., Ltd.	46,147	46,147	It is a customer of the Company in the cemented carbide tools sector. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	49	60		
KOKEN BORING MACHINE CO., LTD.	100,000	143,700	It is a customer of the Company in the civil engineering industry. We hold these shares to strengthen and maintain business relationship with the company.	No
	46	77		
Tokyo Rope MFG. Co., Ltd.	50,000	50,000	We mainly purchase parts used in manufacturing products for electronic components industry. We hold these shares to maintain good relationship with the company.	Yes
	45	61		
MICRON MACHINERY CO., LTD.	30,000	30,000	It is a customer of the Company in the machinery industry. We hold these shares to strengthen and maintain business relationship with the company.	No
	35	33		
Fuji Bellows Co., Ltd.	21,800	21,800	It is a customer of the Company in the automotive industry. We hold these shares to strengthen and maintain business relationship with the company.	Yes
	28	31		
Nippon Electric Glass Co., Ltd.	6,593	5,956	It is a customer of the Company in the electronics and semiconductor glass industry. We hold these shares to strengthen and maintain business relationship with the company. The increase in the number of shares is due to purchase through its stock ownership association.	No
	17	15		
Makita Corporation	2,052	1,797	It is a customer of the Group in the stone and construction industry, and we hold these shares to strengthen and maintain business relationship with the company. The shares have been purchased through its stock ownership association.	No
	8	8		
Sumitomo Mitsui Trust Holdings, Inc.	–	11,800	We have disposed these shares in the current fiscal year.	Yes
	–	45		
Japan Foundation Engineering Co., Ltd	–	87,744	Same as above	No
	–	44		
RIX CORPORATION	–	24,527	Same as above	No
	–	38		

Stocks	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative contribution, and reasons for increase in the number of shares (Note)	Reciprocal shareholdings
	Number of shares	Number of shares		
	Book value (million yen)	Book value (million yen)		
Nissan Motor Co., Ltd.	–	18,100	Same as above	No
	–	11		

Note: Though quantitative contribution of shareholdings is difficult to determine, we verify the rationale for shareholdings individually as described in a. Shareholding policy, method of verification of holding rationale, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual stocks.

Deemed shareholding

Not applicable.

iii. Investment shares held for pure investment

Not applicable.

## V. Financial Information

### 1. Basis for Preparation of Consolidated and Non-consolidated Financial Statements

(1) The consolidated financial statements of Asahi Diamond Industrial Co., Ltd. (the “Company”) are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; the “Regulation on Consolidated Financial Statements”).

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; the “Regulation on Financial Statements”).

The Company falls under a special company submitting financial statements, and prepares its financial statements pursuant to the provision of Article 127 of the Regulation on Financial Statements.

### 2. Audit Certification

The Company’s consolidated and non-consolidated financial statements for the fiscal year from April 1, 2021 to March 31, 2022 were audited by ALT Tsukiji Audit LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

### 3. Special Measures to Ensure the Appropriateness of Consolidated Financial Statements, etc.

The Company has taken special measures to ensure the appropriateness of consolidated financial statements, etc. Specifically, the Company has joined the Financial Accounting Standards Foundation and participated in events such as seminars with the aim to establish a system that allows the Company to properly understand accounting standards and appropriately adapt to changes in accounting standards.



## 1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

i. Consolidated balance sheet

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	10,649	14,771
Notes and accounts receivable - trade	9,148	10,642
Securities	–	776
Merchandise and finished goods	2,699	2,847
Work in process	1,456	1,611
Raw materials and supplies	2,143	2,284
Other	1,122	527
Allowance for doubtful accounts	(57)	(101)
<b>Total current assets</b>	<b>27,161</b>	<b>33,361</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures	*2 27,777	*2 27,913
Accumulated depreciation	(15,009)	(15,741)
Buildings and structures, net	12,767	12,171
Machinery, equipment and vehicles	*2 30,552	*2 31,623
Accumulated depreciation	(24,518)	(25,918)
Machinery, equipment and vehicles, net	6,034	5,704
Land	*2, *3 6,684	*2, *3 6,655
Construction in progress	163	81
Other	6,681	6,638
Accumulated depreciation	(5,797)	(5,816)
Other, net	884	821
<b>Total property, plant and equipment</b>	<b>26,535</b>	<b>25,434</b>
Intangible assets	228	240
Investments and other assets		
Investment securities	*1 11,581	*1 10,715
Deferred tax assets	2,018	1,839
Other	1,125	1,158
Allowance for doubtful accounts	(505)	(507)
<b>Total investments and other assets</b>	<b>14,219</b>	<b>13,205</b>
<b>Total non-current assets</b>	<b>40,982</b>	<b>38,880</b>
<b>Total assets</b>	<b>68,144</b>	<b>72,241</b>

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	1,293	1,489
Short-term borrowings	540	210
Income taxes payable	70	532
Provision for bonuses	667	914
Other	1,726	1,934
Total current liabilities	4,299	5,081
Non-current liabilities		
Retirement benefit liability	5,375	5,360
Deferred tax liabilities for land revaluation	*3 350	*3 350
Asset retirement obligations	109	59
Provision for business restructuring	457	259
Provision for share awards	93	116
Other	160	144
Total non-current liabilities	6,547	6,290
Total liabilities	10,847	11,372
Net assets		
Shareholders' equity		
Share capital	4,102	4,102
Capital surplus	7,129	7,129
Retained earnings	42,490	45,166
Treasury shares	(150)	(134)
Total shareholders' equity	53,571	56,263
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,719	2,541
Revaluation reserve for land	*3 196	*3 196
Foreign currency translation adjustment	(637)	292
Remeasurements of defined benefit plans	119	(2)
Total accumulated other comprehensive income	2,398	3,028
Non-controlling interests	1,327	1,577
Total net assets	57,297	60,869
Total liabilities and net assets	68,144	72,241

ii. Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Net sales	30,143	37,161
Cost of sales	*1, *3 23,741	*1, *3 26,811
Gross profit	6,401	10,350
Selling, general and administrative expenses		
Selling expenses	4,470	4,819
General and administrative expenses	2,664	2,719
Total selling, general and administrative expenses	*2, *3 7,134	*2, *3 7,539
Operating profit (loss)	(732)	2,811
Non-operating income		
Interest income	37	44
Dividend income	112	135
Foreign exchange gains	69	122
Share of profit of entities accounted for using equity method	47	359
Subsidy income	88	137
Miscellaneous income	57	57
Total non-operating income	414	857
Non-operating expenses		
Interest expenses	7	4
Miscellaneous losses	11	13
Total non-operating expenses	19	17
Ordinary profit (loss)	(337)	3,650
Extraordinary income		
Gain on sale of non-current assets	–	*4 64
Gain on sale of investment securities	214	228
Reversal of provision for business restructuring	–	*5 208
Refund of customs duty	–	*6 255
Total extraordinary income	214	757
Extraordinary losses		
Factory relocation expenses	258	–
Total extraordinary losses	258	–
Profit (loss) before income taxes	(381)	4,408
Income taxes - current	131	713
Income taxes - deferred	(204)	308
Total income taxes	(73)	1,021
Profit (loss)	(307)	3,387
Profit attributable to non-controlling interests	23	98
Profit (loss) attributable to owners of parent	(331)	3,288

Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Profit (loss)	(307)	3,387
Other comprehensive income		
Valuation difference on available-for-sale securities	1,269	(178)
Foreign currency translation adjustment	(138)	904
Remeasurements of defined benefit plans, net of tax	157	(124)
Share of other comprehensive income of entities accounted for using equity method	11	198
Total other comprehensive income	*1 1,299	*1 799
Comprehensive income	992	4,187
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,006	4,115
Comprehensive income attributable to non-controlling interests	(14)	71

iii. Consolidated statement of changes in equity

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,102	7,129	43,323	(150)	54,404
Changes during period					
Dividends of surplus			(501)		(501)
Profit (loss) attributable to owners of parent			(331)		(331)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(0)	0	0
Net changes in items other than shareholders' equity					
Total changes during period	–	–	(832)	(0)	(833)
Balance at end of period	4,102	7,129	42,490	(150)	53,571

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,450	196	(496)	(41)	1,107	1,321	56,833
Changes during period							
Dividends of surplus							(501)
Profit (loss) attributable to owners of parent							(331)
Purchase of treasury shares							(0)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	1,269	–	(140)	161	1,290	5	1,296
Total changes during period	1,269	–	(140)	161	1,290	5	463
Balance at end of period	2,719	196	(637)	119	2,398	1,327	57,297

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,102	7,129	42,490	(150)	53,571
Changes during period					
Dividends of surplus			(612)		(612)
Profit (loss) attributable to owners of parent			3,288		3,288
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(0)	16	16
Net changes in items other than shareholders' equity					
Total changes during period	–	–	2,675	16	2,692
Balance at end of period	4,102	7,129	45,166	(134)	56,263

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,719	196	(637)	119	2,398	1,327	57,297
Changes during period							
Dividends of surplus							(612)
Profit (loss) attributable to owners of parent							3,288
Purchase of treasury shares							(0)
Disposal of treasury shares							16
Net changes in items other than shareholders' equity	(178)	–	929	(121)	629	250	879
Total changes during period	(178)	–	929	(121)	629	250	3,572
Balance at end of period	2,541	196	292	(2)	3,028	1,577	60,869

## iv. Consolidated statement of cash flows

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
<b>Cash flows from operating activities</b>		
Profit (loss) before income taxes	(381)	4,408
Depreciation	2,847	2,961
Factory relocation expenses	258	–
Increase (decrease) in allowance for doubtful accounts	(19)	(26)
Increase (decrease) in provision for bonuses	80	231
Increase (decrease) in retirement benefit liability	(1,938)	(221)
Increase (decrease) in provision for share awards	36	22
Increase (decrease) in provision for business restructuring	–	(210)
Interest and dividend income	(150)	(179)
Interest expenses	7	4
Share of loss (profit) of entities accounted for using equity method	(47)	(359)
Loss on retirement of property, plant and equipment	3	9
Loss (gain) on sale of property, plant and equipment	(1)	(71)
Loss (gain) on sale of investment securities	(214)	(228)
Decrease (increase) in trade receivables	183	(1,287)
Decrease (increase) in inventories	(340)	(253)
Increase (decrease) in trade payables	(17)	93
Other, net	(150)	1,231
Subtotal	155	6,123
Interest and dividends received	150	179
Interest paid	(7)	(4)
Factory relocation expenses paid	(258)	–
Income taxes paid	(130)	(350)
Net cash provided by (used in) operating activities	(90)	5,948
<b>Cash flows from investing activities</b>		
Proceeds from sale of securities	1,804	1,000
Purchase of property, plant and equipment	(6,456)	(1,701)
Proceeds from sale of property, plant and equipment	1	151
Purchase of investment securities	(33)	(30)
Proceeds from sale of investment securities	438	401
Other, net	(45)	(178)
Net cash provided by (used in) investing activities	(4,289)	(356)

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	(4)	(380)
Purchase of treasury shares	(0)	(0)
Proceeds from sale of treasury shares	0	16
Dividends paid	(502)	(612)
Dividends paid to non-controlling interests	(26)	(18)
Repayments of lease liabilities	(69)	(83)
Net cash provided by (used in) financing activities	(604)	(1,077)
Effect of exchange rate change on cash and cash equivalents	(50)	385
Net increase (decrease) in cash and cash equivalents	(5,035)	4,898
Cash and cash equivalents at beginning of period	15,685	10,649
Cash and cash equivalents at end of period	*1 10,649	*1 15,548



## Notes to Consolidated Financial Statements

### *Significant accounting policies for preparation of consolidated financial statements*

#### 1. Disclosure of scope of consolidation

##### (A) Consolidated subsidiaries

Number of consolidated subsidiaries: 13

Names of consolidated subsidiaries:

The information is disclosed in I. Overview of Company, 4. Subsidiaries and Associates.

#### 2. Disclosure about application of equity method

##### (A) Number of associates accounted for using equity method: 1

Name of associate:

Shinhan Diamond Industrial Co., Ltd.

(B) As the above stated associate accounted for using equity method has a closing date which is different from the closing date of the consolidated financial statements, we use its financial statements that are based on the business year of the associate.

#### 3. Disclosure about fiscal years, etc. of consolidated subsidiaries

Out of 13 consolidated subsidiaries, 11 overseas subsidiaries have closing date on December 31. Financial statements as of that date are used in preparing consolidated financial statements, and necessary adjustments are made to reflect significant transactions that occurred between that date and the closing date of the consolidated financial statements.

#### 4. Disclosure of accounting policies

##### (A) Valuation standards and methods for significant assets

###### i. Securities

###### a Held-to-maturity debt securities

Stated at amortized cost (straight-line method).

###### b Available-for-sale securities

Other than equity or marketable securities without market price:

Stated at fair value using the market value method (with any unrealized gain or loss being recognized directly in net assets and the cost of securities sold being determined using the moving-average method).

Equity or marketable securities without market price:

Stated at cost using the moving-average method.

###### ii. Inventories

Stated at cost (with book value written down for balance sheet, based on any decline in profitability).

Merchandise and finished goods: Primarily stated at cost using the specific identification method.

Work in process: Primarily stated at cost using the specific identification method.

Raw materials and supplies: Primarily stated at cost using the moving-average method.

##### (B) Method for depreciation/amortization of significant depreciable assets

###### i. Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries primarily use the declining-balance method. However buildings (except for facilities attached to buildings) and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated on a straight-line basis. The overseas consolidated subsidiaries primarily use the straight-line method.

The principal useful lives are as follows:

Buildings and structures: 5 to 50 years

Machinery, equipment and vehicles: 4 to 10 years

###### ii. Intangible assets (excluding leased assets)

Amortized primarily on a straight line basis.

iii. Leased assets

The Company and its consolidated subsidiaries depreciate leased assets in finance lease transactions that do not transfer ownership on a straight-line basis with the useful life being the lease term and the residual value being zero.

(C) Accounting standards for significant provisions

i. Allowance for doubtful accounts

To provide for potential credit losses on receivables, allowance for doubtful accounts is recorded at an amount of estimated uncollectible receivables calculated based on the historical rate of credit loss for general receivables and determined in consideration of collectibility of individual receivables for doubtful accounts and certain other receivables.

ii. Provision for bonuses

To provide for the payment of bonuses to employees, the Company and some consolidated subsidiaries record provision for bonuses based on the estimated amount to be paid.

iii. Provision for business restructuring

To prepare for the future losses related to reconstruction plans of consolidated subsidiaries, provision for business restructuring is recorded at the amount estimated in the current fiscal year.

iv. Provision for share awards

To provide for delivery of shares of the Company to Directors and Executive Officers who meet the beneficiary requirements of stock compensation plan (the "Directors, etc."), provision for share awards is recorded based on the estimated amount of stock benefit obligations at the end of the current fiscal year.

(D) Accounting treatment for retirement benefits

i. Method of attributing estimated retirement benefits to accounting periods

In calculating retirement benefit obligations, the benefit formula basis is used to attribute the estimated amount of retirement benefits to periods up to the end of the current fiscal year.

ii. Method of accounting for actuarial gains and losses

Actuarial gains and losses are collectively recorded as expense in the following fiscal year.

iii. Application of the simplified method in small subsidiaries

In calculating retirement benefit liability and retirement benefit expenses, some consolidated subsidiaries apply the simplified method where retirement benefit liability is estimated at an amount to be required at the year-end for voluntary termination.

(E) Accounting standards for recording significant revenue and expenses

The Company and its consolidated subsidiaries manufacture and sell diamond tools, etc., and have performance obligations of delivering merchandise and finished goods based on sales contracts with customers. The performance obligations are considered to be satisfied at the point when control over assets is transferred to the customer, and the revenue is recognized at such point.

For domestic sales, revenue is recognized mainly at the time of shipment because the control over merchandise and finished goods is transferred to the customer in usual period of time from the shipment to the transfer. It is recognized at an amount that the Company expects to be entitled to receive in exchange for the merchandise and finished goods.

If the Company and its consolidated subsidiaries are involved in sales as agents, revenue is recorded as a net amount obtained by deducting the amount paid to the supplier from the total amount of consideration received from the customer.

(F) Accounting standards for translating significant foreign currency assets and liabilities into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the consolidated balance sheet date, and translation adjustments are accounted for as profit or loss. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rates on the balance sheet dates of such subsidiary whereas their revenue and expenses are translated into Japanese yen at average exchange rates during the period, and translation adjustments are included in foreign currency translation adjustment and non-controlling interests under net assets.

(G) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows consist of cash on hand, deposits that can be withdrawn at any time and short-term investments with a maturity of three (3) months or less from the date of acquisition, which are readily convertible into cash and exposed to only an insignificant risk of fluctuation in value.

### ***Significant accounting estimates***

#### Recoverability of deferred tax assets

(1) Amount recorded in the consolidated financial statements of the current fiscal year

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets	2,018	1,839

(2) Information on the significant accounting estimates of the identified items

The Asahi Diamond Group (the “Group”) recognizes deferred tax assets for deductible temporary differences and tax loss carried forward in consideration of projections of future taxable income and tax-planning.

Estimates for future taxable income are based on “medium- to long-term profit and loss forecasts,” which are predicated on significant assumptions such as sales growth forecasts and operating expense forecasts. These significant assumptions are uncertain and may underestimate future taxable income. In that case, the deferred tax assets may be reduced and tax expenses may be recorded.

The Group has made accounting estimates based on the assumption that the impact of COVID-19 on business results and financial conditions would be minor, although the end of the pandemic is yet to be seen and the outlook remains uncertain.

### ***Change in accounting policies***

#### *Application of Accounting Standard for Revenue Recognition, etc.*

Since the beginning of the current fiscal year, the Company has adopted the Accounting Standard for Revenue Recognition (the “Revenue Recognition Accounting Standard”; ASBJ Statement No. 29 of March 31, 2020), etc. and recognizes revenue at the amount expected to be received in exchange for promised goods or services, when control over the goods or services is transferred to the customer.

As a result, for the transactions where the Group is involved as an agent in providing goods or services to customers, although the Group previously had recognized the total amount of consideration received from the customer as revenue, revenue is now recognized as a net amount obtained by deducting the amount paid to the supplier from the total amount of consideration received from the customer. This change has minor impact on the consolidated financial statements.

In adopting the Revenue Recognition Accounting Standard, etc., the Company applies the transitional measures stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The change does not affect the balance of retained earnings at beginning of the period.

Pursuant to the transitional measures stipulated in Paragraph 89-3 of the Revenue Recognition Accounting Standard, the notes to *Revenue recognition* for the previous fiscal year are omitted.

#### *Application of Accounting Standards for Fair Value Measurement, etc.*

The Company has adopted the Accounting Standard for Fair Value Measurement (the “Fair Value Measurement Accounting Standard”; ASBJ Statement No. 30 of July 4, 2019), etc. from the beginning of the fiscal year under review. After taking the transitional measures stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019), the Company will implement the new accounting policies stipulated in the Fair Value Measurement Accounting Standard, etc. or other standards in the future. This change has no effect on the consolidated financial statements.

Notes are newly added to the *Financial instruments* section regarding matters such as the breakdown of financial instruments by fair value level. However, in accordance with the transitional measures stipulated in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 of July 4, 2019), such notes related to the previous fiscal year are omitted.

### ***Additional information***

#### *Stock compensation plan*

The Company has introduced a stock compensation plan for the purpose of clarifying the link between the compensation of Directors, etc. and the stock value of the Company, and raising awareness of Directors, etc. to contribute to the improvement of medium- to long-term business performance and the corporate value by sharing the profits and risks attributable to stock price fluctuation with shareholders.

#### (1) Overview of transaction

In this stock compensation plan, the Company contributes the funds and the established trust (the “Trust”) acquires the shares of the Company. Through the Trust, the number of shares of the Company corresponding to the number of points that the Company grants to each Directors, etc. shall be delivered to each of them.

#### (2) The Company’s shares remaining in the trust

The Company’s shares remaining in the trust are recorded as treasury shares under net assets at the book value in the trust (excluding the amount of incidental expenses). The book value and number of such treasury shares as of March 31, 2022 were ¥126 million and 161,227 shares.

### Consolidated balance sheets

\*1. Investment securities related to associates are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Investment securities (equity securities)	4,581	5,118

\*2. Book value reduction of property, plant and equipment

The items and deducted amounts of acquisition cost of property, plant and equipment covered by the government subsidy are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Machinery, equipment and vehicles	11	11
Land	640	640
Buildings and structures	0	0
Total	652	652

\*3. Revaluation of land

Pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998), the Company revaluated land for business use and recorded revaluation reserve for land under net assets.

Revaluation method

Calculation using assessed value of fixed assets stipulated in Article 2, Paragraph 3 of the Order for Enforcement of the Act on Revaluation of Land (Government Ordinance No. 119, March 31, 1998)

Date of revaluation

March 31, 2002

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Fair value of the revaluated land at end of period less its revaluated book value	(631)	(635)

4. The company and its two (2) consolidated subsidiaries have signed overdraft agreements with six (6) banks to procure working capital efficiently.

The balances of undrawn facilities under the overdraft agreements at the end of the current fiscal year are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Total overdraft limits	7,860	8,082
Drawn facilities	424	122
Net	7,435	7,960

### Consolidated statement of income

\*1. The amount of year-end inventory is after the book value is devalued due to the decline in profitability. The following loss on valuation of inventories is included in the cost of sales.

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
	(23)	(18)

\*2. Major accounts included in selling, general and administrative expenses and their amounts are as follows:

(1) Selling expenses

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Salaries and allowances	2,036	2,170
Provision for bonuses	109	131
Retirement benefit expenses	159	137
Commission expenses	132	155
Provision of allowance for doubtful accounts	(15)	(23)

(2) General and administrative expenses

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Salaries and allowances	926	964
Provision for bonuses	41	41
Retirement benefit expenses	51	56
Commission expenses	384	392
Research and development expenses	396	384

\*3. Total amount of research and development expenses that are included in general and administrative expenses and manufacturing costs during the period is as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
	1,630	1,811

\*4. Gain on sale of non-current assets

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

Not applicable.

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

Gain on sale of non-current assets is 64 million yen from sale of land.

\*5. Reversal of provision for business restructuring

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

Not applicable.

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

This is due to a change in the reconstruction plan of a consolidated subsidiary, Asahi Diamond Industrial Europe SAS.

\*6. Refund of customs duty

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

Not applicable.

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

This is the refund of customs duty received by winning the lawsuit filed by Asahi Diamond America, Inc., a consolidated subsidiary, in the court for the refund of the customs duty surcharge.

**Consolidated statement of comprehensive income**

\*1. Reclassification adjustments and tax effects relating to other comprehensive income

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
<b>Valuation difference on available-for-sale securities</b>		
Amount arising during period	1,982	167
Reclassification adjustments	(155)	(427)
Before tax effect adjustment	1,826	(260)
Tax effect	(557)	81
Valuation difference on available-for-sale securities	1,269	(178)
<b>Foreign currency translation adjustment</b>		
Amount arising during period	(138)	904
Reclassification adjustments	–	–
Before tax effect adjustment	(138)	904
Tax effect	–	–
Foreign currency translation adjustment	(138)	904
<b>Remeasurements of defined benefit plans, net of tax</b>		
Amount arising during period	159	(14)
Reclassification adjustments	60	(159)
Before tax effect adjustment	220	(174)
Tax effect	(62)	49
Remeasurements of defined benefit plans, net of tax	157	(124)
<b>Share of other comprehensive income of entities accounted for using equity method</b>		
Amount arising during period	11	198
<b>Total other comprehensive income</b>	<b>1,299</b>	<b>799</b>



**Consolidated statement of changes in equity**

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

1. Class and total number of issued shares and treasury shares

(Thousand shares)

	At beginning of period	Increase	Decrease	At end of period
Issued shares				
Common stock	55,700	–	–	55,700
Total	55,700	–	–	55,700
Treasury shares				
Common stock (Notes)	191	1	0	192
Total	191	1	0	192

Notes: 1. The increase of 1 thousand shares in treasury shares of common stock is due to the purchase of odd-lot stock.  
 2. The decrease of 0 thousand shares in treasury shares of common stock is due to the sale of odd-lot stock.  
 3. The treasury shares of common stock includes shares of the Company held in the trust account of the benefit trust plan for Directors, etc. of 182 thousand shares at beginning of period and 182 thousand shares at end of period.

2. Share acquisition rights and treasury share acquisition rights

Not applicable.

3. Dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on June 25, 2020	Common stock	334	6	March 31, 2020	June 26, 2020
Board of Directors' meeting held on November 6, 2020	Common stock	167	3	September 30, 2020	December 1, 2020

Note: The total amount of dividends paid based on the resolution at the Annual General Meeting of Shareholders held on June 25, 2020 includes dividends of ¥1 million paid to the Company's shares held by trusts related to stock compensation plan. The total amount of dividends paid based on the resolution at the Board of Directors' meeting held on November 6, 2020 includes dividends of ¥0 million paid to the Company's shares held by trusts related to stock compensation plan.

(2) Dividends with the reference date in the current fiscal year, but the effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend paid per share (yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on June 25, 2021	Common stock	167	Retained earnings	3	March 31, 2021	June 28, 2021

Note: The total amount of dividends paid based on the resolution at the Annual General Meeting of Shareholders held on June 25, 2021 includes dividends of ¥0 million paid to the Company's shares held by trusts related to stock compensation plan.

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

1. Class and total number of issued shares and treasury shares

(Thousand shares)

	At beginning of period	Increase	Decrease	At end of period
Issued shares				
Common stock	55,700	–	–	55,700
Total	55,700	–	–	55,700
Treasury shares				
Common stock (Notes)	192	1	21	172
Total	192	1	21	172

Notes: 1. The increase of 1 thousand shares in treasury shares of common stock is due to the purchase of odd-lot stock.

2. The decrease of 21 thousand shares in treasury shares of common stock is 15 thousand shares of the Company delivered and 6 thousand shares of the Company sold, which were held in the trust account of the benefit trust plan for Directors, etc.

3. The treasury shares of common stock includes shares of the Company held in the trust account of the benefit trust plan for Directors, etc. of 182 thousand shares at beginning of period and 161 thousand shares at end of period.

2. Share acquisition rights and treasury share acquisition rights

Not applicable.

3. Dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on June 25, 2021	Common stock	167	3	March 31, 2021	June 28, 2021
Board of Directors' meeting held on November 9, 2021	Common stock	445	8	September 30, 2021	December 1, 2021

Note: The total amount of dividends paid based on the resolution at the Annual General Meeting of Shareholders held on June 25, 2021 includes dividends of ¥0 million paid to the Company's shares held by trusts related to stock compensation plan. The total amount of dividends paid based on the resolution at the Board of Directors' meeting held on November 9, 2021 includes dividends of ¥1 million paid to the Company's shares held by trusts related to stock compensation plan.

(2) Dividends with the reference date in the current fiscal year, but the effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend paid per share (yen)	Reference date	Effective date
Annual General Meeting of Shareholders held on June 24, 2022	Common stock	891	Retained earnings	16	March 31, 2022	June 27, 2022

Note: The total amount of dividends paid based on the resolution at the Annual General Meeting of Shareholders held on June 24, 2022 includes dividends of ¥2 million paid to the Company's shares held by trusts related to stock compensation plan.

### **Consolidated statement of cash flows**

\*1. The reconciliation of ending balance of cash and cash equivalents with account balances per consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Cash and deposits	10,649	14,771
Short-term investments with a maturity of three (3) months or less from the date of acquisition (Securities)	—	776
Cash and cash equivalents	10,649	15,548

### **Leases**

#### 1. Finance leases

Finance lease transactions that do not transfer ownership

##### (1) Leased assets

Property, plant and equipment:

Mainly includes vehicles (machinery, equipment and vehicles) and OA equipment (tools, furniture and fixtures).

##### (2) Depreciation of leased assets

Depreciated on a straight-line basis using the lease term as the useful life and with zero residual value.

#### 2. Operating lease transactions

Future lease payments under non-cancellable operating leases

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Due within 1 year	37	50
Due after 1 year	18	75
Total	55	126

## ***Financial instruments***

### 1. Status of financial instruments

#### (1) Policies on financial instruments

The Group invests temporary surpluses in highly secure financial assets, and finances necessary funds by bank loans in light of the capital expenditure plan.

#### (2) Nature and risks of financial instruments

Trade receivables such as notes and accounts receivable - trade are exposed to customers' credit risk. In addition, trade receivables denominated in foreign currencies arising from our global business are exposed to the risk of exchange rate fluctuations. Marketable securities and investment securities mainly comprise held-to-maturity debt securities or stocks of companies with which we have business relationships. Of these, listed stocks are exposed to the risk of market price fluctuations.

Most trade payables such as notes and accounts payable - trade are due within four (4) months. Certain notes and accounts payable - trade are denominated in foreign currencies and exposed to the risk of exchange rate fluctuations. However, the amounts of such payables are constantly kept within those of the balances of accounts receivable denominated in the same foreign currencies. Borrowings are mainly for the purpose of financing working capital, and their repayment dates are within 1 year after the settlement dates.

#### (3) Risk management system for financial instruments

##### i. Management of credit risk (risk of non-performance by counterparties)

The Company manages trade receivables on a regular basis, with each sales department and accounting department checking the status such as the due dates and balances for each major customer in order to quickly grasp and reduce the collection concerns due to deterioration of financial conditions. Our consolidated subsidiaries manage trade receivables in the same way as the Company.

Held-to-maturity debt securities involve a minimal credit risk, since the Company only holds high-rated bonds in accordance with its fund management regulations.

The maximum credit risk amount as of the consolidated balance sheet date for the current period is the balance sheet amount of financial assets with credit risk.

##### ii. Management of market risk (risk of exchange rate and interest rate fluctuations)

The Company regularly assesses the market value and financial conditions of the issuers (business partners) of marketable securities and investment securities, and continuously reviews the holding status of securities other than held-to-maturity debt securities in consideration of relationship with business partners.

##### iii. Management of liquidity risk in financing (risk of being unable to make payments on due dates)

The Company manages liquidity risk in a way that the accounting department, based on reports from each department, prepares and updates cash flow plans in a timely manner to ensure the necessary liquidity on hand.

#### (4) Supplementary explanation on fair value of financial instruments

Because certain assumptions on fluctuations are used in the calculation of the fair value of financial instruments, the value may vary if different assumptions are used.

## 2. Fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments and their differences are as follows:

As of March 31, 2021

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Marketable securities and investment securities			
i. Held-to-maturity debt securities	1,000	999	(0)
ii. Available-for-sale securities	5,879	5,879	–
Total	6,879	6,878	(0)

\*1 Cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term borrowings, and income taxes payable are omitted because they are cash and are settled within a short period of time, that is, their fair value approximates their book value.

\*2 Financial instruments whose fair value is deemed extremely difficult to determine

Classification	Consolidated balance sheet amount (millions of yen)
Unlisted shares	4,702

The above unlisted shares are not included in “(1) Marketable securities and investment securities, ii. Available-for-sale securities,” for their fair values are deemed extremely difficult to determine.

As of March 31, 2022

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Marketable securities and investment securities			
i. Available-for-sale securities	6,252	6,252	–
Total assets	6,252	6,252	–

\*1 Cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term borrowings, and income taxes payable are omitted because they are cash and are settled within a short period of time, that is, their fair value approximates their book value.

\*2 Equity securities without market price, etc. are not included in “(1) Marketable securities and investment securities.”

The consolidated balance sheet amount of those securities is as follows:

Classification	Consolidated balance sheet amount (millions of yen)
Unlisted shares	5,238

Note 1: Redemption schedule of monetary receivables and securities with maturity dates after the consolidated balance sheet date  
As of March 31, 2021

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash and deposits	10,649	–	–	–
Notes and accounts receivable - trade	9,148	–	–	–
Marketable securities and investment securities				
Held-to-maturity debt securities (bonds)	–	–	1,000	–
Available-for-sale securities with maturity dates	–	–	–	–
Total	19,797	–	1,000	–

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash and deposits	14,771	–	–	–
Notes and accounts receivable - trade	10,642	–	–	–
Marketable securities and investment securities				
Held-to-maturity debt securities (bonds)	–	–	–	–
Available-for-sale securities with maturity dates	–	–	–	–
Total	25,414	–	–	–

Note 2: Repayment schedule of long-term borrowings, lease obligations, and other interest-bearing debt after the consolidated balance sheet date

As of March 31, 2021

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Short-term borrowings	540	–	–	–	–	–
Long-term borrowings	–	–	–	–	–	–
Lease obligations	60	45	28	16	5	0
Total	600	45	28	16	5	0

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Short-term borrowings	210	–	–	–	–	–
Long-term borrowings	–	–	–	–	–	–
Lease obligations	52	35	23	12	2	–
Total	263	35	23	12	2	–

### 3. Breakdown of financial instruments by level of fair value

Financial instruments measured at fair value are categorized into the following three levels according to observability and significance of input used in measurement.

Level 1: Fair value measured using observable inputs of the assets or liabilities subject to calculation at quoted prices in active markets

Level 2: Fair value determined using observable inputs other than Level 1

Level 3: Fair value determined using valuation techniques based on unobservable inputs

When multiple inputs are used to measure fair value, fair value levels are determined based on the lowest level input that is significant to the entire fair value measurement.

#### (1) Financial assets and financial liabilities that are recorded on the consolidated balance sheets at fair value

As of March 31, 2022

	Consolidated balance sheet amount (millions of yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available-for-sale securities	5,476	776	–	6,252
Total assets	5,476	776	–	6,252

Note: Valuation techniques and inputs used to calculate fair value

#### Marketable securities and investment securities

The fair values of listed stocks for which active markets exist are categorized into Level 1 as they are determined based on market prices. Commercial paper and certificates of deposit are categorized into Level 2 as they are rarely traded in the market and are not recognized as measured at quoted prices in active markets.

**Securities**

## 1. Held-to-maturity debt securities

As of March 31, 2021

(Millions of yen)

Classification	Type	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds its consolidated balance sheet amount	i. National and local government bonds	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	Subtotal	–	–	–
Securities whose fair value does not exceed its consolidated balance sheet amount	i. National and local government bonds	–	–	–
	ii. Corporate bonds	1,000	999	(0)
	iii. Other	–	–	–
	Subtotal	1,000	999	(0)
Total		1,000	999	(0)

As of March 31, 2022

Not applicable.

## 2. Available-for-sale securities

As of March 31, 2021

(Millions of yen)

Classification	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds the acquisition cost	i. Equity securities	5,807	3,596	2,211
	ii. Debt securities	–	–	–
	iii. Other	–	–	–
	Subtotal	5,807	3,596	2,211
Securities whose consolidated balance sheet amount does not exceed the acquisition cost	i. Equity securities	71	132	(61)
	ii. Debt securities	–	–	–
	iii. Other	–	–	–
	Subtotal	71	132	(61)
Total		5,879	3,729	2,149

Note: Unlisted shares (consolidated balance sheet amount of ¥4,702 million) are not included in the above available-for-sale securities, for their fair values are deemed extremely difficult to determine.



As of March 31, 2022

(Millions of yen)

Classification	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds the acquisition cost	i. Equity securities	5,418	1,745	3,673
	ii. Debt securities	–	–	–
	iii. Other	–	–	–
	Subtotal	5,418	1,745	3,673
Securities whose consolidated balance sheet amount does not exceed the acquisition cost	i. Equity securities	57	72	(15)
	ii. Debt securities	–	–	–
	iii. Other	–	–	–
	Subtotal	57	72	(15)
Total		5,476	1,818	3,658

Note: Above available-for-sale securities do not include unlisted shares (consolidated balance sheet amount of ¥5,238 million), commercial paper (consolidated balance sheet amount of ¥708 million) and certificates of deposit (consolidated balance sheet amount of ¥67 million) because unlisted shares do not have market price and the other two are comparable to deposits.

### 3. Available-for-sale securities sold

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

(Millions of yen)

Type	Sale price	Total gain on sale	Total loss on sale
i. Equity securities	434	214	–
ii. Debt securities	–	–	–
iii. Other	–	–	–
Total	434	214	–

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

(Millions of yen)

Type	Sale price	Total gain on sale	Total loss on sale
i. Equity securities	408	228	–
ii. Debt securities	–	–	–
iii. Other	–	–	–
Total	408	228	–

## Retirement benefits

### 1. Overview of adopted retirement benefit plans

The Company and some of its consolidated subsidiaries operate defined benefit corporate pension plans and retirement lump-sum payment plans as defined benefit plans. Some domestic consolidated subsidiaries have set retirement lump-sum payment plans combining small and medium-sized enterprise retirement allowance cooperative system, and apply the simplified method to calculate retirement benefit liability and retirement benefit expenses where retirement benefit liability is estimated at an amount to be required at the year-end for voluntary termination. Retirement benefits trusts are set up for some defined benefit corporate pension plans. Some overseas consolidated subsidiaries have defined contribution pension plans in addition to defined benefit plans.

In addition, when an employee retires, the Company may provide an extra retirement payment that is not covered by the retirement benefit obligation by actuarial calculation based on the retirement benefit accounting.

### 2. Defined benefit plan

#### (1) Reconciliation of opening and closing balances of retirement benefit obligation (excluding plans using the simplified method)

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Retirement benefit obligations at beginning of period	14,164	14,319
Service cost	655	618
Interest cost	102	102
Actuarial gains and losses incurred	142	19
Retirement benefits paid	(750)	(715)
Other	5	127
Retirement benefit obligations at end of period	14,319	14,471

#### (2) Reconciliation of opening and closing balances of plan assets (excluding plans using the simplified method)

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Plan assets at beginning of period	6,644	8,950
Expected return on plan assets	65	89
Actuarial gains and losses incurred	302	4
Contributions from employer	378	362
Initial amount of retirement benefit trust	2,000	–
Retirement benefits paid	(444)	(379)
Other	4	90
Plan assets at end of period	8,950	9,117

Note: The Company has set up a retirement benefit trust.

#### (3) Reconciliation of opening and closing balances of retirement benefit liability under the plans using the simplified method

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Retirement benefit liability at beginning of period	7	6
Retirement benefit expenses	8	9
Retirement benefits paid	(9)	(0)
Contribution to plan	–	(8)
Other	(0)	(0)
Retirement benefit liability at end of period	6	7

(4) Reconciliation of the ending balances of retirement benefit obligations and plan assets, and the net retirement benefit liability recorded in the consolidated balance sheets

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Funded retirement benefit obligations	14,447	14,601
Plan assets	(9,071)	(9,240)
Net retirement benefit liability recorded in consolidated balance sheets	5,375	5,360
Retirement benefit liability	5,375	5,360
Net retirement benefit liability recorded in consolidated balance sheets	5,375	5,360

Note: The above includes the plans using the simplified method.

(5) Retirement benefit expenses and components thereof

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Service cost	655	61
Interest cost	102	102
Expected return on plan assets	(65)	(89)
Amortization of actuarial gains and losses	60	(156)
Retirement benefit expenses calculated using the simplified method	8	9
Other	(7)	-
Retirement benefit expenses related to the defined benefit plan	753	484

(6) Remeasurements of defined benefit plans, net of tax

The components (before tax) reported under remeasurements of defined benefit plans, net of tax are as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Actuarial gains and losses	220	(174)

(7) Remeasurements of defined benefit plans

The components (before tax) reported under remeasurements of defined benefit plans are as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Unrecognized actuarial gains and losses	159	(14)

(8) Plan assets

i. Major components of plan assets

The percentages of the major asset categories accounting for the total plan assets were as follows:

	As of March 31, 2021	As of March 31, 2022
Debt securities	29.9	40.2
Equity securities	15.0	13.8
General account	30.7	30.5
Cash and deposits	14.3	4.4
Other	10.1	11.1
Total	100.0	100.0

Note: Of the total plan assets, retirement benefit trusts established for the corporate pension plan accounts for 26% in the previous fiscal year and 21% in the current fiscal year.

ii. Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, we take into account the current and projected distribution of plan assets and the current and anticipated long-term yield rates of the various assets that constitute the plan assets.

(9) Assumptions for actuarial calculations

Key assumptions for major actuarial calculations (representing weighted averages) at end of period

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Discount rate	0.7	0.7
Long-term expected rate of return on plan assets	1.0	1.0
Expected salary growth	Mainly 2.4	Mainly 2.4

3. Defined contribution plans

The amounts of required contributions to the defined contribution plans of some consolidated subsidiaries for the fiscal years ended March 31, 2021 and 2022 were ¥34 million and ¥37 million, respectively.

**Tax effect accounting**

## 1. Significant components of deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Provision for bonuses	171	201
Allowance for doubtful accounts	109	120
Provision for business restructuring	166	68
Retirement benefit liability	1,578	1,585
Retirement benefit trust	606	606
Loss on valuation of inventories	211	201
Deferred profits on inventories	49	64
Non-deductible accrued enterprise tax	6	49
Impairment loss on non-current assets	451	374
Tax loss carried forward (Note)	658	367
Other	227	189
Subtotal of deferred tax assets	4,237	3,828
Valuation allowance for tax loss carried forward (Note)	(345)	(258)
Valuation allowance for future deductible temporary differences	(458)	(333)
Subtotal of valuation allowance	(803)	(592)
Total deferred tax assets	3,433	3,236
Deferred tax liabilities		
Retained earnings of foreign subsidiaries	(226)	(287)
Valuation difference on available-for-sale securities	(1,183)	(1,101)
Other	(5)	(8)
Total deferred tax liabilities	(1,414)	(1,397)
Deferred tax assets, net	2,018	1,839

In addition to those above, major components of deferred tax liabilities related to land revaluation recorded as deferred tax liabilities for land revaluation are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Deferred tax assets related to land revaluation	184	184
Valuation allowance	(184)	(184)
Total deferred tax assets	–	–
Deferred tax liabilities		
Deferred tax liabilities related to land revaluation	(350)	(350)
Total deferred tax liabilities	(350)	(350)
Deferred tax liabilities, net	(350)	(350)

Note: Expiration of tax loss carried forward, the related valuation allowances and the resulting net deferred tax assets

As of March 31, 2021

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carried forward *1	–	–	–	–	–	658	658
Valuation allowance	–	–	–	–	–	(345)	(345)
Deferred tax assets	–	–	–	–	–	313	*2 313

\*1. Tax loss carried forward were calculated by applying the effective statutory tax rate.

\*2. Deferred tax assets of ¥313 million were recognized for tax loss carried forward of ¥658 million (calculated by applying the effective statutory tax rate). The deferred tax assets of ¥313 million were recognized for a part of tax loss carried forward of ¥658 million (calculated by applying the effective statutory tax rate) of the Company and consolidated subsidiaries, which the Company expects collectible considering the prospect of future taxable income.

As of March 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carried forward *1	–	–	–	–	–	367	367
Valuation allowance	–	–	–	–	–	(258)	(258)
Deferred tax assets	–	–	–	–	–	108	*2 108

\*1. Tax loss carried forward were calculated by applying the effective statutory tax rate.

\*2. Deferred tax assets of ¥108 million were recognized for tax loss carried forward of ¥367 million (calculated by applying the effective statutory tax rate). The deferred tax assets of ¥108 million were recognized for a part of tax loss carried forward of ¥367 million (calculated by applying the effective statutory tax rate) of the Company and consolidated subsidiaries, which the Company expects collectible considering the prospect of future taxable income.

2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after applying tax effect accounting

(%)

	As of March 31, 2021	As of March 31, 2022
Effective statutory tax rate	–	30.3
Adjustments		
Expenses not deductible for income tax purposes (e.g. entertainment expenses)	–	0.1
Non-taxable dividends received	–	(0.2)
Share of profit of entities accounted for using equity method	–	(2.5)
Inhabitant tax-per capita	–	1.0
Tax rate differences with foreign subsidiaries	–	(2.0)
Tax credits on experimentation and research expenses	–	(1.5)
Foreign tax	–	0.9
Valuation allowance	–	(3.8)
Other	–	0.9
Actual effective tax rate after applying tax effect accounting	–	23.2

Note: The information for the previous fiscal year is omitted because a net loss before adjustment of taxes was recorded.

### **Asset retirement obligations**

Asset retirement obligations included in consolidated balance sheets

(1) Overview of asset retirement obligations

Among the asset retirement obligations are the obligation to restore the leased office and factory building to the original state according to the real estate lease agreement.

(2) Calculation method for asset retirement obligations

The expected usage period of 4 to 56 years from the start of the contract, and the discount rate of 0.97 to 4.00% are used to calculate the amount of asset retirement obligations.

(3) Increase (decrease) in the total amount of asset retirement obligations

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Balance at beginning of period	135	109
Reconciliation associated with passage of time	1	1
Reduction associated with fulfillment of asset retirement obligations	(27)	(51)
Balance at end of period	109	59

(Millions of yen)

### **Revenue recognition**

1. The breakdown of revenue from contracts with customers is as follows:

The Company and its subsidiaries are engaged in manufacturing and sales of diamond tools. The breakdown of revenue from contracts with customers by industry is as follows:

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

	Industry					Total
	Electronics and Semiconductor	Transportation	Machinery	Stone and Construction	Other	
Net sales	13,752	8,115	9,832	4,124	1,335	37,161

(Millions of yen)

2. Basic information for understanding profits

The Company and its consolidated subsidiaries manufacture and sell diamond tools, etc., and have performance obligations of delivering merchandise and finished goods based on sales contracts with customers. The performance obligations are considered to be satisfied at the point when control over assets is transferred to the customer, and the revenue is recognized at such point.

For domestic sales, revenue is recognized mainly at the time of shipment because the control over merchandise and finished goods are transferred to the customer in usual period of time. It is recognized at an amount that the Company expects to be entitled to receive in exchange for the merchandise and finished goods.

If the Company and its consolidated subsidiaries are involved in sales as agents, revenue is recorded at a net amount obtained by deducting the amount paid to the supplier from the total amount of consideration received from the customer.

**Segment information, etc.**

## Segment information

The information is omitted because the Group operates a single segment of manufacturing and sales of diamond tools, and ancillary business to it.

## Information on reportable segments

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

## 1. Information by product and service

The information is omitted because revenue from external customers for a single product or service category accounts for more than 90% of net sales in the consolidated statement of income.

## 2. Information by region

## (1) Revenue from external customers

(Millions of yen)

Japan	Asia and Oceania			Europe	North America	Other	Total
	Taiwan	China	Other				
16,566	2,610	2,933	3,989	2,409	1,175	458	30,143

Note: Revenue is classified by country or region based on the location of customers.

## (2) Property, plant and equipment

(Millions of yen)

Japan	Taiwan	Other	Total
23,028	1,639	1,867	26,535

## 3. Information for main customers

The information is omitted because no external customer accounts for 10% or more of revenue in the consolidated statement of income.



Fiscal 2021 (from April 1, 2021 to March 31, 2022)

1. Information by product and service

The information is omitted because revenue from external customers for a single product or service category accounts for more than 90% of net sales in the consolidated statement of income.

2. Information by region

(1) Revenue from external customers

(Millions of yen)

Japan	Asia and Oceania			Europe	North America	Other	Total
	Taiwan	China	Other				
19,150	3,388	3,647	4,964	3,399	1,841	768	37,161

Note: Revenue is classified by country or region based on the location of customers.

**Change in Presentation**

The revenue in North America, which was included in the Other regions for the fiscal year ended March 31, 2021, has been separately presented since the fiscal year ended March 31, 2022 as its significance increased. Due to this change, ¥1,634 million of the Other regions of the previous fiscal year are separately presented as ¥1,175 million for North America and ¥458 million for the Other regions.

(2) Property, plant and equipment

(Millions of yen)

Japan	Taiwan	Other	Total
21,975	1,743	1,715	25,434

3. Information for main customers

The information is omitted because no external customer accounts for 10% or more of revenue in the consolidated statement of income.

*Impairment loss on non-current assets for each reportable segment*

Not applicable.

*Amortization and unamortized balance of goodwill for each reportable segment*

Not applicable.

*Gain on bargain purchase for each reportable segment*

Not applicable.

*Related parties*

Not applicable.

**Per share information**

Net assets per share and basic earnings (loss) per share and their calculation basis are as follows:

Item	As of March 31, 2021	As of March 31, 2022
(1) Net assets per share	1,008.33 yen	1,067.79 yen
Calculation basis:		
Total net assets (millions of yen)	57,297	60,869
Deductions from total net assets (millions of yen)	1,327	1,577
[of which, non-controlling interests (millions of yen)]	[1,327]	[1,577]
Net assets applicable to common stock at end of period (millions of yen)	55,969	59,291
Number of shares of common stock at end of period used for the calculation of net assets per share (thousands shares)	55,507	55,527

Item	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
(2) Earnings (loss) per share	(5.97) yen	59.23 yen
Calculation basis:		
Profit (loss) attributable to owners of parent (millions of yen)	(331)	3,288
Profit not attributable to common shareholders (millions of yen)	–	–
Profit (loss) attributable to owners of parent (millions of yen)	(331)	3,288
Average number of shares of common stock during the period (thousand shares)	55,508	55,520

- Notes: 1. The information related to diluted earnings per share is omitted because there are no residual shares.
2. The Company has introduced a stock compensation plan and recorded the shares held by the trust under the plan as treasury shares in the consolidated financial statements. Shares held by the said trust are included in the treasury shares, which are to be deducted from issued shares at end of period for calculating net assets per share or from average number of shares of common stock during the period for calculating basic earnings (loss) per share. The number of treasury shares held by the trust at the end of the period and the average number of such shares during the period were 161 thousand and 168 thousand shares, respectively for the current fiscal year, and 182 thousand and 182 thousand shares, respectively for the previous year.

**Significant subsequent events**

Not applicable.

v. Annexed consolidated detailed schedules

*Annexed consolidated detailed schedule of corporate bonds*

Not applicable.

*Annexed consolidated detailed schedule of borrowings*

Classification	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	540	210	1.07	–
Current portion of long-term borrowings	–	–	–	–
Current portion of lease obligations	60	52	–	–
Long-term borrowings (excluding current portion)	–	–	–	–
Lease obligations (excluding current portion)	97	74	–	2023–2027
Total	697	337	–	–

Notes: 1 The average interest rate is the weighted-average rate applicable to the ending balances of borrowings.

The average interest rate of lease obligations is omitted because lease obligations are recorded on the consolidated balance sheet at the amount before deducting the amount equivalent to interest which is included in the total lease payments.

2 The repayment schedule of lease obligations within 5 years after the consolidated balance sheet date (excluding the current portion) is as follows:

	(Millions of yen)			
	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Lease obligations	35	23	12	2

*Annexed consolidated schedule of asset retirement obligations*

In accordance with Article 92-2 of the Regulation on Consolidated Financial Statements, the information is omitted, as the beginning and ending balances of asset retirement obligations for the fiscal year ended March 31, 2022 were 1% or less of the total amount of liabilities and net assets at the beginning and end of the fiscal year.

**(2) Other information**

Quarterly results for the fiscal year ended March 31, 2022

	First three months	First six months	First nine months	Full year
Net sales (millions of yen)	8,710	18,182	27,532	37,161
Profit before income taxes (millions of yen)	544	1,465	2,678	4,408
Profit attributable to owners of parent (millions of yen)	397	1,089	1,980	3,288
Basic earnings per share (yen)	7.17	19.62	35.67	59.23

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (yen)	7.17	12.45	16.05	23.56

## 2. Non-consolidated Financial Statements, etc.

### (1) Non-consolidated financial statements

#### i. Non-consolidated balance sheet

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	5,078	9,080
Notes receivable - trade	2,203	2,419
Accounts receivable - trade	*1 5,753	*1 6,337
Merchandise and finished goods	1,799	1,936
Work in process	1,006	1,086
Raw materials and supplies	1,317	1,402
Accounts receivable - other	*1 1,326	*1 239
Other	95	94
Allowance for doubtful accounts	(4)	(7)
Total current assets	18,575	22,591
Non-current assets		
Property, plant and equipment		
Buildings	*3 11,025	*3 10,458
Structures	564	509
Machinery and equipment	3,860	3,623
Vehicles	2	1
Tools, furniture and fixtures	451	412
Land	*3 5,986	*3 5,907
Leased assets	141	114
Construction in progress	109	26
Total property, plant and equipment	22,141	21,054
Intangible assets		
Software	147	127
Other	29	28
Total intangible assets	176	156
Investments and other assets		
Investment securities	6,910	5,532
Shares of subsidiaries and associates	4,313	4,313
Long-term loans receivable	*1 112	*1 98
Deferred tax assets	1,941	1,794
Guarantee deposits	378	367
Other	97	128
Allowance for doubtful accounts	(9)	(8)
Total investments and other assets	13,743	12,225
Total non-current assets	36,061	33,436
Total assets	54,636	56,027

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	*1 1,286	*1 1,237
Accounts payable - other	*1 793	*1 644
Accrued expenses	229	262
Income taxes payable	37	262
Deposits received	124	117
Provision for bonuses	468	553
Other	59	281
Total current liabilities	2,999	3,358
Non-current liabilities		
Provision for retirement benefits	5,119	5,057
Deferred tax liabilities for land revaluation	350	350
Asset retirement obligations	94	44
Provision for share awards	93	116
Other	127	107
Total non-current liabilities	5,785	5,675
Total liabilities	8,785	9,034
<b>Net assets</b>		
Shareholders' equity		
Share capital	4,102	4,102
Capital surplus		
Legal capital surplus	7,129	7,129
Total capital surplus	7,129	7,129
Retained earnings		
Legal retained earnings	1,025	1,025
Other retained earnings		
Reserve for technical research	350	350
General reserve	25,000	25,000
Retained earnings brought forward	5,487	6,773
Total retained earnings	31,862	33,149
Treasury shares	(150)	(134)
Total shareholders' equity	42,943	44,246
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,711	2,550
Revaluation reserve for land	196	196
Total valuation and translation adjustments	2,908	2,746
Total net assets	45,851	46,993
Total liabilities and net assets	54,636	56,027

ii. Non-consolidated statement of income

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Net sales	*1 24,549	*1 29,186
Cost of sales	*1 20,536	*1 22,618
Gross profit	4,012	6,568
Selling, general and administrative expenses	*1, *2 5,128	*1, *2 5,332
Operating profit (loss)	(1,115)	1,236
Non-operating income		
Interest income	*1 6	*1 2
Dividend income	*1 1,017	*1 567
Foreign exchange gains	121	141
Interest on securities	3	0
Subsidy income	–	108
Miscellaneous income	*1 45	*1 49
Total non-operating income	1,194	869
Non-operating expenses		
Miscellaneous losses	2	2
Total non-operating expenses	2	2
Ordinary profit	76	2,103
Extraordinary income		
Gain on sale of non-current assets	–	64
Gain on sale of investment securities	214	228
Total extraordinary income	214	292
Extraordinary losses		
Factory relocation expenses	258	–
Total extraordinary losses	258	–
Profit before income taxes	32	2,396
Income taxes - current	49	277
Income taxes - deferred	(219)	219
Total income taxes	(169)	497
Profit	201	1,899

Schedule of cost of goods manufactured

Classification	Note	Fiscal 2020 (from April 1, 2020 to March 31, 2021)		Fiscal 2021 (from April 1, 2021 to March 31, 2022)	
		Amount (millions of yen)	Ratio (%)	Amount (millions of yen)	Ratio (%)
I. Materials cost		5,010	30.4	5,991	32.9
II. Labor cost	*1	7,011	42.5	7,296	40.1
III. Manufacturing overhead cost	*2	4,470	27.1	4,924	27.0
Total manufacturing costs		16,491	100.0	18,211	100.0
Beginning work in process inventory		635		1,006	
Purchase of semi-finished goods		408		520	
Total		17,535		19,738	
Ending work in process inventory		1,006		1,086	
Cost of goods manufactured	*3	16,529		18,651	

\*1 Major components of labor cost are as follows.

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Salaries and allowances	5,274	5,574
Provision for bonuses	321	384
Retirement benefit expenses	443	302
Other	971	1,035
Total	7,011	7,296

\*2 Major components of manufacturing overhead cost are as follows.

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Outsourced processing expenses	831	1,103
Depreciation	1,885	1,965
Other	1,753	1,856
Total	4,470	4,924

\*3 Reconciliation of cost of goods manufactured and cost of sales

(Millions of yen)

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Cost of goods manufactured	16,529	18,651
Beginning finished goods inventory	1,740	1,600
Beginning merchandise inventory	250	198
Purchase of finished goods	2,618	3,220
Cost of purchased goods	1,400	1,124
Transfer from other account	13	19
<b>Total</b>	<b>22,552</b>	<b>24,815</b>
Transfer to other accounts	216	260
Ending finished goods inventory	1,600	1,726
Ending merchandise inventory	198	210
<b>Cost of sales</b>	<b>20,536</b>	<b>22,618</b>

***Cost accounting method***

The Company uses a job costing system to track production costs. During the period, finished goods were evaluated based on the planned price, and the cost difference was adjusted by allocating to the cost of sales, finished goods and work in process at the end of the period.



iii. Non-consolidated statement of changes in equity

Fiscal 2020 (from April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus		Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings			
				Reserve for technical research	General reserve	Retained earnings brought forward		
Balance at beginning of period	4,102	7,129	7,129	1,025	350	25,000	5,786	32,162
Changes during period								
Dividends of surplus							(501)	(501)
Profit							201	201
Purchase of treasury shares								
Disposal of treasury shares							(0)	(0)
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	(299)	(299)
Balance at end of period	4,102	7,129	7,129	1,025	350	25,000	5,487	31,862

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of period	(150)	43,243	1,465	196	1,661	44,905
Changes during period						
Dividends of surplus		(501)				(501)
Profit		201				201
Purchase of treasury shares	(0)	(0)				(0)
Disposal of treasury shares	0	0				0
Net changes in items other than shareholders' equity			1,246	-	1,246	1,246
Total changes during period	(0)	(300)	1,246	-	1,246	946
Balance at end of period	(150)	42,943	2,711	196	2,908	45,851

Fiscal 2021 (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus		Retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings
					Reserve for technical research	General reserve	Retained earnings brought forward	
Balance at beginning of period	4,102	7,129	7,129	1,025	350	25,000	5,487	31,862
Changes during period								
Dividends of surplus							(612)	(612)
Profit							1,899	1,899
Purchase of treasury shares								
Disposal of treasury shares							(0)	(0)
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	1,286	1,286
Balance at end of period	4,102	7,129	7,129	1,025	350	25,000	6,773	33,149

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of period	(150)	42,943	2,711	196	2,908	45,851
Changes during period						
Dividends of surplus		(612)				(612)
Profit		1,899				1,899
Purchase of treasury shares	(0)	(0)				(0)
Disposal of treasury shares	16	16				16
Net changes in items other than shareholders' equity			(161)	-	(161)	(161)
Total changes during period	16	1,302	(161)	-	(161)	1,141
Balance at end of period	(134)	44,246	2,550	196	2,746	46,993

## Notes to Non-consolidated Financial Statements

### *Significant accounting policies*

#### 1. Valuation standards and methods for securities

##### i. Held-to-maturity debt securities

Stated at amortized cost (straight-line method).

##### ii. Shares of subsidiaries and associates:

Stated at cost using the moving-average method.

##### iii. Available-for-sale securities

###### a Other than equity or marketable securities without market price:

Stated at fair value using the market value method (with any unrealized gain or loss being recognized directly in net assets and the cost of securities sold being determined using the moving-average method).

###### b Equity or marketable securities without market price:

Stated at cost using the moving-average method.

#### 2. Valuation standards and methods for inventories

Stated at cost (with book value written down for balance sheet, based on any decline in profitability).

Merchandise and finished goods: Stated at cost using the specific identification method.

Work in process: Stated at cost using the specific identification method.

Raw materials and supplies: Stated at cost using the moving-average method.

#### 3. Method of depreciation of non-current assets

##### i. Property, plant and equipment (excluding leased assets)

Stated at cost using the declining-balance method. However buildings (except for facilities attached to buildings) and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated on a straight-line basis. The principal useful lives are as follows:

Buildings and structures: 5 to 50 years

Machinery, equipment and vehicles: 4 to 9 years

##### ii. Intangible assets (excluding leased assets)

Amortized on a straight-line basis. The internal use software is depreciated using the straight-line method based on the predetermined useful life (5 years).

##### iii. Leased assets

Leased assets related to finance lease transactions that do not transfer ownership

Depreciated on a straight-line basis using the lease term as the useful life and with zero residual value.

#### 4. Accounting standards for provisions

##### i. Allowance for doubtful accounts

To provide for potential credit losses on receivables, allowance for doubtful accounts is recorded at an amount of estimated uncollectible receivables calculated based on the historical rate of credit loss for general receivables and determined in consideration of collectibility of individual receivables for doubtful accounts and certain other receivables.

##### ii. Provision for bonuses

To provide for the payment of bonuses to employees, provision for bonuses is recorded based on the estimated amount to be paid.

iii. Provision for retirement benefits

To provide for the payment of retirement benefits to employees, provision for retirement benefits is recorded at an amount accrued at the end of the current fiscal year, based on the estimated amounts of retirement benefit obligations and plan assets as of that date.

- Method of attributing estimated retirement benefits to accounting periods

In calculating retirement benefit obligations, the benefit formula basis is used to attribute the estimated amount of retirement benefits to periods up to the end of the current fiscal year.

- Method of accounting for actuarial gains and losses

Actuarial gains and losses are collectively recorded as expense in the following fiscal year.

iv. Provision for share awards

To provide for delivery of shares of the Company to Directors and Executive Officers who meet the beneficiary requirements of stock compensation plan, provision for share awards is recorded based on the estimated amount of stock benefit obligations at the end of the current fiscal year.

5. Accounting standards for recording revenue and expenses

The Company is engaged in manufacturing and sales of diamond tools, etc., and has performance obligations of delivering merchandise and finished goods based on sales contracts with customers. The performance obligations are considered to be satisfied at the point when control over assets is transferred to the customer, and the revenue is recognized at such point.

For domestic sales, revenue is recognized mainly at the time of shipment because the control over merchandise and finished goods is transferred to the customer in usual period of time from the shipment to the transfer. It is recognized at an amount that the Company expects to be entitled to receive in exchange for the merchandise and finished goods.

If the Company is involved in sales as an agent, revenue is recorded as a net amount obtained by deducting the amount paid to the supplier from the total amount of consideration received from the customer.

6. Other significant information for preparation of financial statements

Accounting policy for retirement benefits

The accounting policy for unrecognized actuarial gains and losses related to retirement benefits differs from that of consolidated financial statements.

### ***Significant accounting estimates***

Recoverability of deferred tax assets

(1) Amount recorded in the non-consolidated financial statements of the current fiscal year

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets	1,941	1,794

(2) Information on the significant accounting estimates of the identified items

The information is omitted as the content is identical to that of the consolidated financial statements

### ***Change in accounting policies***

*Application of Accounting Standard for Revenue Recognition, etc.*

Since the beginning of the current fiscal year, the Company has adopted the Accounting Standard for Revenue Recognition (the “Revenue Recognition Accounting Standard”; ASBJ Statement No. 29 of March 31, 2020), etc. and recognizes revenue at the amount expected to be received in exchange for promised goods or services, when control over the goods or services is transferred to the customer.

As a result, for the transactions where the Company is involved as an agent in providing goods or services to customers, although the Company previously had recognized the total amount of consideration received from the customer as revenue, revenue is now recognized as a net amount obtained by deducting the amount paid to the supplier from the total amount of consideration received from the customer. This change has minor impact on the consolidated financial statements.

In adopting the Revenue Recognition Accounting Standard, etc., the Company applies the transitional measures stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The change does not affect the balance of retained earnings at beginning of the period.

Pursuant to the transitional measures stipulated in Paragraph 89-3 of the Revenue Recognition Accounting Standard, the notes to *Revenue recognition* for the previous fiscal year are omitted.

*Application of Accounting Standards for Fair Value Measurement, etc.*

The Company has adopted the Accounting Standard for Fair Value Measurement (the “Fair Value Measurement Accounting Standard”; ASBJ Statement No. 30 of July 4, 2019), etc. from the beginning of the fiscal year under review. After taking the transitional measures stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019), the Company will implement the new accounting policies stipulated in the Fair Value Measurement Accounting Standard, etc. or other standards in the future. This change has no effect on the consolidated financial statements.

### ***Additional information***

*Stock compensation plan*

The information is omitted as the content is identical to that in “Notes to consolidated financial statements, *Additional information.*”

### *Non-consolidated balance sheets*

#### \*1 Monetary receivables from and payables to subsidiaries and associates

The amounts of monetary receivables from and payables to subsidiaries and associates, other than those presented as separate lines are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Short-term monetary receivables	1,476	1,223
Long-term monetary receivables	64	98
Short-term monetary payables	400	385

#### 2. Guarantee obligations

We provide debt guarantees for borrowings of foreign subsidiaries from financial institutions.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Asahi Diamond Industrial Europe SAS	116	41

#### \*3. Book value reduction of property, plant and equipment

Subsidy income related a factory invitation ordinance is deducted from the land acquisition cost.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Land	640	640
Buildings	0	0
Total	641	641

#### 4. The company has signed overdraft agreements with four banks to procure working capital efficiently.

The balances of undrawn facilities under the overdraft agreements at the end of the period are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Total overdraft limits	6,000	6,000
Drawn facilities	-	-
Net	6,000	6,000

### *Non-consolidated statements of income*

\*1. Total amounts of operating transactions and non-operating transactions with associates are as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Net sales	3,572	4,526
Purchases	3,224	4,040
Selling, general and administrative expenses:	196	313
Non-operating transactions (revenue)	912	461

\*2. Major items of selling, general and administrative expenses and their amounts and approximate composition are as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Salaries and allowances	1,903	1,891
Provision for bonuses	147	169
Retirement benefit expenses	189	140
Commission expenses	350	358
Provision of allowance for doubtful accounts	(13)	1
Depreciation	98	98
Ratio of selling expenses in expenses (%)	63.1	64.2
Ratio of general and administrative expenses in expenses (%)	36.9	35.8

### *Securities*

As of March 31, 2021

The fair value of shares of subsidiaries and associates is not shown because their market prices are not available and thus their fair value is deemed extremely difficult to determine.

The non-consolidated balance sheet amount of shares of subsidiaries and associates whose fair value is deemed extremely difficult to determine are as follows:

(Millions of yen)	
Classification	As of March 31, 2021
Shares of subsidiaries	3,705
Shares of associates	607
Total	4,313

As of March 31, 2022

The fair value of shares of subsidiaries and associates is not shown because their market prices are not available.

The non-consolidated balance sheet amount of shares of subsidiaries and associates whose market prices are not available are as follows:

(Millions of yen)	
Classification	As of March 31, 2022
Shares of subsidiaries	3,705
Shares of associates	607
Total	4,313

### *Tax effect accounting*

#### 1. Significant components of deferred tax assets and liabilities

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Deferred tax assets		
Provision for bonuses	141	167
Provision for retirement benefits	1,551	1,535
Retirement benefit trust	606	606
Loss on valuation of inventories	166	149
Impairment loss on non-current assets	430	354
Tax loss carried forward	368	108
Other	205	223
Subtotal of deferred tax assets	3,469	3,145
Valuation allowance for tax loss carried forward	(78)	–
Valuation allowance for future deductible temporary differences	(278)	(252)
Subtotal of valuation allowance	(356)	(252)
Total deferred tax assets	3,112	2,893
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,171)	(1,098)
Total deferred tax liabilities	(1,171)	(1,098)
Deferred tax assets, net	1,941	1,794

In addition to those above, major components of deferred tax liabilities related to land revaluation recorded as deferred tax liabilities for land revaluation are as follows:

	(Millions of yen)	
	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Deferred tax assets		
Deferred tax assets related to land revaluation	184	184
Valuation allowance	(184)	(184)
Total deferred tax assets	–	–
Deferred tax liabilities		
Deferred tax liabilities related to land revaluation	(350)	(350)
Total deferred tax liabilities	(350)	(350)
Deferred tax liabilities, net	(350)	(350)



2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after applying tax effect accounting

	Fiscal 2020 (from April 1, 2020 to March 31, 2021)	Fiscal 2021 (from April 1, 2021 to March 31, 2022)
Effective statutory tax rate	30.3	30.3
Adjustments		
Inhabitant tax per-capita, etc.	143.3	1.7
Expenses not deductible for income tax purposes (e.g. entertainment expenses)	10.5	0.2
Income not taxable for income tax purposes (e.g. dividend income)	(846.4)	(5.8)
Tax credits on experimentation and research expenses	–	(2.6)
Foreign tax	20.1	1.7
Valuation allowance	119.1	(4.4)
Other	(6.3)	(0.4)
Actual effective tax rate after applying tax effect accounting	(529.3)	20.8

***Revenue recognition***

Basic information for understanding revenue from contracts with customers is omitted because the content is identical to that in “Notes to consolidated financial statements, *Revenue recognition*.”

***Significant subsequent events***

Not applicable.

iv. Annexed non-consolidated schedules

*Annexed detailed schedule of property, plant and equipment, etc.*

(Millions of yen)

Type of assets	Balance at beginning of period	Increase during period	Decrease during period	Depreciation and amortization for the period	Balance at end of period	Accumulated depreciation	Acquisition cost at end of period
Property, plant and equipment							
Buildings	11,025	114	0	680	10,458	11,791	22,250
Structures	564	2	0	56	509	1,299	1,809
Machinery and equipment	3,860	866	3	1,100	3,623	19,636	23,260
Vehicles	2	–	0	1	1	17	18
Tools, furniture and fixtures	451	194	0	233	412	3,916	4,328
Land	5,986 [546]	–	79	–	5,907 [546]	–	5,907 [546]
Leased assets	141	31	0	57	114	157	271
Construction in progress	109	81	164	–	26	–	26
Total property, plant and equipment	22,141	1,290	248	2,129	21,054	36,818	57,872
Intangible assets							
Software	147	29	–	48	127		
Other	29	–	–	0	28		
Total intangible assets	176	29	–	49	156		

Notes: 1 The increase during period is mainly attributable to the following:

Machinery and equipment	Tamagawa Factory	295 million yen
Machinery and equipment	Chiba Factory	269 million yen
Machinery and equipment	Mie Factory	225 million yen

2 The figures shown in square brackets of land balances at the beginning and end of the current period represent differences with the book value before the revaluation of land for business use performed pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998).

*Annexed schedule of provisions*

(Millions of yen)

Classification	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period
Allowance for doubtful accounts	14	8	6	16
Provision for bonuses	468	553	468	553
Provision for share awards	93	39	16	116

Note: The decrease in allowance for doubtful accounts during the period is due to reversal entries of ¥1 million based on the historical rate of credit loss for general receivables, and of ¥5 million due to collection.

**(2) Components of major assets and liabilities**

The information is omitted because the Group has prepared the consolidated financial statements.

**(3) Other information**

Not applicable.

## VI. Outline of Share-related Administration of Reporting Company

Fiscal year	From April 1 to March 31
General Meeting of Shareholders	June
Reference date	March 31
Record date of dividends of surplus	September 30 and March 31
Number of shares per trading unit	100 shares
Purchase or sale of shares of less than one unit	
Handling office	(Special account) Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Transfer Agent	(Special account) Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Forwarding office	–
Trade commissions	Separately specified amount corresponding to share trading brokerage fees
Public notification method	The Company uses electronic methods for public notification. However, if electronic notification is not possible due to an accident or other unavoidable circumstances, notification will be made through the Nikkei newspaper. The URL for public notification by the Company is as follows: <a href="https://www.asahidia.co.jp/eng/">https://www.asahidia.co.jp/eng/</a>
Special benefits for shareholders	Not applicable.

Note: Based on the provisions of the Company's Articles of Incorporation, shareholders holding shares less than one unit cannot exercise their rights except the rights stipulated in each item of Article 189, Paragraph 2 of the Companies Act, the rights to receive allotment of shares for subscription and allotment of stock options for subscription based on the number of shares held by the shareholder, and the rights to request sale of shares less than one unit.

## VII. Reference Information of Reporting Company

### 1. Information about Parent of Reporting Company

The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

### 2. Other Reference Information

From the beginning of this fiscal year until the filing date of this Annual Securities report, the Company has filed the following documents:

- |  |  |   |   |
|--|--|---|---|
| (1) Securities Registration Statements, attached document thereof and Confirmation Letter  | For the 102nd fiscal year                    | (from April 1, 2020 to March 31, 2021)      | Submitted to the Director-General of the Kanto Local Finance Bureau on June 28, 2021.     |
| (2) Internal Control Report  | For the 102nd fiscal year                    | (from April 1, 2020 to March 31, 2021)      | Submitted to the Director-General of the Kanto Local Finance Bureau on June 28, 2021.     |
| (3) Quarterly Securities Reports and Confirmation Letter   | For the 1st quarter of the 103rd fiscal year | (from April 1, 2021 to June 30, 2021)       | Submitted to the Director-General of the Kanto Local Finance Bureau on August 11, 2021.   |
|  | For the 2nd quarter of the 103rd fiscal year | (from July 1, 2021 to September 30, 2021)   | Submitted to the Director-General of the Kanto Local Finance Bureau on November 12, 2021. |
|  | For the 3rd quarter of the 103rd fiscal year | (from October 1, 2021 to December 31, 2021) | Submitted to the Director-General of the Kanto Local Finance Bureau on February 10, 2022. |
| (4) Extraordinary Report   |  |   |   |
| An Extraordinary Report prepared pursuant to the provisions of Article 19, Paragraph 2, (ix)-2 of the Cabinet Office Ordinance on Disclosure of Corporate Affairs (result of the resolution made at the General Meeting of Shareholders) |  |   | Submitted to the Director-General of the Kanto Local Finance Bureau on June 29, 2021.     |

**Section 2 Information about Reporting Company's Guarantors, etc.**

Not applicable.