

Fiscal Year Ended March 31, 2020
(April 1, 2019 to March 31, 2020)

Business Report

Entrance of "NS TOOL Private Show 2020: Precision and Micro Machining"
hosted by NS TOOL and held at PACIFICO Yokohama.



「つくる」の先をつくる

Shareholder Memo

Fiscal year	From April 1 to March 31 of the following year
General Shareholders' Meeting	1. Ordinary general meeting of shareholders: held in June every year 2. Extraordinary general meeting of shareholders: held as needed
Shareholder registry administrator Special account administrator	Marunouchi 1-4-5, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation
Location of operations	Marunouchi 1-4-5, Chiyoda-ku, Tokyo, Japan Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation
Contact & mailing address	Nikko-cho, Fuchu-shi, Tokyo, Japan Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation 0120-232-711 (toll-free in Japan) [Mailing address] PO Box 29, New Tokyo Post Office, 137-8081, Japan Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporatio
Public announcements	Notices will be posted in electronic format. However, notices will be published in the Nihon Keizai Shimbun (Japanese newspaper) when an electronic notification is not possible for unavoidable reasons.

Note:

- (1) In principle, the account administrator with whom you hold an account (e.g., securities firm) receives requests for change of shareholder's address, instruction to purchase, and other operations. Please contact the securities firm, etc. with whom you hold the account. Please note that the shareholder registry administrator (Mitsubishi UFJ Trust and Banking Corporation) cannot handle such matters.
- (2) With regard to operations concerning shares recorded on the special account, Mitsubishi UFJ Trust and Banking Corporation shall serve as the account administrator. Please contact them regarding such shares. Branches of Mitsubishi UFJ Trust and Banking Corporation throughout Japan will assist you as well.
- (3) The main office and branch offices of Mitsubishi UFJ Trust and Banking Corporation will pay dividends not received.

Contact Us

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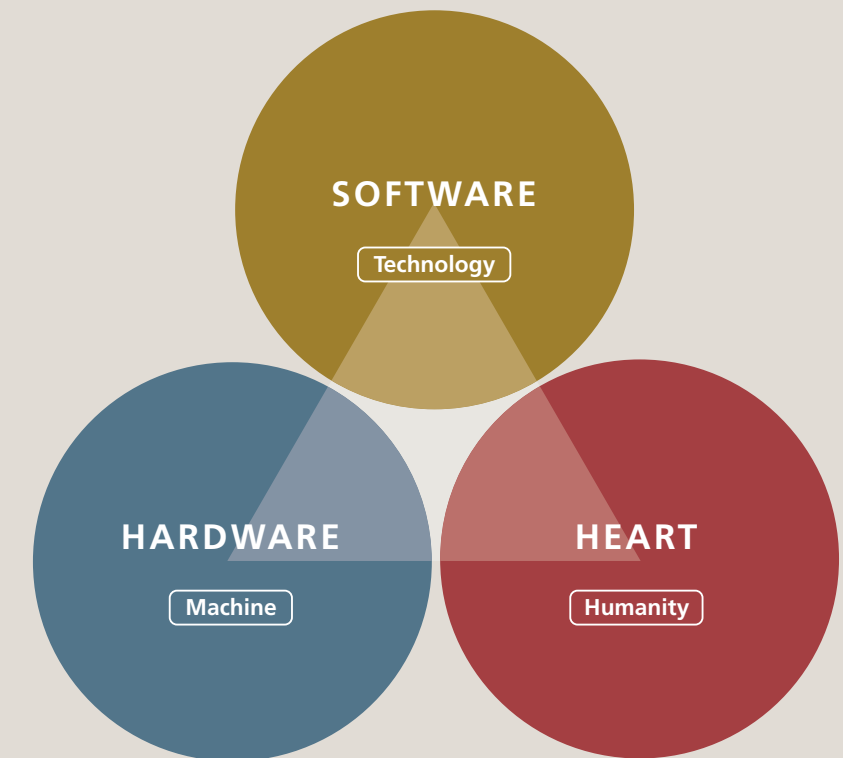
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Management Philosophy

NS TOOL creates “**Software** (technology),” “**Hardware** (machine)” and “**Heart** (humanity).”
We contribute to society by developing eco- and human-friendly products.



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Disclaimer

Notes regarding the Company's estimates

This report contains forward looking estimates including plans, strategies, financial performance and other statements. These estimates are based on the determination derived from the information that can be obtained currently. Please note that the actual results are supposed to be affected by various types of risks and uncertainties and, as a result, can be largely differ from these estimates.

Major Milestones of NS TOOL Group

In 2016, NS TOOL CO., LTD. took a new step forward under the brand statement of “For Crafting Tomorrow.” Since our establishment in 1954, we have grown side by side with Japan’s *monozukuri* (manufacturing). The new brand statement reflects our pride of tireless support on nation’s development, and our unwavering commitment to create innovations in cemented carbide small-diameter (SDC) end mills and to explore the future of “Made in Japan” together with our customers.

NS TOOL’s customers are engaged in the development and manufacturing of various products and parts days and nights in the cutting-edge field of precision and micro machining, where even the slightest measurement error can compromise the entire quality. The ultra-downsizing in the electronics world has led to micro-miniaturization, high-level integration, and thinning of electronic components and devices. As a result, technological requirements at *monozukuri* production sites are far greater than ever before.

As a company specializing in cemented carbide small-diameter (SDC) end mills, NS TOOL is constantly improving precision and durability to meet customers’ needs and expectations, as well as enhancing our own technological standards to create cutting-edge technologies and products.

1954–

- 1972

Launches the original “Power End Mill” with torsional angle of 50 degrees.


- 1977

Starts exporting products (to Taiwan).
- 1980

Makes a full-scale entry into the mold market with a cemented carbide solid end mill.
- 1989

Constructs new Fujisawa Plant and establishes operation of three-production sites.
- 1954

Establishes Nisshin Kogu Seisakusho.
- 1961

Establishes Nisshin Kogu Seisakusho L.C. in Shinagawa-ku, Tokyo.
- 1979

Changes the organization to Nisshin Kogu Seisakusho Co., Ltd.

1990–

- 1993

Completes the first stage of construction of Sendai Plant.


- 1994

Completes the second stage of construction of Sendai Plant.
- 1998

Completes the third stage of construction of Sendai Plant.
- 1999

Invests in Sato Tool, Ltd. (Niigata Nisshin Co., Ltd.).
- 1990

Establishes a consolidated subsidiary G-Tech Co., Ltd.
- 1991

Changes the trade name to NS TOOL Co., Ltd.
- 1999

Consolidates Production Division and Development Division into Sendai Plant.

2000–

- 2001

Establishes R&D Center on the premises next to Sendai Plant.


- 2003

Launches a project to develop an original tool grinding machine (TGM).
- 2006

Holds the first NS Private Show.
- 2006

Completes the first TGM developed by NS TOOL.


- 2008

Holds the second NS Private Show.
- 2009

Establishes a new processing center.
- 2001

Acquires ISO9001 certification.
- 2002

G-Tech Co., Ltd. and Sato Tool, Ltd. (Niigata Nisshin Co., Ltd.) become wholly-owned subsidiaries.
- 2004

Acquires ISO14001 certification.
- 2009

Establishes NS Engineering Co., Ltd.
- 2001

Lists on the JASDAQ Stock Exchange.

2010–

- 2016

Completes the fifth stage of construction of Sendai Plant.
- 2020

Holds NS TOOL Private Show 2020.


- 2020

Establishes a new development center with all-round seismically isolated structure.


- 2011

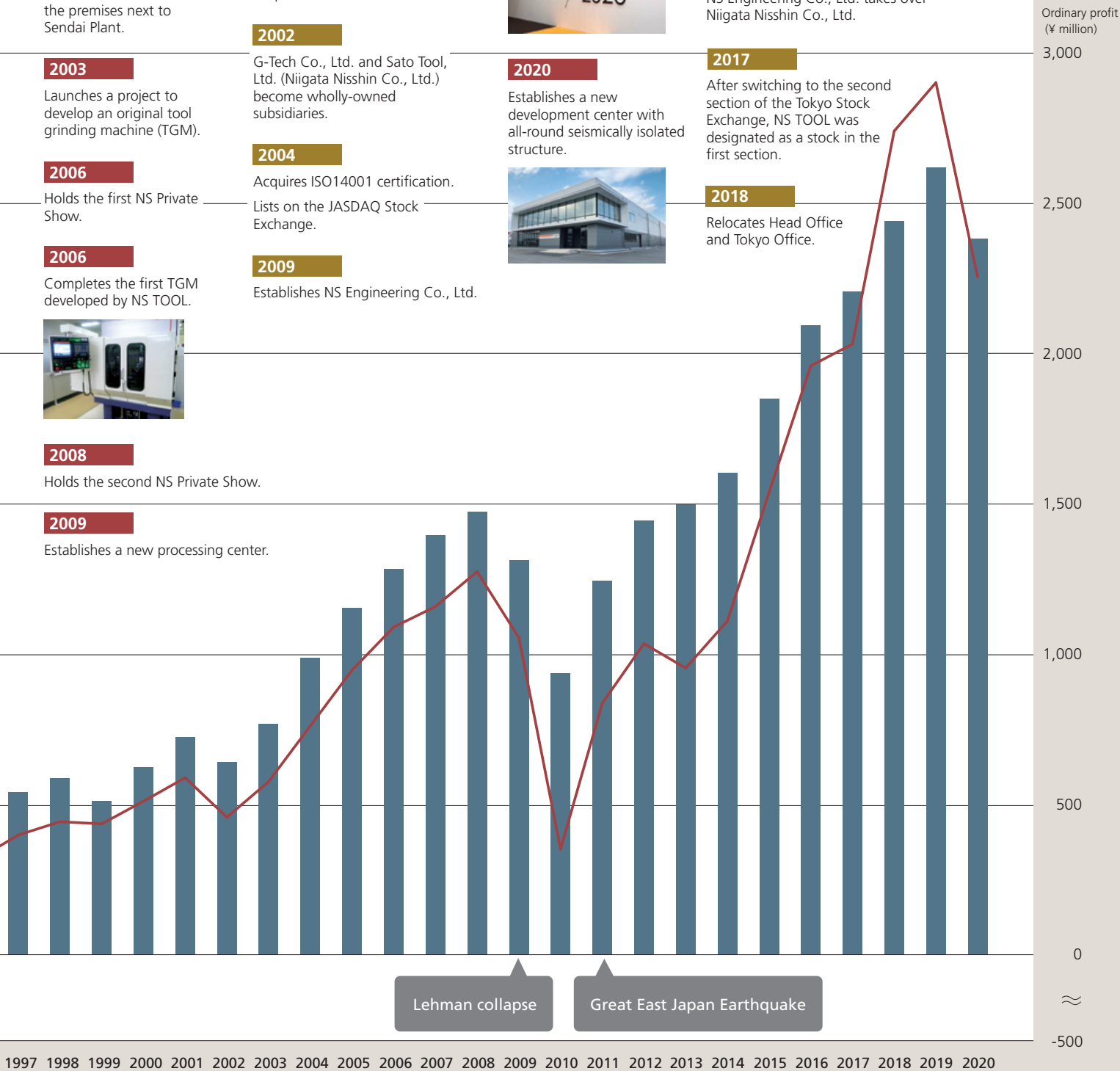
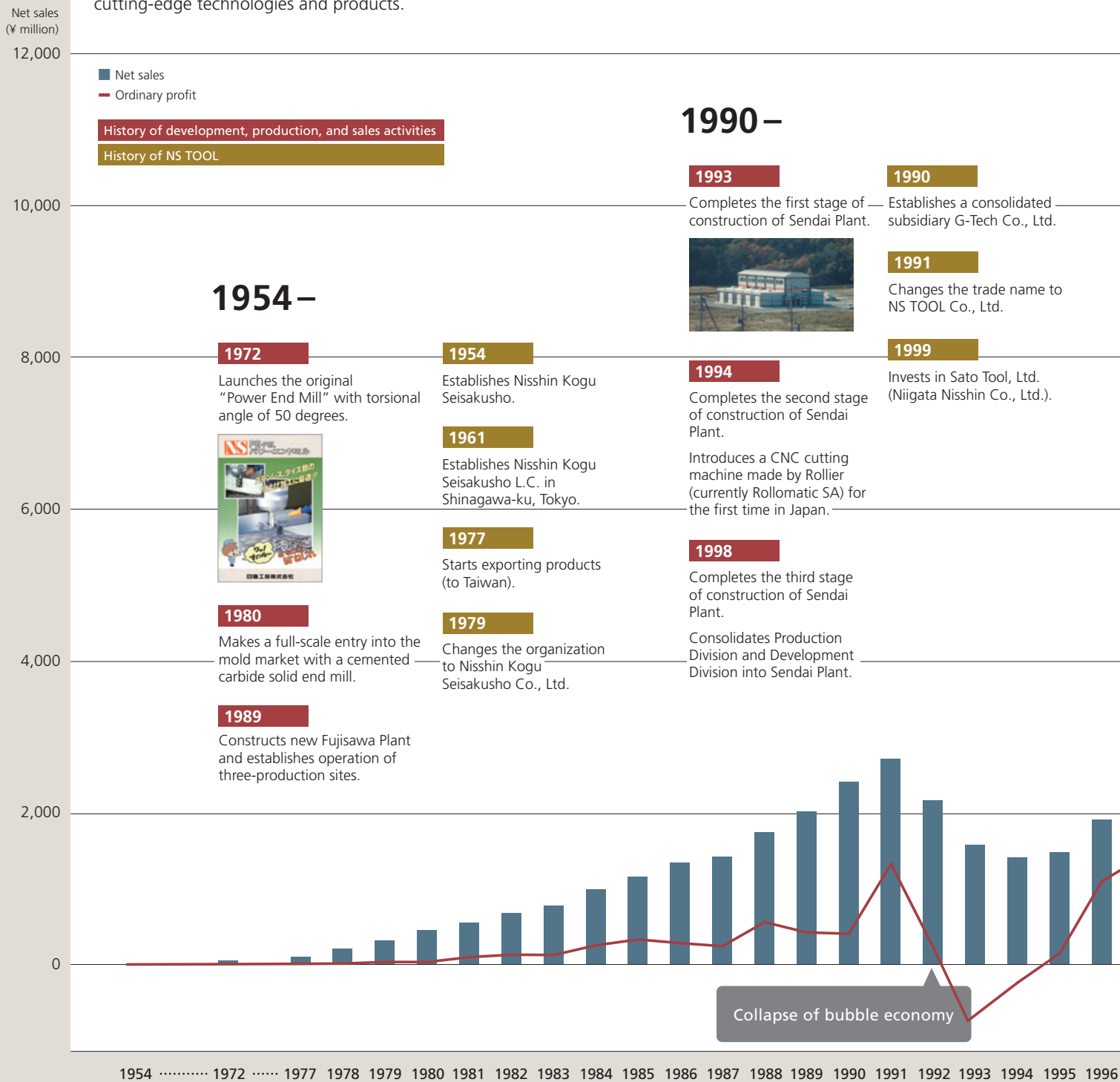
Makino Kogyo Co., Ltd. becomes a wholly-owned subsidiary.
- 2013

Establishes NS TOOL HONG KONG LIMITED.
- 2016

Reforms the corporate identity. NS Engineering Co., Ltd. takes over Niigata Nisshin Co., Ltd.
- 2017

After switching to the second section of the Tokyo Stock Exchange, NS TOOL was designated as a stock in the first section.
- 2018

Relocates Head Office and Tokyo Office.

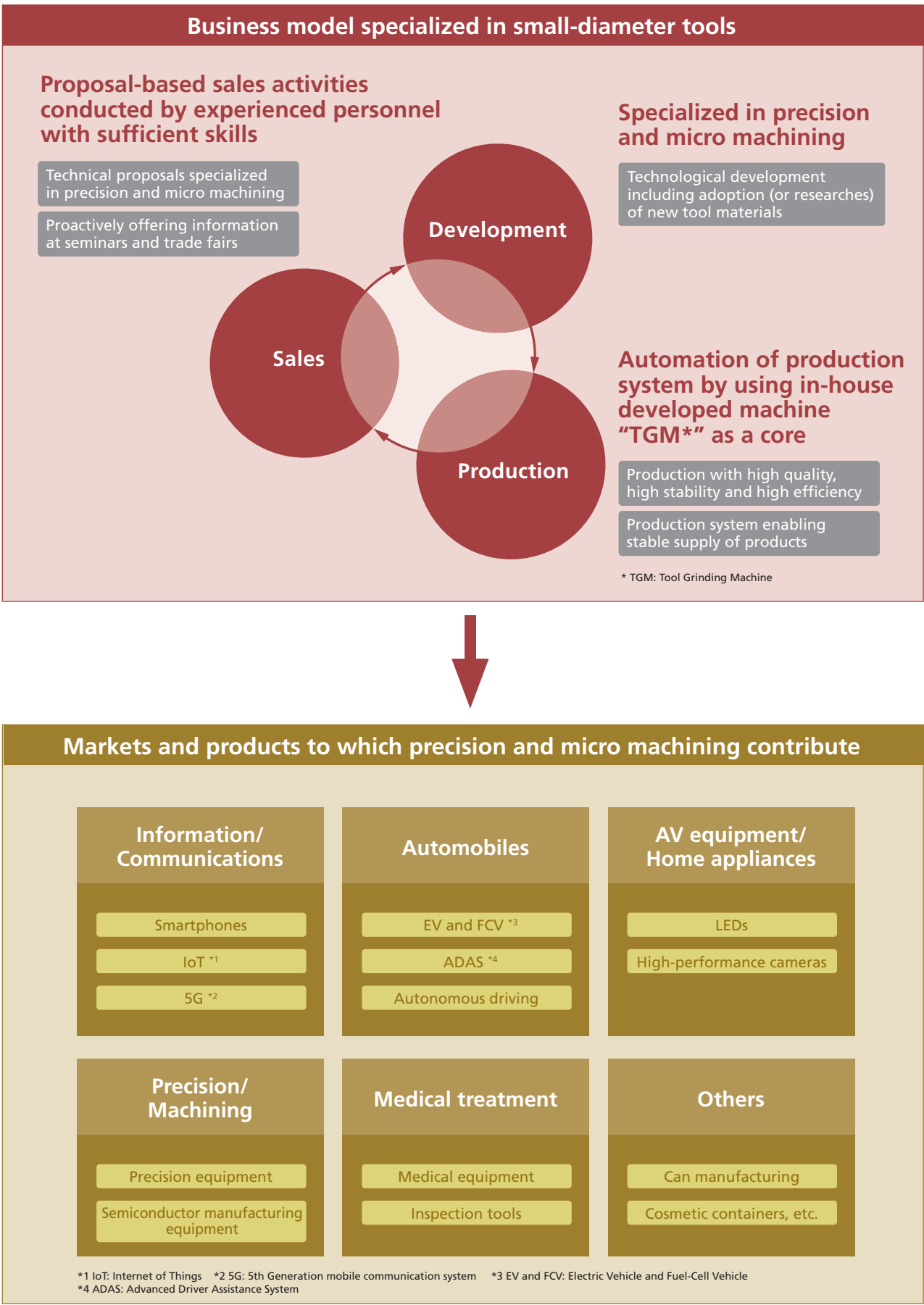
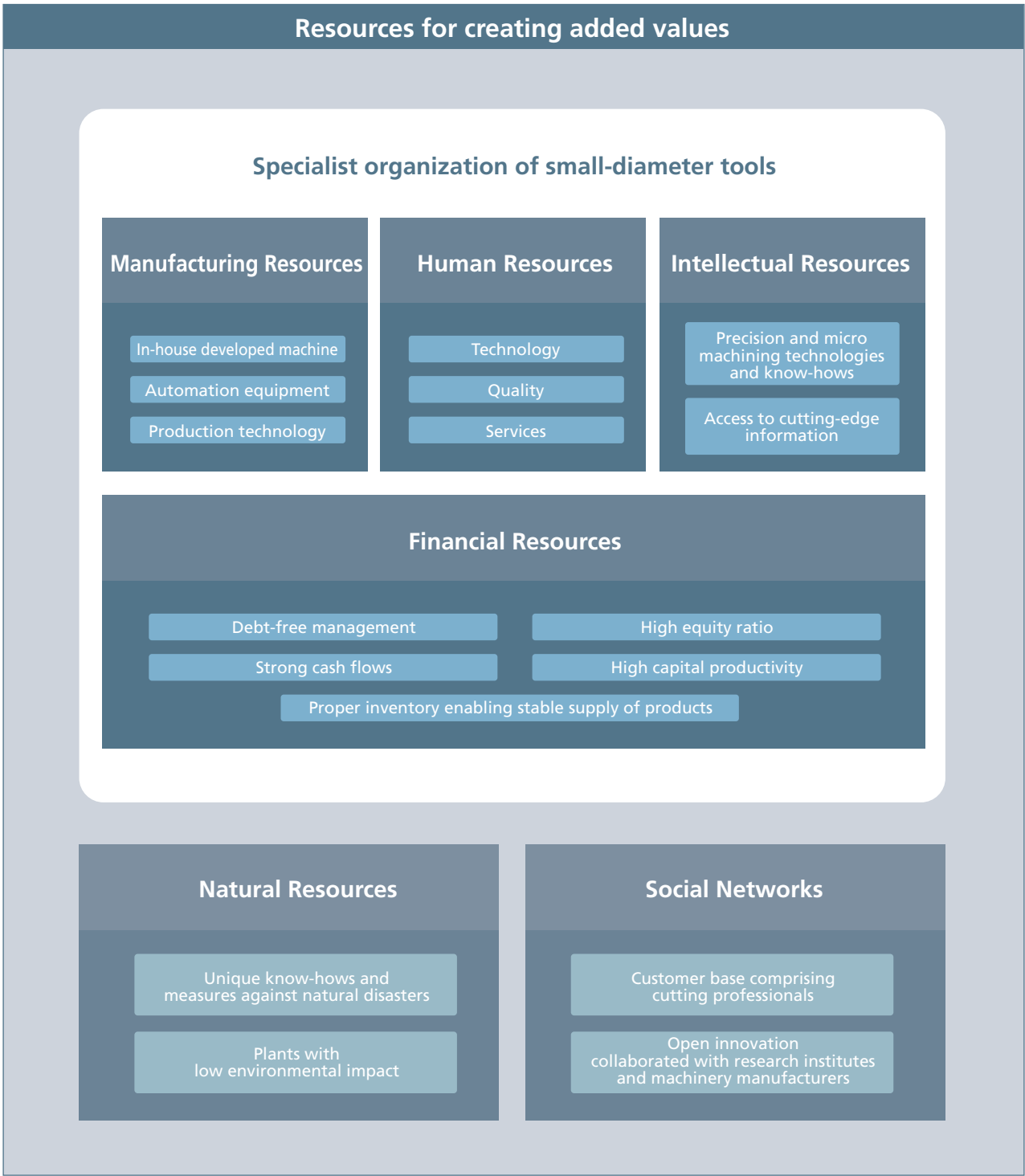


* Term ended at the end of March of each year (end of August until 2001)
* Fiscal year 2002 has seven months, but the results were converted into the equivalent of 12 months.

Value Creation Process of NS TOOL Group

For Crafting Tomorrow — Unlock the dreams and possibilities of *monozukuri* —

In order to support the precision and micro machining technologies essential for manufacturing electronic and precision parts, which Japanese *monozukuri* is best at, our Group challenges technologies, quality and services beyond other companies' reach and has been restlessly working to create new added values. As a group specializing in small-diameter tools, we boast the top share in Japan in the field of cemented carbide small diameter (SDC) end mills, and maintain high profit margin and a thorough debt-free management.



Business Summary

What are end mills ?

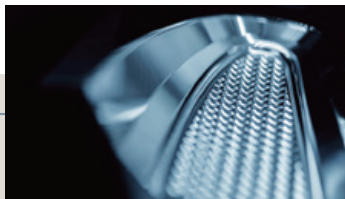
End mills are cutting tools attached to machine tools for cutting and processing metals such as steel, stainless steel, aluminum. End mills are capable of a wide variety of cuttings, such as holes, grooves, planes, and three-dimensional curved surfaces. End mills are used for processing molds and parts. Small-diameter end mills with a blade tip diameter of 6 mm or less, the flagship products of NS TOOL, are most suitable for precision and micro machining. Small-diameter end mills are used by over 5,000 companies from major manufacturers to small sized ones.



Machine tool appearance



Appearance of end mill
End mills are attached to a machine tool and cut out materials.

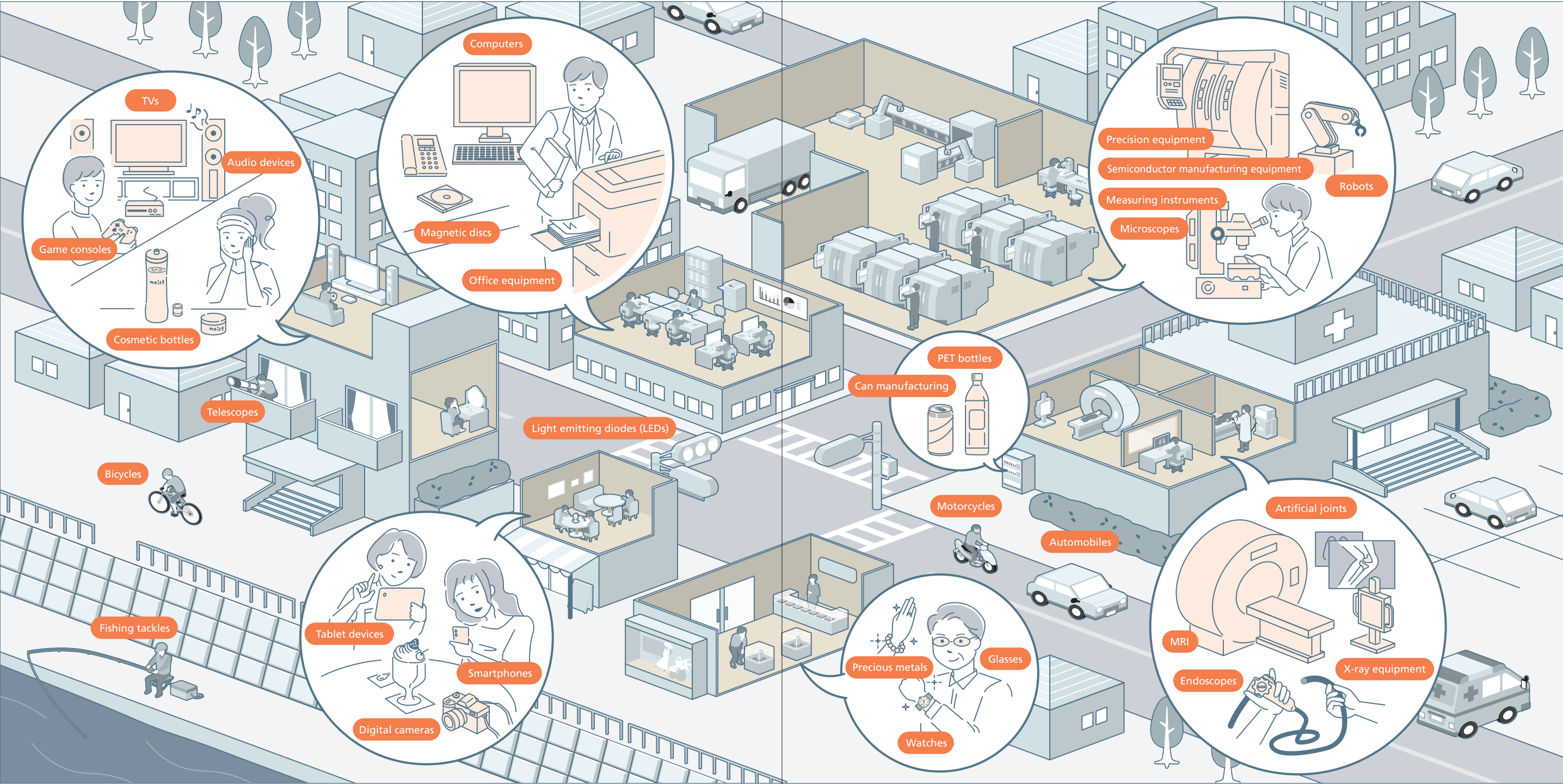


Mold machining



Parts processing

Machining with small-diameter end mills helps produce many products such as the following:



Top Message



Hiroji Goto, President

To respond to market recovery
as a resilient corporate group, we steadily proceed
with solid preparations.

Review of business activities in
FY3/20

The demand cycle of cemented carbide end mills seems to have peaked out in 2018, while a new market has emerged in recent years in the field of smartphones and automobiles, mainly in the EMS industry in China, with increasing demand for precision and micro machining. Therefore, we believe that demand for cemented carbide end mills will continue to expand in the medium- to long-term.

In 2013, we established a sales subsidiary in Hong Kong. Through the offices in Hong Kong and Shenzhen, we successfully conducted marketing in the early days of the precision and micro machining market in China, which has contributed to our recent business expansion.

Considering the background, at the beginning of FY3/20 we expected net sales to be slightly below the results of FY3/19. However, since the impact of the U.S.-China trade dispute has been bigger than expected, demand from domestic automobile-related component industry has significantly decreased since 2Q. As a result, we announced a downward revision of our financial

forecasts in the middle of the fiscal year, which caused some concerns among shareholders.

Major changes in business
environment and future outlook

The Covid-19 pandemic started toward the end of FY3/20. Production of automobile-related components in China was one of the first to stop. The mold industry in Japan has been affected by the situation as well. We anticipate that the impact of Covid-19 will last at least until the end of 2020.

Nevertheless, we expect that medium- to long-term demand for precision and micro machining will continue to grow. In addition to the fields of smartphones and automobiles, demand in the fields of 5G (fifth-generation mobile communication system) infrastructure and terminals is expected to increase in the latter half of 2020.

However, the current demand trend draws some attention. Since we are the major supplier of small-diameter tools, we see increased inquiries for reserve stock as customers are concerned about future procurement risk. Our sales personnel pay close

attention to determine whether the demand is tentative or actual.

In FY3/21, we fear the global macro environment will deteriorate and our business will also be affected. However, our attitude to maintain capital investment for medium- to long-term market expansion and business investment for market cultivation, remains the same. In FY3/20, we held “NS TOOL Private Show 2020” to promote our cutting-edge precision and micro machining technologies, and carried out construction of the new R&D Center with an all-round seismically isolated structure, the first such attempt in the manufacturing industries. In December 2019, NS TOOL was featured as the top manufacturer of cemented carbide small-diameter (SDC) end mills on the TV information and documentary program of TV Tokyo, *Undiscovered Gulliver—Excellent Company File**.

* The program is now streamed on TV TOKYO Business on Demand (paid member registration is required to watch).

New initiatives for next-generation
growth

“NS TOOL Private Show 2020”

At the end of January 2020, we held a trade show specialized in precision and micro machining technologies for the first time in 12 years. Considering the current chaotic situation, the timing of the Show was at the last minute and we think ourselves lucky. The show was well received by the machine tool manufacturers and peripheral device manufacturers participated.

Companies using our tools cooperated by exhibiting many of their works for reference. The level of their technological skills was so high that we believe, visitors should be convinced that virtually all of Japan’s leading companies were gathered at the show one time. We are most grateful to our users and customers, who have pioneered the precision and micro machining industry and developed cutting tools market. Their existence has certainly led us to the successful branding of NS TOOL.

Behind the success of the show, we reckon we have gained our user’s trust, as we have stably continued to provide tools of excellent precision and uniform quality to the market under unique production system using in-house developed machines. Our operation system, which maintains sufficient stock level and guarantees speedy delivery, also gives users a sense of security.

Furthermore, it is also important to continuously develop new technologies, looking ahead to the future of precision and micro machining. Users restlessly require more durability and efficiency in every cutting tool we deliver. We understand that our awareness of market needs and the ability to develop advanced products are the driving force behind our competitiveness in the market.

New R&D Center with seismically isolated structure
starts to operate

In March 2020, the new R&D Center with an all-round seismically

isolated structure started to operate. This is the first attempt in the manufacturing industries. On a site where precision and micro machining is performed, the slightest vibration, which cannot be sensed in daily life, may have a significant impact on the machining accuracy.

Therefore, at the new R&D Center, we profoundly improved the machining accuracy by isolating the vibration from the ground and visualizing the causes of vibration. Currently, we are collecting data to verify the impact of vibration from machine tool operations and the ground.

Through various verification tests at the new R&D Center, we expect further evolution of tools. A prototype of the next-generation tool plant will be operational when the verification is completed, and is keenly awaited.

In view of these developments, our R&D Center is attracting huge interest in the precision and micro machining industry. We are steadily preparing to start proactive marketing activities as soon as the impact of Covid-19 diminishes.

Preparing to build a resilient corporate group

NS TOOL has been preparing its business continuity plan (BCP) in various ways following the disaster of the Great East Japan Earthquake. However, we are acutely aware of the need for improvement after the impact of Covid-19. One aspect that we need to improve is the operations of the inventory center. Currently the inventory center is located in the Tokyo Head Office. If our Head Office is quarantined, shipping will be stopped. Decentralization of the inventory center is a pressing issue, and therefore we have started to prepare for establishing another one in Sendai.

Based on our solid financial structure, we will make full use of our current human resources and make solid preparations for recovery after Covid-19. For now, we are conserving our energy to expand our business again as a resilient corporate group once the market recovers. We would appreciate our shareholders’ continuous support.

Outline of Financial Results for FY3/20

Unit: ¥ million	FY3/19 Actual	FY3/20 Actual	YoY Changes
Net sales	10,476	9,531	-0.9%
Operating profit	2,879	2,219	-22.9%
Ordinary profit	2,894	2,231	-22.9%
Profit attributable to owners of parent	1,970	1,545	-21.6%
Capital investment	1,268	1,755	+38.4%
Depreciation	629	698	+11.0%
EPS	¥157.59	¥123.62	-21.6%
DPS	¥45	¥45	—



We will focus on developing the precision and micro machining market through business matching.

Takashi Koizumi

General Manager of Sales Department

Business overview for FY3/20

The economy surrounding our domestic business was slowing down in FY3/18 and started to be sluggish worldwide due to various factors such as the impact of the U.S.-China trade dispute emerged in 2019, weak semiconductor-related demand due to inventory adjustments and declining automobile-related demand that has wide skirts. To make matters worse, 5G-related demand, which was expected to grow from the beginning of 2020, suddenly stalled because of the impact of Covid-19.

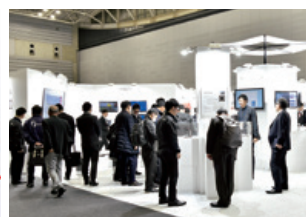
Despite the difficult business environment, in FY3/20, we held a major event, NS TOOL Private Show 2020: Precision and Micro Machining Technologies (hereafter "NSPS2020"). At this trade show, hosted by NS TOOL from January 29 to 30, 2020 at PACIFICO Yokohama, 39 companies and institutions, including machine manufacturers, peripheral device manufacturers, universities, and research institutions participated under the theme of "precision and micro machining technologies." The show attracted more than 1,300 visitors.

At the Show, our R&D Dept. prepared new products and concept products. Meanwhile, in the market, we released new products for parts processing of stainless steel and difficult-to-cut materials, and a new small-diameter tool for general steel that can drill and perform ultra-efficient processing.

Furthermore, as a product for molds, we have released a specialized tool for electric engraving of mold s for such as copper electrodes, instead of carving out steel. In some cases, the product life is ten times longer compared with conventional tools, and the product is now dominating the market. In addition, we introduced special products which reflected users' opinions. However, consolidated domestic net sales for FY3/20 decreased by 12.7% yoy to ¥6,615 million due to downturn of the market environment.



Opening remarks by the President at the trade show



Booths at the venue

Overview of NS TOOL Private Show 2020

The number of visitors to NSPS2020, which was held for the first time in 12 years, did not outnumber the previous show, partly because of the bad timing. However, we believe the quality of the show enhanced our brand power in the industry and surprised the exhibiting manufacturers, because owners and engineers of many leading companies visited the show.

As Domestic Sales Dept., one of our focuses was business matching through exhibits that were produced by the engineers of leading companies specifically for NSPS2020. Efforts for business matching started to bear fruit. Taking advantage of this achievement, we would like to establish new business that is competitive enough to drive out lower-priced similar products by competitors in Japan and overseas.

We released the following four new products in NSPS2020. Toward mass production of these new products, the R&D Dept. plays a central role for further improvement of accuracy.

- 1) Newly developed four-flute radius end mills, CBN super-high-precision end mill specialized in finishing high-hardness materials.
- 2) Short-shank long-neck ball end mills applying *Mugen* coating premium in the new flute shape, which process high-hardness materials with exceptional accuracy.
- 3) Four-flute long-neck radius end mills for high-hardness materials, applying *Mugen* coating premium, ranging from an end mill with diameter of 0.1 mm the least, for precision and micro machining required for infrastructure of 5G base stations and production of terminals.
- 4) Flat drills applying *Mugen* coating. The product lineup was expanded, ranging from 0.1 mm, the smallest, to 0.9 mm in increments of 0.1 mm. We aim to cultivate medical applications.

VOICE

Voices from the participants in NS TOOL Private Show 2020



Seminar (held in the venue of the trade show)
Introducing the latest tools and processing technologies to people engaged in cutting works

NSPS2020 was the culmination of the past 12 years. With the cooperation of exhibitors, we were able to exhibit various solutions to demonstrate the extent of possibilities of micro machining. Many of the world's leading machine tool manufacturers and active successful users have expressed their requests for us to hold the trade show continuously.

On the other hand, there were issues as well. We were not sufficiently prepared for operating the show and business matching, because, since this was the first show in 12 years, few staff had experienced the previous show. We appreciate voices from people involved, which will help us hold the next show in several years, and would be grateful for your support at that time.

VOICE

Voices from participating machine manufacturers

All companies rated their participation in the show as "extremely beneficial" or "beneficial." One of them said, "There is no other opportunity like this, where all machine tool manufacturers, who are focused on the precision and micro machining market with cutting technologies, bring in actual machines and exhibit them. We are grateful to you for providing such an opportunity, and respect NS TOOL's capability to attract visitors based on its brand power."

VOICE

Voices from participating peripheral device manufacturers

Ninety percent of the companies rated their participation in the show as "extremely beneficial" or "beneficial." Opinions included, "During NSPS2020, there were many visitors who have relationships with our company. We received many inquiries about our business." and "The concept of the show was suitable for our company. We could collect useful information." However, some pointed out problems in the operation of the venue.

VOICE

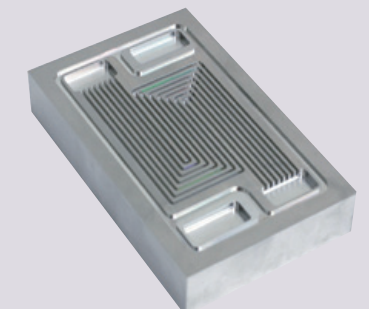
Voices from users providing the work samples

Just over 60% of the companies responded that they would like to be involved in the next show. Some said, "We enjoyed it, because we rarely make samples." and "We are very satisfied, because you exhibited our product in an attractive way." while others gave opinions such as, "It was difficult to distinguish the attractions of the new products from conventional ones. Will it increase the quality? Will it reduce the cost? Will it prolong the life? What part of the tool will be good for us?"

Work samples for solutions



Many molds are also used in car headlights. A mirror-like surface is required, because this mold transmits light. Conventionally, this surface was made by polishing after cutting. However, with the tool of NS TOOL, it can be made just by cutting.



The separator, which is one of the components of a fuel cell, is also manufactured using a mold. Our tools have been used since the early stage of development (prototype) of the separator, contributing to the technological development.



We deliver high-quality and high-performance end mills to the world market.

Yuji Goto

General Manager of International Sales Department

Business overview for FY3/20

Consolidated overseas net sales of FY3/20 increased by 0.6% yoy to ¥2,916 million, of which China, Hong Kong and Taiwan, the largest market, accounted for 46.4%. Same as in previous years, the demand for smartphone applications in China was the largest.

In the Chinese smartphone market, new product are released in September and October. Therefore, up-front demand for tools for prototyping and mass production peaks from April to June. In FY3/20, demand increased from April to June, exceeding the initial forecast. Since the plant operating ratio drops during the Chinese New Year, the demand was reduced in January. After February, there was demand for reserve stock because customers were concerned about the influences of Covid-19 such as delays in distribution.

The manufacturing industry in China looks to be solid if not the impact of Covid-19. Therefore, demand for tools will recover once plants restart. Our concern, however, is Europe. As air pollution has become more serious, driving restrictions on diesel-powered vehicles have been tightened in major cities. Automakers are increasingly switching to hybrid vehicles (HV) and electric vehicles (EV). As a result, demand from diesel-component-related manufacturers, using our tools, has fallen sharply. The impact became apparent in the fall of 2019.

Major change in the manufacturing industry

Our business in China has been expanding in recent years. One of the reasons is that domestic tool market for precise and micro machining has established in China after high-precision machines of major machine manufacturers are broadly introduced. For example, processing of optical-system lenses used for car headlights and taillights, and sensors and cameras for safety systems which are becoming standard equipment, is increasing.

Furthermore, if 5G becomes popular, the connectors and cameras used for communication terminals will require more precision. Also, if more automobiles shift to smart cars, plastic

molds and interior components will also require more precision. China is becoming a core hub of mass production in such fields of manufacturing as well.

With this trend, major Chinese manufacturers started automated production with 24-hour unmanned operation in their plants. In addition, with software control, processing accuracy has been enhanced. At those sites where long-term stable production is essential, inferior tools may cause instability are no longer used. This is a huge change.

For customers around the world who are engaged in precision and micro machining

Amid the growing demand for tools that enable precision and micro machining, the mission of the International Sales Dept. is to convey "technologies using tools." In overseas sales, it is necessary to solve users' problems immediately on site. Currently we do business with 25 agents around the world. For them, we hold many technical seminars and joint seminars for users.

In addition, technical support for users has been reinforced. In China, for example, we started to distribute videos about technical information, using SNS. About 4,000 people have already registered, and the number of technical inquiries is increasing.

In the future, we would like to strengthen initiatives to overcome the distance between users and us by holding webinars and expanding technical support networks. Currently, technical support is a major differentiator of our company. We will focus on initiatives for promoting our advantages.



Examples of contents for video distribution



Voices from overseas sales agents



China

With CBN end mills, which have intense impact in tool markets, NS TOOL developed the market of precision-micro molds in China. That's how people in the Chinese mold industry recognized the performance of the company's tools. Strengths of NS TOOL include the sense of high reliability on its small-diameter tools, the ability to develop new material tools, and a wide product lineup of small-diameter tools.

In China, we are constantly engaged in innovation through product development and the establishment of original brands. As a result, the markets of communication, medical treatment, semiconductors, and ultra-precision equipment are growing rapidly. The situation is a good opportunity for NS TOOL and will lead to further challenges.

To that end, we wish NS TOOL to continue to strengthen its current advantages and respond to the increasing competition in terms of price and performance. Further, we hope NS TOOL will develop new products, improve coatings, and enhance its products and specifications that are compatible both with molds and components in the field of forging and die casting.



Switzerland

In precision and micro machining, which require strict accuracy, all the elements in the course of processing must be of higher standards. Tools, in particular, are key elements, because they directly process materials. Many users find NS TOOL most eligible, because it is able to continue to supply high-precision, high-quality end mills.

Demand for precision and micro machining is growing, due to the increasing emphasis on the longevity and necessity of healthcare equipment as well as importance of medical technologies associated with these trends. The requirements of the medical industry are so high that not many manufacturers can satisfy them. We believe the medical industry is a potential market for NS TOOL.

At the factory of NS TOOL, production and quality are thoroughly controlled. The company is popular because it is committed to quality through, for example, automatic inspection of all products. In addition, NS TOOL has developed tools using advanced materials such as CBN (Cubic Boron Nitride) and PCD (Polycrystalline Diamond). We hope the company will continue to lead the precision and micro machining field.

Seminars for users held at a local dealer



China



Taiwan



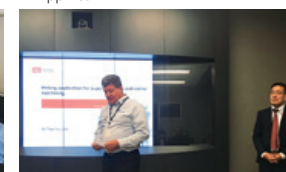
Thailand



Philippines



Austria



America



Germany

NT TOOL end mills are recognized as high-end products and are well known in the market for their small diameters. Customers purchase the products and appreciate a high level of technical support. We do not just sell the products as processing tools, but provide them with high-value-added machine-processing solutions that satisfy customers, in other words, with technical support and technical proposals.

We consider that the comprehensive support of NS TOOL is excellent. Also, it seems NS TOOL has always been the most advanced company in terms of the quality and diverse lineup of its tools.

Training sessions for dealers held by the Sales Engineering Sect. (approx. three days per session)



France



Thailand



Philippines



Indonesia

We aim to build a next-generation plant resistant to disasters and suitable for precision and micro machining.



Takashi Goto

Executive Vice President, in charge of R&D/Production

Our experience of the Great East Japan Earthquake led to the idea of a new development center structure

Behind the idea of establishing the new R&D center for precision and micro machining lays our experience of the Great East Japan Earthquake. This is why we asked Okumura Corporation to adopt a seismically isolated structure for the new R&D center. Their initial response was that it was difficult to control both seismic isolation and resistance to earthquakes at the same time.

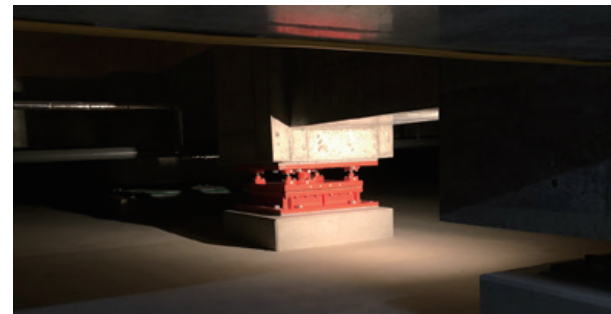
Then we visited the institute of Okumura Corporation in Tsukuba and saw testing of seismic isolation systems. We saw possibilities to control both and expressed our strong feeling to the person in charge, saying, "Maybe it will not work, but we want to give it a try." He replied, "We don't work for mistakes, but your enthusiasm motivates us."

Thereafter Okumura Corporation conducted various studies on vibration. Our task force, led by Plant Manager Mr. Okada, prepared necessary data. I think people of Okumura Corporation went to great lengths to proceed with the project. They had no experience in building the seismically isolated structure required by a company specialized in precision and micro machining. Therefore, we started by explaining the level of vibration we mind.

The new R&D center was completed owing to Okumura Corporation's thorough understanding of our business, their

dedicated work and sincere handling of matters. Surprisingly, NS TOOL, which has the motto "For Crafting Tomorrow," often faces challenges involving the idea of "You can't tell unless you try."

You cannot start precision and micro machining just by purchasing a machine. Many efforts such as setting up the surrounding environment and learning how to use machines and tools, all of which consist of backbone of manufacturing, are essential. We are sincerely grateful to have partners who share such ideas and make utmost efforts to design, construct and verify the new building structure.



Damper against micro vibration under the floor of the new development center

The damper against micro vibration, which was added to the seismic-isolation system, reduces the vibration caused by wind, mechanical equipment, and road traffic around the building, and contributes to the development of high-precision cemented carbide small-diameter (SDC) end mills.



Koichi Okada

Plant Manager and General Manager of Production Department

Appearance of the new R&D center

The new R&D center, which provides the ideal environment for the precision and micro machining factory equipped with tool grinding machines and machining centers, is a new R&D base of NS TOOL. It has a total floor area of 2,859 square meters, office and mechanical equipment on the first floor and a seminar room on the second floor with capacity for more than 150 people.



Considering the way a secure and safe precision and micro machining plant should be

After the new R&D center's completion, we are currently collecting verification data of actual vibration. We collect various data such as changes of work's surfaces processed in the conventional environment and after vibration. This helps us verify pros and cons of the seismically isolated structure. The verification will be completed by early summer 2020. After the verification, we will aim to construct the next-generation plant suitable for precision and micro machining, which is secure, safe,

and truly resilient to disasters. It would take a year to examine the details of the design.

Since the planned plant tour had to be postponed due to Covid-19, we had no chance to show people around the new R&D center. However, the new R&D center started to dispatch information, through online meetings and other means, more frequently. The center also has facilities to hold training sessions for users. Above all, the new R&D center is the place to confirm how a precise and micro machining plant secure, safe, and resilient to disasters, should be. Therefore, we wish many customers to visit us so that we can use it as a new base for marketing activities.

We innovate technologies with new types of manufacturing and develop products suitable for the times.

If the seismically isolated structure operates properly in the new R&D center, the concept of the plant will change significantly. Thanks to the all-round seismically isolated structure, even if a disaster like the Great East Japan Earthquake occurs, our plant can continue production as usual without being affected, enabling us to fulfill our responsibility to stably supply our products to customers. We are promoting a new type of manufacturing with technological innovation and meeting challenges such as operating an unmanned plant through automation* as well as creating products of higher

precision. Environmental initiatives at production sites are important, so we also strive to save energy.

We aim to continuously contribute to society with our products manufactured at the plant secure, safe, and resilient to disasters. In order to earn the trust of our customers, we develop products suitable for times produced by new way of manufacturing, though a system to supply products stably and timely. With the spirit of "Cheerful, Comfortable and Creative," we will continue to strive to be a company needed by society.

* In NS TOOL, "automation" does not simply mean automated processing. Rather, it is a system to avoid defects where machines make own decisions almost like human through measurements and feedbacks.

Financial and Non-Financial Highlights

NS TOOL CO., LTD. and Consolidated Subsidiaries

(Unit: ¥ million)														
FY3/11					FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	2019/2020 Changes
Profit and loss (For the year)														
Net sales		4,977	5,781	5,997	6,418		7,402	8,382	8,825	9,767	10,476	9,531	-9.0%	
By product	End mills (Diameter 6 mm or less)	3,498	4,011	4,193	4,570		5,301	5,931	6,377	7,390	7,832	7,310	-6.7%	
	End mills (Diameter over 6 mm)	711	750	738	825		925	971	1,033	1,095	1,152	945	-18.0%	
	End mills (other)	767	579	646	586		661	805	788	577	697	614	-11.9%	
	Other products	—	440	419	435		514	673	626	704	793	660	-16.8%	
Ratio of small-diameter end mills		70.3%	69.4%	69.9%	71.2%		71.6%	70.8%	72.3%	75.7%	74.8%	76.7%	—	
Overseas net sales ^{*1}		1,031	1,101	1,247	1,268		1,703	1,944	2,167	2,553	2,898	2,916	0.6%	
Ratio of overseas net sales		20.7%	19.0%	20.8%	19.8%		23.0%	23.2%	24.6%	26.1%	27.7%	30.6%	—	
Gross profit (loss)		2,352	2,740	2,843	3,076		3,707	4,389	4,823	5,528	5,929	5,224	-11.9%	
Selling, general and administrative expenses		1,557	1,777	1,922	2,006		2,226	2,475	2,810	2,833	3,049	3,005	-1.5%	
Operating profit (loss)		794	962	921	1,069		1,481	1,914	2,013	2,695	2,879	2,219	-22.9%	
Ordinary profit (loss)		834	1,032	951	1,107		1,534	1,954	2,026	2,733	2,894	2,231	-22.9%	
Profit (loss) attributable to owners of parent		426	535	527	694		973	1,342	1,420	1,903	1,970	1,545	-21.6%	
Cash flows (For the year)														
Cash flows from operating activities		1,225	505	731	1,147		1,619	1,756	1,894	2,910	1,868	1,908	2.1%	
Cash flows from investing activities		(181)	(1,207)	(886)	(82)		(594)	(1,322)	(787)	(657)	(1,383)	(1,769)	—	
Free cash flows		1,044	(702)	(155)	1,065		1,025	434	1,107	2,252	485	138	-71.4%	
Cash flows from financing activities		(46)	(22)	(109)	(121)		(186)	(250)	(499)	(562)	(563)	(562)	—	
Financial status (At year-end)														
Total assets		7,143	7,906	8,297	9,075		10,339	11,371	12,517	14,467	15,381	16,017	4.1%	
Cash and deposits		2,958	2,231	1,913	2,856		3,716	3,898	4,659	6,325	6,209	5,784	-6.8%	
Inventories		686	1,272	1,382	1,466		1,509	1,467	1,592	1,745	2,056	2,201	7.1%	
Shareholders' equity		6,164	6,678	7,106	7,678		8,464	9,557	10,652	11,993	13,400	14,383	7.3%	
Per share data														
Profit per share (¥)		34.69	42.96	42.19	55.56		77.85	107.38	113.63	152.23	157.59	123.62	-21.6%	
Net assets per share (¥)		500.82	534.08	568.32	614.21		678.23	765.33	853.10	959.88	1,071.48	1,149.63	7.3%	
Dividend per share (¥)		6.25	8.75	9.75	15.00		20.00	25.00	40.00	45.00	45.00	45.00	—	
Dividend payout ratio		18.0%	20.4%	23.1%	27.0%		25.7%	23.3%	35.2%	29.6%	28.6%	36.4%	—	
Financial data														
Gross profit margin		47.3%	47.4%	47.4%	47.9%		50.1%	52.4%	54.7%	56.6%	56.6%	54.8%	—	
Ordinary profit margin		16.8%	17.9%	15.9%	17.2%		20.7%	23.3%	23.0%	28.0%	27.6%	23.4%	—	
Value added per employee ^{*2} (¥ thousand)		12,556	12,866	11,481	12,318		14,286	16,535	15,705	17,299	18,004	16,329	-9.3%	
Return on Assets (ROA)		6.3%	7.1%	6.5%	8.0%		10.0%	12.4%	11.9%	14.1%	13.2%	9.8%	—	
Return on Equity (ROE)		7.1%	8.3%	7.7%	9.4%		12.0%	14.9%	14.0%	16.8%	15.5%	11.1%	—	
Equity ratio		86.3%	84.5%	85.6%	84.6%		82.0%	84.2%	85.2%	83.0%	87.1%	89.7%	—	
Research and development expenses		189	196	207	231		232	304	366	330	296	364	23.3%	
Capital investment		274	1,051	1,001	469		612	1,295	774	663	1,268	1,755	38.4%	
Depreciation		440	471	563	534		474	505	632	625	629	698	11.0%	
Non-financial data														
No. of employees		206	232	281	284		281	280	322	338	343	338	-1.5%	
No. of directors		12	12	10	9		9	9	9	8	7	8	14.3%	
Ratio of independent directors		16.7%	16.7%	20.0%	22.2%		22.2%	22.2%	33.3%	37.5%	28.6%	37.5%	—	
Ratio of external directors		16.7%	16.7%	20.0%	22.2%		22.2%	22.2%	33.3%	37.5%	28.6%	37.5%	—	
Ratio of female directors		8.3%	8.3%	10.0%	11.1%		11.1%	11.1%	22.2%	25.0%	28.6%	25.0%	—	

*1 Overseas net sales include those via domestic export trading companies.
*2 Value added per employee=(Operating profit+Personnel expenses(including labor costs)+depreciation)/number of employees

Financial Analysis

Review of consolidated financial results and financial status summary for FY3/20

(For the summary of FY3/20 consolidated financial results, see “Top Message” on pages 9 to 10.)
In FY3/20, during the intensifying U.S.-China trade dispute, Japan’s economy weakened due to sluggish export growth associated with the slowing global economy, the influence of the consumption tax hike, and repeated large-scale typhoons. Moreover, since the beginning of 2020, Covid-19 has had a serious impact on economic activity. The situation has worsened, starting with stagnant production in various sites because of disruptions in supply chains, leading to slumping demand and production cuts.

In the cemented carbide tools industry where NS TOOL stands, the production of cemented carbide tools and end mills peaked in 2018, then fell by 4.6% and 5.7% respectively in CY2019, yoy.

Regarding the trends among main customers of our products, in the automobile-related market, domestic new car sales fell below those of the previous calendar year (a 1.5% decrease yoy) for the first time in three years, and new car sales in China, the largest market in the world, also decreased by 8.2% yoy. Such results had an impact particularly on manufacturers supplying components to China. In the market of electronic components and devices, though there were positive signs including increase in the

number of cameras installed in smartphones, the market overall was weak due to the general decline in the number of smartphones shipped.

Regarding net sales by product, all of the product groups decreased year on year. In particular, product groups other than end mills (6 mm or less) suffered a double-digit decrease. The ratio of small-diameter mills (blade-tip diameter of 6 mm or less) was 76.7%, a 1.9-point increase yoy.

By region, overseas net sales increased by 0.6% yoy to ¥2,916 million, domestic net sales decreased by 12.7% to ¥6,615 million, and the overseas net sales ratio increased by 2.9 points yoy to 30.6%. The breakdown of the main areas is as follows: net sales in China, Hong Kong, and Taiwan increased by 5.6% yoy to ¥1,354 million, Other Asia increased by 2.0% to ¥762 million, Europe decreased by 7.8% to ¥647 million, and America and other areas decreased by 8.5% to ¥151 million.

In terms of profits, gross profit decreased by 11.9% yoy and the gross profit margin also decreased by 1.8 points to 54.8%, because production was cut due to the decrease in net sales. In addition, SG&A expenses decreased only by 0.9% yoy because expenses for exhibitions and rent rose due to NS TOOL Private Show 2020, which was held for the first time in 12 years, and the relocation of Head Office in fall 2018, as well as the increase in R&D expenses for strengthening new product development. As a result, the

operating profit margin decreased by 4.2 points to 23.3%.
Capital investment increased from ¥1,268 million in the previous fiscal year to ¥1,755 million, of which capital investment related to the new development center accounts for ¥840 million.

On the financial status, current assets decreased by 3.8% yoy to ¥9,555 million due to the decrease in cash and deposits caused by capital investment; non-current assets increased by 18.6% to ¥6,462 million due to the increase in buildings and structures associated with completion of the new development center; and total assets increased by 4.1% to ¥16,017 million. In the meantime, liabilities decreased by 20.8% yoy to ¥1,519 million due to the decrease in accounts payable – trade and income taxes payable; net assets increased by 7.7% to ¥14,498 million due to the increase in retained earnings; and the equity ratio increased by 2.6 points compared to the end of the previous fiscal year, to 89.7%.

Outlook for FY3/21

In the first half, demand for tools significantly dropped due to the impact of Covid-19. Though the demand is expected to recover gradually as the pandemic subsides, we do not know when it will end. Therefore, we have decided that it is difficult to announce a rational future outlook for our

business. We will immediately announce the outlook when we are able to judge when the Covid-19 pandemic will end and how the social and economic situation will turn out, and when it becomes possible to announce the financial forecasts.

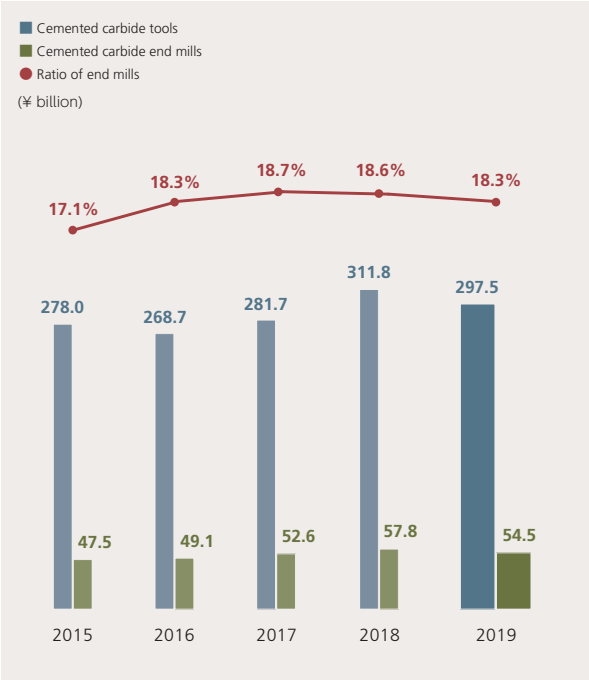
Shareholder returns policy

NS TOOL places one of the highest priorities on returning our profits to shareholders. Our basic policy is to deliver shareholder’s return based on business results, while taking into account the earnings to be reserved internally for solid management infrastructures and future expansion of businesses. As for our dividend policy, we pay attention to stability and sustainability while comprehensively considering the trend of business results and dividend payout ratio.

In FY3/20, the year-end dividend was ¥25 per share, and the annual dividend will be ¥45, including the interim dividend of ¥20.

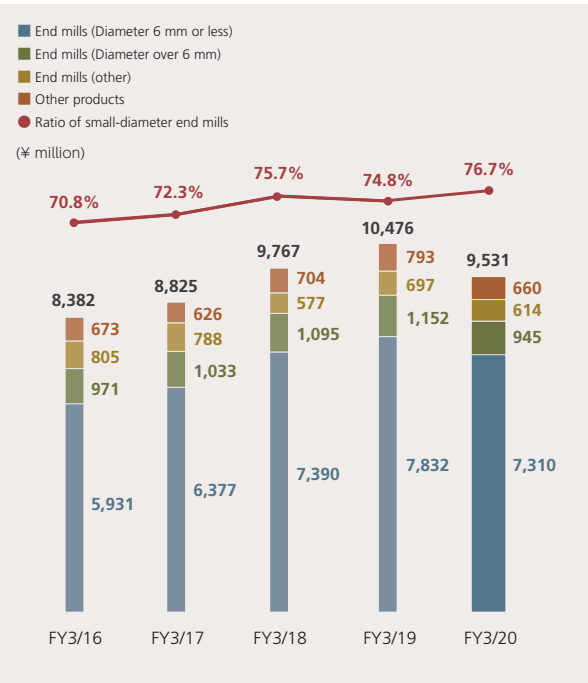
As for FY3/21, we have not announced dividend forecast yet, because it is difficult to provide a rational outlook for our business due to the impact of Covid-19. The announcement will be made immediately when prospects such as financial forecasts become clear.

Trends of production of cemented carbide tools and cemented carbide end mills (Calendar Year)

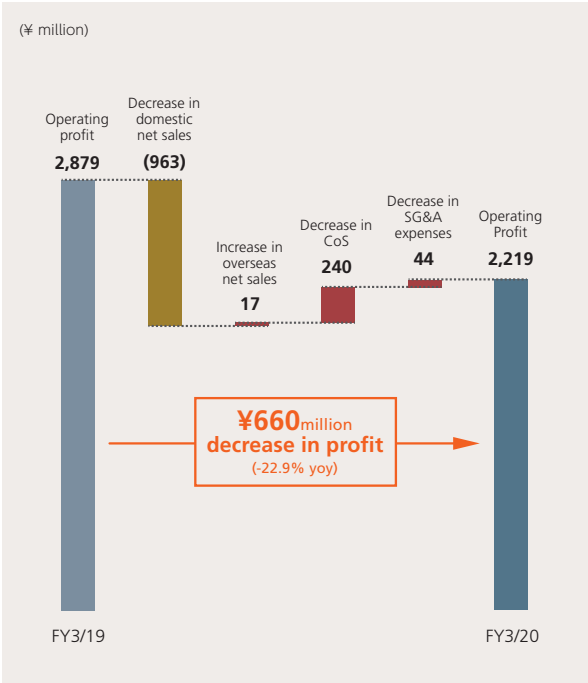


Source: Machinery Statistics, Ministry of Economy, Trade and Industry

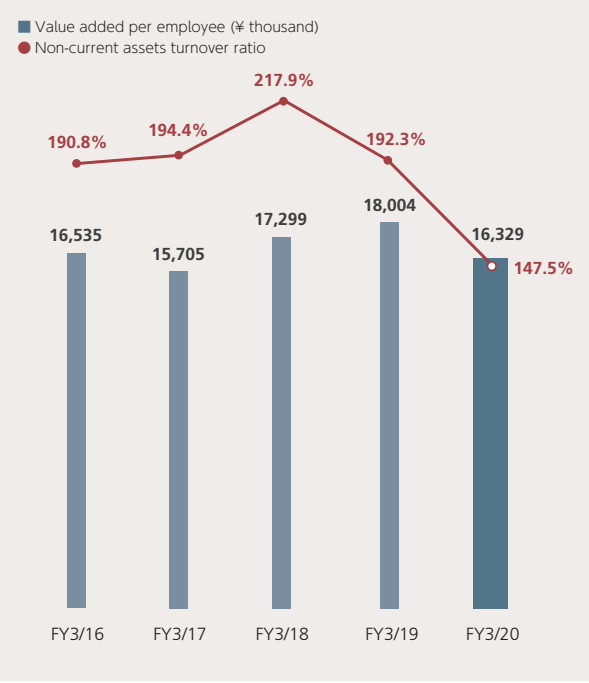
Trends of net sales by product and ratio of small-diameter end mills



Analysis on increases/decreases in consolidated operating profit



Trends of non-current assets turnover ratio and value added per employee



Profile of Management Team



Hiroji Goto
President

Apr. 1986: Joined NS TOOL.
Oct. 1988: Director and Deputy General Manager of General Affairs Group
Apr. 1992: Managing Director
Jan. 1995: Executive Director, in charge of sales
Apr. 2011: Executive Vice President, in charge of sales
Jan. 2013: CEO of NS Tool Hong Kong Ltd. (present post)
Apr. 2013: President
Oct. 2016: President, in charge of sales (present post)



Takashi Goto
Senior Executive Vice President

Apr. 1984: Joined NS TOOL.
Oct. 1988: Director and Deputy General Manager of Production Department
Jan. 2002: Managing Director, in charge of production/development
Apr. 2009: President of NS Engineering Co., Ltd.
Apr. 2010: President of G-Tech Co., Ltd.
Apr. 2011: Executive Managing Director, in charge of production/development
Apr. 2013: Executive Vice President
Apr. 2016: Representative Director of NS Engineering Co., Ltd. (present post)
Oct. 2016: Executive Vice President, in charge of R&D/Production (present post)



Kazuo Fukuda
Director (Audit & Supervisory Committee Member)

Apr. 1974: Joined The Sanwa Bank, Limited (current MUFG Bank, Ltd.)
Apr. 1995: Tokyo External Affairs Officer
Jun. 1998: Joined The Wakashio Bank, Ltd. as Director and General Manager of Business Development
Apr. 2003: Joined NS TOOL as General Manager of Administration Department
Jun. 2003: Director and General Manager of Administration Department
Jun. 2009: Auditor
Jun. 2010: Full-time Auditor
Jun. 2015: Director (Audit & Supervisory Committee Member) (present post)



Naoko Fujisaki
Independent External Director (Audit & Supervisory Committee Member)

Apr. 1968: Joined Sumitomo Bank, Ltd. (current Sumitomo Mitsui Banking Corporation)
Oct. 1977: Joined MICRONICS JAPAN Co., Ltd.
Dec. 2000: Director and General Manager of Accounting Department of MICRONICS JAPAN
Oct. 2010: Executive Director and General Manager of Planning & Administration Division of MICRONICS JAPAN
Jun. 2016: Independent External Director (Audit & Supervisory Committee Member) of NS TOOL (present post)



Yuko Adachi
Managing Director

Apr. 1978: Joined AIU General Insurance Co., Ltd.
Apr. 1985: Joined NS TOOL.
Sep. 2001: Director and General Manager of General Affairs Department
Feb. 2002: Director and General Manager of General Affairs Department, and President of G-Tech Co., Ltd.
Jun. 2003: Director, President of G-Tech Co., Ltd.
Apr. 2005: Managing Director (Information Supervisor)
Nov. 2015: President of Makino Industry Co., Ltd.
Oct. 2016: Managing Director in charge of general affairs/administration (Information Supervisor) (present post)
Apr. 2017: Chairman of Makino Industry Co., Ltd. (present post)



Masahiko Fukumoto
Director

Oct. 1981: Joined NS TOOL.
Sep. 2001: General Manager of Sales Department
Apr. 2002: Director and General Manager of Sales Department
Apr. 2004: Director General Manager of Sales Department and General Manager of Sales Planning Office
Jul. 2005: Director and General Manager of Sales Department
Apr. 2009: Director and General Manager of Western Region
Apr. 2010: Director (present post), and Executive Vice President of G-Tech Co., Ltd.
Apr. 2011: President of G-Tech Co., Ltd. (present post)



Toshiaki Hiraga
Independent External Director (Audit & Supervisory Committee Member)

Apr. 1999: Registered as attorney (belonging to Tokyo Bar Association)
Oct. 2007: Established law firm, Kitamura & Hiraga, Partner (present post)
Mar. 2009: External Auditor of MS&Consulting Co., Ltd.
Apr. 2014: External Director of Polaris Capital Group Co., Ltd. (present post)
Jun. 2016: Independent External Director (Audit & Supervisory Committee Member) of NS TOOL (present post)
Jun. 2016: External Auditor of Human Associates Holdings
Jun. 2019: External Director (Audit & Supervisory Committee Member) of Human Associates Holdings (present post)



Kenichi Sasamoto
Independent External Director/Audit & Supervisory Committee Member

Jun. 1980: Joined Chuo Audit Corporation
Sep. 1998: Senior Partner of Chuo Audit
Jul. 2007: Senior Partner of A&A Partners
Jun. 2010: External Audit & Supervisory Board Member, TOKATSU HOLDINGS CO., LTD.
Sep. 2014: External Audit & Supervisory Board Member of Japan Corporate Housing Service Inc. (present post)
Sep. 2016: Left A&A Partners
Oct. 2016: Opened Certified Public Accountant Sasamoto Kenichi Office. Representative of the same (present post)
May 2018: External Director of SAPPORO KANIHONKE Co., Ltd. (present post)
Jun. 2018: External Auditor & Supervisory Board Member of TOKATSU HOLDINGS CO., LTD. (present post)
Jun. 2019: Independent External Director (Audit & Supervisory Committee Member) (present post)

Executive Officers				
Yuji Goto General Manager of International Sales Department	Hiroshi Tajima General Manager of Corporate Planning Office	Takashi Koizumi General Manager of Sales Department	Koichi Okada Plant Manager and General Manager of Production Department	Masahito Kobayashi General Manager of General Affairs Department

Corporate Governance

Corporate Governance Structure

The Company has adopted basic guidelines for corporate governance to enhance the transparency and efficiency of its management and to enhance its corporate value in a stable and continual manner in order to meet stakeholders’ expectations.

System Diagram (as of March 31, 2020)



Chart of Structure (as of March 31, 2020)

Corporate governance system	Company with Audit & Supervisory Committee
Number of directors who are not Audit & Supervisory Committee member (External directors out of them)	4 (0)
Number of directors who are Audit & Supervisory Committee member (Independent external directors out of them)	4 (3)
Term of office of directors	1 year (2 years for Audit & Supervisory Committee members)
Incentive provided for directors	Stock option scheme as share-based compensation (except for Audit & Supervisory Committee members), performance-linked bonuses (except for Audit & Supervisory Committee members), executive stock ownership plan
Business execution system	Executive officers’ system (currently consisting of 5 members)
Optional committees	Compensation Committee (consisting of 3 members: 2 external directors, and 1 internal director)
Accounting auditor	Audit corporation, A&A Partners

Company with Audit & Supervisory Committee

The membership of Audit & Supervisory Committee consists of 4 members (1 full-time Audit & Supervisory Committee member and 3 part-time Audit & Supervisory Committee members, with 3 external directors out of the three). The Committee performs audits on managerial decision-making and the status of business execution. The members of Audit & Supervisory Committee attend important meetings including meetings of the Board of Directors and express necessary opinions. One of the Audit & Supervisory Committee members, who should be internal director, obtains a full-time position and works to ensure the effectiveness of audits by inspecting draft plans, which have been circulated for permission and approved, forms, contracts, etc., by meeting with the manager of each division, and by enhancing coordination with internal audit division and accounting auditor.

Current status of governance system

The Company’s managerial decision-making and business execution processes are as follows.

Important managerial issues are proposed to the Board of Directors for deliberation. For the purpose of securing enough time for the Board of Directors to discuss agenda items proposed, efforts is made to enhance the appropriateness and efficiency of the execution by the directors of their duties by, for example, providing the Board of Directors with as much information as possible in advance.

The agenda items submitted to the Board of Directors shall be fully discussed and negotiated, and, by hearing opinions from Audit & Supervisory Committee members, corrected if necessary. Finally they shall be approved or rejected.

As for the agenda items that have been approved, executive officers in charge of individual business operation shall bear responsibility to perform the operations. They shall act as a leader in each business operation division, and report the status

of the business operations they are in charge.

Director receives reports from each executive officer, and supervises the status of the execution of their duties. As a rule, the Board of Directors meeting is held monthly. Special meetings of the Board of Directors are convened from time to time when necessary.

Development status of internal control and risk management systems

In order to establish the internal control and risk management systems, the Company has established the organization in which control and management is effectively done. Further, the Company provides the approval workflow function in decision making, and conducts business operations based on the rules such as internal regulations. The Internal Audit Office directly under the control of the President, which is independent from operating departments, conducts internal audits of all the departments including the affiliates inside and outside Japan. In response to the internal control reporting system, the Company has built the Internal Control Committee, chaired by the Managing Director, to evaluate the development and application status of each control process, and has exchanged views with audit corporation in a timely manner for coordination, so that matters that should be improved can be improved adequately.

External directors

The Company has appointed three (3) external directors, both of whom are Audit & Supervisory Committee members.

The role expected as external directors is to check the performance of duties of other Board members (without executing duties themselves) from an objective perspective, so that their duties are fulfilled appropriately via the Board of Directors. With regard to the election of external directors, candidates are required to (i) have a high level of insight with respect to corporate management or abundant experience in the specialty field necessary to fulfill their auditing duties, (ii) have no issues with independence by taking into consideration such factors as relations with the Company, the President and other directors, executive officers and important staff members, and (iii) be able to attend the Board of Directors and the Audit & Supervisory Committee. The Company has designated all the external directors that meet the requirement for independent director as independent director.

Reasons for the election

Ms. Naoko Fujisaki has an extensive insight and abundant experience as a director of a listed company, as well as extensive knowledge in finance and accounting (she was in charge of accounting, etc. for a period from December 1999 to December 2012 at a listed company).

Board members’ compensation (FY3/20)

Position	Total amount of remuneration, etc. (¥ million)	Total amount of remuneration, etc. by type (¥ million)			Number of directors eligible for remuneration
		Fixed remuneration	Performance-linked remuneration	Stock options	
Directors (except for Audit & Supervisory Committee members) (except for external directors)	287	149	99	38	4
Directors (Audit & Supervisory Committee members) (except for external directors)	19	19	—	—	1
External directors	19	19	—	—	3

(Note) The amount for directors does not include the remuneration paid as employees to directors who serve concurrently as employees.

Mr. Toshiaki Hiraga has not only high-level professional knowledge and experience as attorney but also an extensive insight and abundant experience as external director at other companies.

Mr. Kenichi Sasamoto has an advanced expertise and experience as a certified public accountant as well as his experience and insights as an external board member of other companies.

The three were appointed as external directors (Audit & Supervisory Committee members) based on our judgment that, considering their wide range of knowledge and experience, etc., they will offer objective advices and proposals to ensure adequacy and appropriateness of the decision-making related to the Company’s business execution, which will further enhance the management system. Also, the Company deems that the three are adequate to independent officers as they will cause no conflict of interest among general shareholders as they are neither major shareholder of the Company nor former employees of major business partners thereof.

Board members’ compensation, etc.

The amount of directors’ remuneration shall be determined by appropriately assessing the individual duties and the contribution made by individual directors to the Company’s performances, within the total amount of remuneration resolved at the General Shareholders’ Meeting. When deciding the directors’ compensation, the Board of Directors consults the Compensation Committee (chaired by an external director), majority of which are external directors, and takes into account the Compensation Committee’s report on such matters before passing any resolutions. Regarding the design of the compensation as mid- and-long term incentives, the Compensation Committee holds Discussions in a timely manner.

Compensation for our directors and executive officers is composed of fixed compensation (compensation according to position and role) and variable compensation (performance-linked compensation and stock option scheme as share-based compensation). Policies on the ratio of payment are not specified. There is no variable compensation for directors who serve as Audit & Supervisory Committee members. For performance-linked compensation, as a short-term incentive, the plan for payment considering the level of contributions made by the individual is formulated based on the total amount and calculated using the following formula: expected consolidated operating profit at the end of the term multiplied by a coefficient. The proposal is subject to consultation with the Board of Directors before being resolved. With regard to the stock option scheme as share-based compensation, as a mid- to long-term incentive, we allocate share acquisition rights, for which a fair appraised amount is set as the amount to be paid.

Now that the system is well-balanced, the next generation

In June 2019, Kenichi Sasamoto, a certified public accountant for over 40 years, was appointed as External NS TOOL. As of April 2020, three out of the eight (37.5%) (Audit & Supervisory Committee members). Looking Director responsible for general affairs and about the management system of NS TOOL as well as

Yuko Adachi
Managing Director, in charge of general affairs and administration

management we need to think about of management

accountant who has supported stock listings of many Director (Audit & Supervisory Committee member) of members of the Board of Director are external directors back one year after appointment, Yuko Adachi, Managing administration, asked the External Director Sasamoto the current situation and governance issues.

Kenichi Sasamoto
External Director (Audit & Supervisory Committee Member)

Managing Director, in charge of general affairs and administration

Newly Appointed External Director

Characteristics of NS TOOL management

Adachi: NS TOOL had entrusted the accounting audit to you since 2002, when we started to aim for a listing. At that time, the former Chairman served as the President. Then, in November 2004, NS TOOL was listed on the JASDAQ market.

Sasamoto: That's right. I continued to audit after the Company was listed. However, the Revised Certified Public Accountants Act specifies that the personnel involved in auditing works and handling of financial documents should be rotated every seven years. Due to this revision, I let other person take over the position of the executive member of the firm.

Adachi: How did you view the company back then?

Sasamoto: NS TOOL is a company run by owner families. I think, from the time of the former Chairman, the sense of responsibility is far strong and decision-making is very quick at NS TOOL, if you compare with other companies run by non-owner presidents. Actually, more than half of the listed companies in Japan are said to be categorized as family companies. I have assisted stock listings of more than 160 companies for over 40 years. However, I know few companies that have a president with such a strong sense of decision-making as NS TOOL. The former Chairman served as President when I helped the Company's stock listing. He dealt with the listing inspection and organized the financial issues surprisingly fast. I was astonished.

Adachi: I came to know you during the preparations for the stock listing, and am very grateful to you for your opinions based

on clear definitions and consultation that incorporates your broad knowledge. I believe the management team could unite and work toward the stock listing thanks to your practical opinions, without over-reliance on the rules.

Sasamoto: The perspectives required for stock listing are completely different from those for accounting audits. You need a very broad perspective. A listing is one of the milestones for a company's rebirth. Especially in case of small and medium-sized companies, in a sense it means cleaning up the company. The point is whether you can understand it or not. Above all, it is the quality of the management that counts.

Adachi: The former Chairman kept saying that he wanted every employee to be happy, even though the company was small. I believe the management team could unite and work toward the stock listing thanks to your practical opinions, without over-reliance on the rules.

Current management system of NS TOOL

Sasamoto: I have been involved in the company halfway as an external director. From my position, NS TOOL seems to be a truly serious manufacturer. There are many owner family members in the management team. The good balance contributes to the current excellent management. The company is committed to governance and compliance issues, thanks to the harsh opinions you give as a specialist in administration.

Adachi: The efforts made by the production site are advanced

from a risk management point of view. The Sendai Plant voluntarily started procedures to acquire ISO certification, and has focused on creating a solid structure for the stable supply of products. The fact that the brand image of "providing secure and safe quality" was established during such efforts had a great impact on the management.

Sasamoto: One of the master technologies that characterizes the industrial strength of Japan is cutting and shaving. Therefore, I don't want you to change what you really are, a tool manufacturer. In addition, I would like you to acquire three-dimensional printer technologies, which are rapidly becoming popular in the U.S. and other countries as well as IT skills to respond to such new technologies. As 5G is rolled out, we will be able to do many things that were impossible before, so I personally am most threatened by this change. In order to discuss such issues, I want the Board of Directors meeting to be a forum for more strategic discussions.

Adachi: I agree. At the moment, the Board of Directors spends so much time making reports on the business and explaining the plan. Maybe we have not allocated enough time for strategic discussions. Now that the management is well-balanced, it is necessary to consider a generational change in a view of building a management structure of next-generation. We have continued diligent family management, but now we need to raise the next generation who can speak up to the current management team.

To develop the next generation of management team

Sasamoto: To develop the next generation, you should consciously implement the job rotation program. It broadens people's perspective and experience. I think candidates for managers need to be picked up and promoted internally in the company. I believe that the methodology to evaluate management candidates should be better in Japan, where many people in the company who know candidates over decades participate, rather than those of Western countries, where external directors play a major role. However, many Japanese companies promoting managers internally tend not to provide leadership education. As a result, they promote craftsmen, instead of managers. Point is, whether you are aware of the fact or not.

Adachi: In this regard, we need to make the younger generation more aware. The company needs to convey its intention of "making you leaders." In that sense, we need to start looking for the next generation of management candidates.

Sasamoto: I want the management candidates to have a strong sense of risk management. Everyone can understand what is expected. It is important to be aware that you need to deal with unexpected matters. The same applies to Board of Directors meetings. Participants seem to spend too much time discussing internal issues. It is necessary to have more outward-looking discussions.

Adachi: We always look forward to your candid opinions. Now is the perfect time to think about the next generation and beyond. Thank you very much.

Keep on challenging!

“Super Minimum Challenge” Project

Aiming for the world speed record with Japanese precision technology

Hiroshi Tajima
General Manager of Corporate Planning Office



233.3 km/h, the world speed record with a 50cc engine.

The Super Minimum Challenge (SMC) challenges the great record that nobody has ever broken since 2008. The location is Salt Lake in the U.S., where a white plain spread out as far as the eye can see.

In August 2019, a team led by Takushi Chikakane, who is a famous movie director and has tried various minimum challenges, participated in 50cc and 125cc classes of the Bonneville Motorcycle Speed Trials (BMST), which were held here in Salt Lake.

Background of our involvement in Super Minimum Challenge (SMC)

Mr. Chikakane^{*1} decided to participate in SMC after a conversation with President Goto of NS TOOL, whom he was acquainted with. "I want to challenge the world speed record with a 50cc motorcycle." When we heard about his dream, we began to consider taking part in this unprecedented challenge by creating a high-efficiency engine using the precision and micro machining technologies of us and our customers, with all-Japan-*monozukuri* (manufacturing) power.

Against the universal trend of switching to EVs, the idea was, pursuing more efficiency for small gasoline engine meant true *monozukuri* and producing something tangible from nothing. By gathering all technologies of Japan for this challenge, a great engine small and powerful enough can be made. As a specialist in precision and micro machining, we empathized with Mr. Chikakane's passion for "breaking the world speed record with the precision and micro machining of Japan."

Starting the project for Bonneville Speed Week 2019

As a main sponsor, we provided financial assistance, conducted branding activities like creating the logo, found other sponsors, and introduced processing companies from users of our products, which we considered essential to build the machine. As a result, 36 companies, mainly small and medium-sized ones engaged in Japan's *monozukuri*, participated in the project.

The two machines taken to Bonneville Speed Week (BSW) 2019 adopted a lower and longer body structure as much as possible to reduce air resistance. In addition, based on the Honda-Cub's four-stroke engine, which is the most-produced and best-selling motorcycle in the world but is also said to disappear in the near future due to emission controls, we made unique super-cub machines after fitting turbo superchargers^{*2} to 50cc and 125cc engines.

In addition to the machine structure, most of the components such as pistons and superchargers mounted on the machine were newly developed. The sponsor companies concentrated all of their technologies into this challenge.

Bonneville Motorcycle Speed Trials

A motor sport festival that has been held for over 100 years and one of the events of the AMA Land Speed Grand Championship. Any vehicles with an engine are accepted. This is a simple competition in which contestants from all over the world try to achieve the fastest speed. In various classes, from 50cc motorcycles to vehicles with rocket engines, participants compete against each other with pride, trying to win the title of "the world's fastest." <https://bonneville-speedtrials.com/>



Left: 125cc machine "NSX-02" Right: 50cc machine "NSX-51"

Schedule		
2018.7	Start of the project	
2018.8	Participation in Bonneville Speed Week 2018 (125cc class)	
	Period	August 25-30, 2018
2019.8	Participation in Bonneville Speed Week 2019 (50cc/125cc class)	
	Period	August 24-29, 2019
2020.8	Bonneville Speed Week 2020	Canceled
	Period	August 29-September 3, 2020

The team attains the world's fastest average speed in the most difficult 50cc + supercharger class!

In BSW2019, we participated in the supercharger class (only gasoline can be used as fuel), which is considered the most difficult class in mechanism. The team arrived at the site to find the Bonneville course in worst road condition. There were dents with deeper than 10 cm. Adjustments were made until the very last moment and even during the race, because machines with a ground clearance of only 8 cm cannot be driven on such a road.

Under such an environment, in BMST, in which participants compete on the average speed per mile, SMC attained an average speed of 101.771 km/h with 50cc, and 101.375 km/h with 125cc. Our record for 50cc was the first time to exceed the average of 100 km/h in the history of the event, which has been running for more than 100 years. People said it was an outstanding achievement by Japan's *monozukuri* all-star team.

Aiming to contribute to Japan's monozukuri (manufacturing) and even to society

President Koji Tsunoda of Hakudo Corporation, which provided metal materials and financial assistance to SMC project, told us about the significance of SMC. "I believe SMC provides a good opportunity to promote Japanese technologies to the world. Also, aiming for the maximum output with a small engine is environmentally friendly. By supporting SMC, I hope we can help to maintain Japan's *monozukuri*, which has been fading somewhat, and hopefully restore its excellence and image."

Mr. Chikakane expressed his ambitions for the 2020 race, "The concept of SMC is to dare to choose the cub for the base engine. In other words, we challenge the fastest speed with a donkey, competing with thoroughbreds. In 2020, with an upgraded machine, I want to achieve an average speed of over 100 mph (approx. 160 km/h) with 50cc, and 200 km/h with 125cc." However, the 2020 event had to be canceled due to Covid-19.

^{*1} A writer and movie director born in Kobe, Mr.Chikakane keeps trying unprecedented challenges using motorcycles and electric vehicles, setting records around the world. He has produced many works based on his experiences. In the movie *Kiriko No Uta*, which features the manufacturing industry, Mr.Chikakane visualized the story of a small factory in a downtown area and the daily life of a man working for a big trading company. The accumulation of small achievements by nameless ordinary people eventually turns out to be a foundation of something big enough to move the world. NS TOOL supported the movie as a sponsor. Our staff and customer companies also appeared in the movie.

^{*2} Auxiliary equipment that raises the air pressure taken in by the internal combustion engine above the pressure at the intake port.

Making social contributions based on the local community

We are promoting social contribution activities mainly in Shinagawa Ward, Tokyo and Miyagi.

Masato Kobayashi
Executive Officer, General Manager of General Affairs Dept.



Since its establishment in Shinagawa Ward, Tokyo in 1961, NS TOOL prioritized contributions to the local community. We have actively engaged in social contribution activities around Sendai since 1993, after our production functions were consolidated into the Sendai Plant in Miyagi.

As a company established in Shinagawa Ward and rooted in the local community

NS TOOL was established in Shinagawa Ward, and has grown in the local community. That is why we consider important to work together with local people and contribute to the community where we belong. When I joined the Company, I remember directors back then talked me into this again and again. Even now, when I see the way NS TOOL is operated, it looks to me that we still care the relationship with local communities very much.

For example, NS TOOL has served as the main sponsor of the Japan Deaf Football Association since 2017. When we learned that they struggled to find sponsors, we decided to support them because the manager of the Japanese deaf soccer national team happened to be the heir of our neighborhood company, which kindly supported us in early days of our old Head Office. Since then, we have also conducted activities such as holding deaf soccer classes sponsored by NS TOOL.



Thinking what you can do for our local community

“Katsushima Autumn Canal Festival,” which we started our support in 2017, is an annual event held along Katsushima Canal in Shinagawa Ward. Participants can enjoy and experience various water activities. We have supported this event as a member of the local shopping arcade near our old Head Office, because we wanted to contribute to people in our local community. Even though the Head Office was relocated, we would like to continue to support the event.

In Miyagi, we have continued to support Michinoku Future Foundation in Sendai since 2013. The Foundation pays the enrollment and tuition fees on behalf of children who lost their parents in the Great East Japan Earthquake when they enter university, two-year college, or vocational school after graduating from high school. NS TOOL makes donations based on net sales. Since we want each employee to be involved in daily support activities, we also donate part of the revenue from using coffee vending machines.

We extend our gratitude for owing much to local communities to social contributions and continue to conduct social activities unique to NS TOOL and rooted in our neighborhood communities.

Corporate Data

Company name	NS TOOL CO., LTD.
URL	https://www.ns-tool.com/en/
Representative	Hiroji Goto
Head office	6F. Sumitomo Fudosan Oimachi Ekimae Bldg., 1-28-1 Oi, Shinagawa-ku, Tokyo 140-0014
Established	December 1954
Capital stock	442,900,000
Number of employees	338 (Consolidated)
Business	Manufacture and sale of cutting tools
Products	Cemented carbide end mills for molds and parts processing
Banks	MUFG Bank, Ltd. and Mizuho Bank, Ltd.
Subsidiaries	G-Tech Co., Ltd. NS Engineering Co., Ltd. Makino Industry Co., Ltd. NS TOOL Hong Kong Ltd.
Securities exchange	First Section of the Tokyo Stock Exchange

Major Shareholders

Shareholder Name	Number of Shares Held (thousand shares)	Shareholding Ratio (%)
M.Y. CORPORATION, Inc.	1,248	9.99
Solpty Co., Ltd.	1,217	9.74
TI Road Co., Ltd	923	7.39
The Master Trust Bank of Japan, Ltd. (trust account)	916	7.33
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	836	6.69
BANK JULIUS BAER AND CO., LTD. (Standing Proxy: MUFG Bank, Ltd.)	646	5.17
Japan Trustee Services Bank, Ltd. (trust account)	427	3.42
NORTHERN TRUST CO. (AVFC) RE HCR00 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	386	3.09
Hiroji Goto	324	2.60
Takashi Goto	324	2.60
Yuji Goto	324	2.60

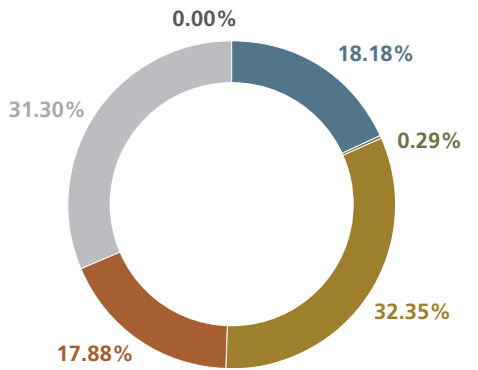
Note 1: The number of shares less than a thousand is truncated.
Note 2: M.Y. CORPORATION, Inc., Solpty Co., Ltd. and TI Road Co., Ltd. are asset management companies of Hiroji Goto, Takashi Goto and Yuji Goto, respectively.

Stock Information

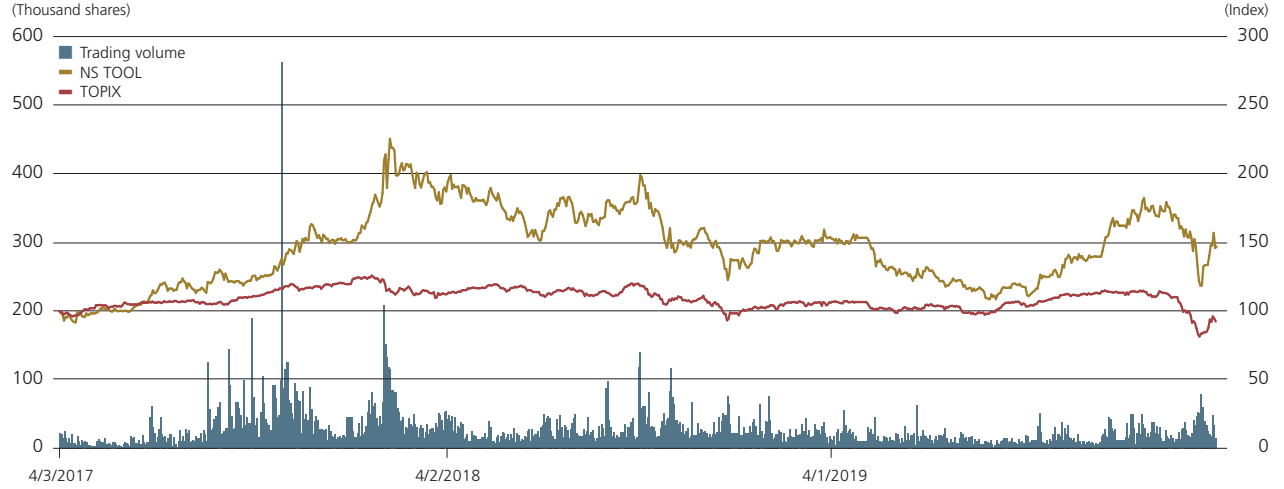
Number of authorized shares	19,200,000
Number of issued shares	12,504,000
Number of shareholders	3,363

Composition of Shareholders

- Financial institutions (21, 2,273,100)
- Financial instruments dealers ... (17, 36,399)
- Other corporations (57, 4,044,500)
- Foreign corporations, etc. (55, 2,235,231)
- Individuals and others (3,212, 3,914,251)
- Treasury stock (1, 519)



Trends of Stock Price/Trading Volume/TOPIX



Note: This chart contains split-adjusted stock price and trading volume; stock price and trading volume before stock split have been adjusted retroactively. NS TOOL's stock price and TOPIX value are calculated, assuming that the closing price data of April 3, 2017 is 100.