MARUMAE

Marumae Co., Ltd.
2141 Onohara, Izumi, Kagoshima 899-0216, Japan
TEL: 0996-68-1152

https://www.marumae.com/en/index.html

MARUMAE REPORT 2023

Marumae Co., Ltd. Integrated Report

Our Basics

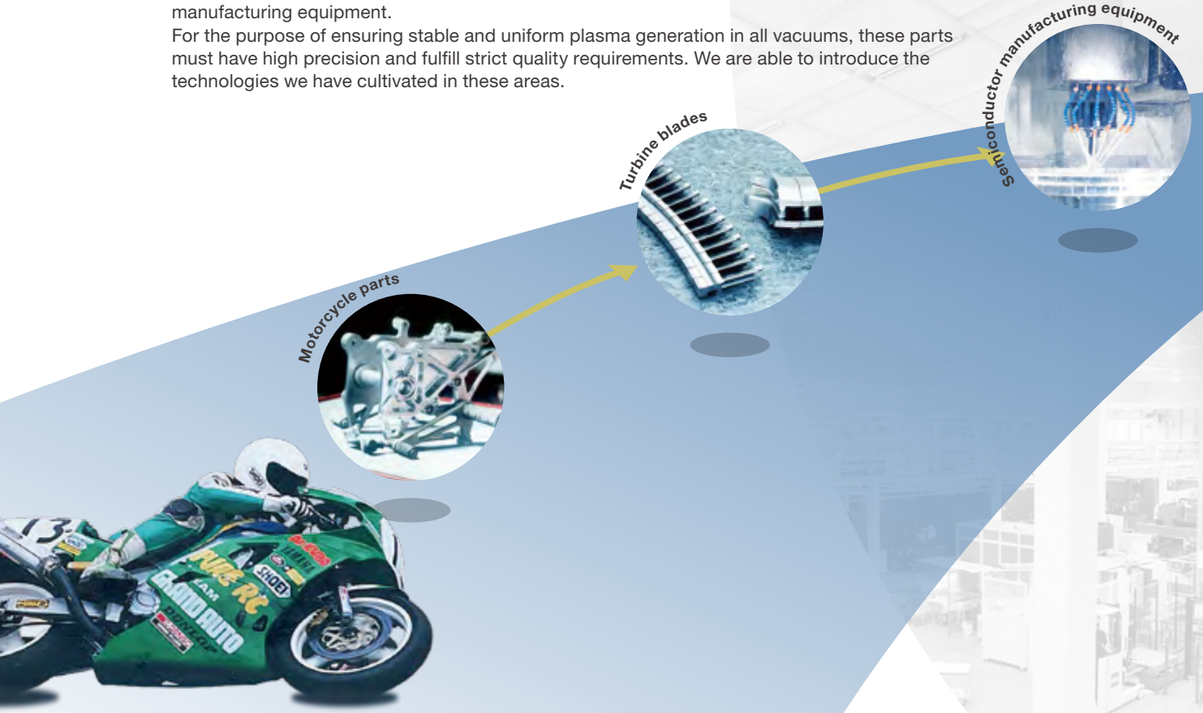
From competition for one- to pursuit of one-thousandth of a second thousandth of a millimeter

Marumae's technologies are based on the manufacturing of motorcycle parts.

Toshikazu Maeda, Marumae's founder and current president and representative director, is a motorcyclist with an FIM A-class international competition license. He has competed in a large number of races.
He started by producing motorcycle parts for the motorcycle he rode in races. To earn money for racing activities, he manufactured motorcycle parts.

Motorcycles for racing can travel at a maximum speed of approximately 300 km/h. Safety is a critical element directly linked to human lives.
To fulfill demanding requirements, Maeda studied the characteristics of materials and processing technologies in depth, from the ground up.
The knowledge that was accumulated by manufacturing many different motorcycle parts, including frames, is now the foundation of Marumae's technologies.

In the process of improving technologies, the parts manufactured gradually became more and more complicated, and later we became capable of manufacturing most of the key motorcycle parts independently.
These technologies continued to advance. Today, they are applied in the manufacturing of high precision vacuum parts inside vacuum chambers. They are core parts of semiconductor manufacturing equipment.
For the purpose of ensuring stable and uniform plasma generation in all vacuums, these parts must have high precision and fulfill strict quality requirements. We are able to introduce the technologies we have cultivated in these areas.









Long Track Record

Growth Achieved by Continually Taking on Challenges, Learning, and Improving

There once was a time when we achieved growth by leveraging our strength in terms of plant and equipment to capture demand.
However, the management crisis we experienced as a result of the 2008 Global Financial Crisis prompted us to change our business strategy, and we reverted to our policy at the time of our founding of carefully selecting business from the viewpoint of profitability and efficiency and not relying on expansion of plant, equipment and employees.
Believing that we will always have work provided we have technology, we sought business growth driven by technological capabilities.

Changes we have made

Since going into business, we have become involved in a wide range of operating activities to keep pace with the times.

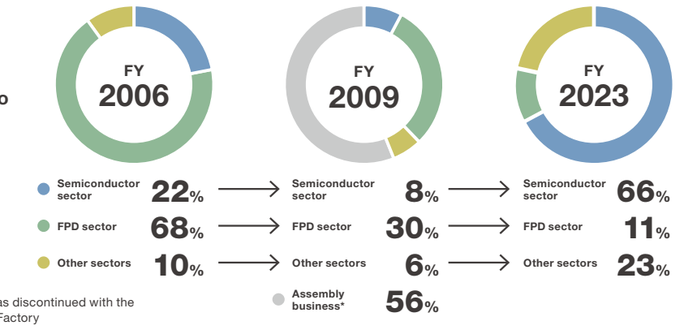
1 | Motorcycle parts
2 | Turbine blades for power plants
3 | Robotic parts
4 | FPD sector
5 | Semiconductor sector

What we have kept unchanged

Since going into business, we have always kept in mind and held dear the following.

1 | Solutions to customers' problems
2 | Pursuit (further development) of technology
3 | Acquisition of new technologies
4 | Pursuit of the fundamental essences of things (approach)
5 | Differentiation based on technological capabilities

Changes in Business Portfolio



* The assembly business was discontinued with the closure of the Kumamoto Factory

Net sales (Target) ¥14.0 billion

Operating profit (Target) ¥4.2 billion

POINT The semiconductor market slowed and inventories were adjusted

Net sales and orders slid as the market slowed and inventories were adjusted due to the stagnation of investments in server equipment and a reactionary fall following the extraordinary demand during the COVID-19 pandemic.

POINT The semiconductor market hit a record high

Amid the global shortage of semiconductors, demand for logic semiconductor manufacturing equipment grew. The market hit a record high following the growth of demand for cloud server memory.

POINT Special demand for semiconductors during the COVID crisis

The spread of remote work during the COVID crisis gave a further boost to the semiconductor sector, which was already booming thanks to server demand.

POINT Expansion of demand for semiconductor memory

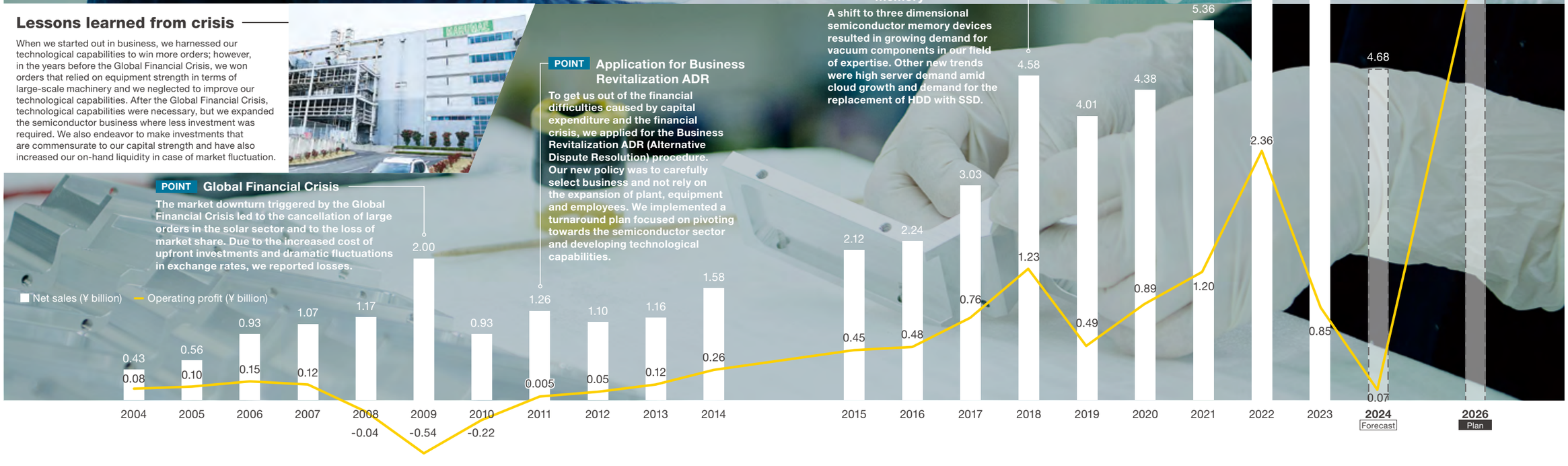
A shift to three dimensional semiconductor memory devices resulted in growing demand for vacuum components in our field of expertise. Other new trends were high server demand amid cloud growth and demand for the replacement of HDD with SSD.

POINT Application for Business Revitalization ADR

To get us out of the financial difficulties caused by capital expenditure and the financial crisis, we applied for the Business Revitalization ADR (Alternative Dispute Resolution) procedure. Our new policy was to carefully select business and not rely on the expansion of plant, equipment and employees. We implemented a turnaround plan focused on pivoting towards the semiconductor sector and developing technological capabilities.

POINT Global Financial Crisis

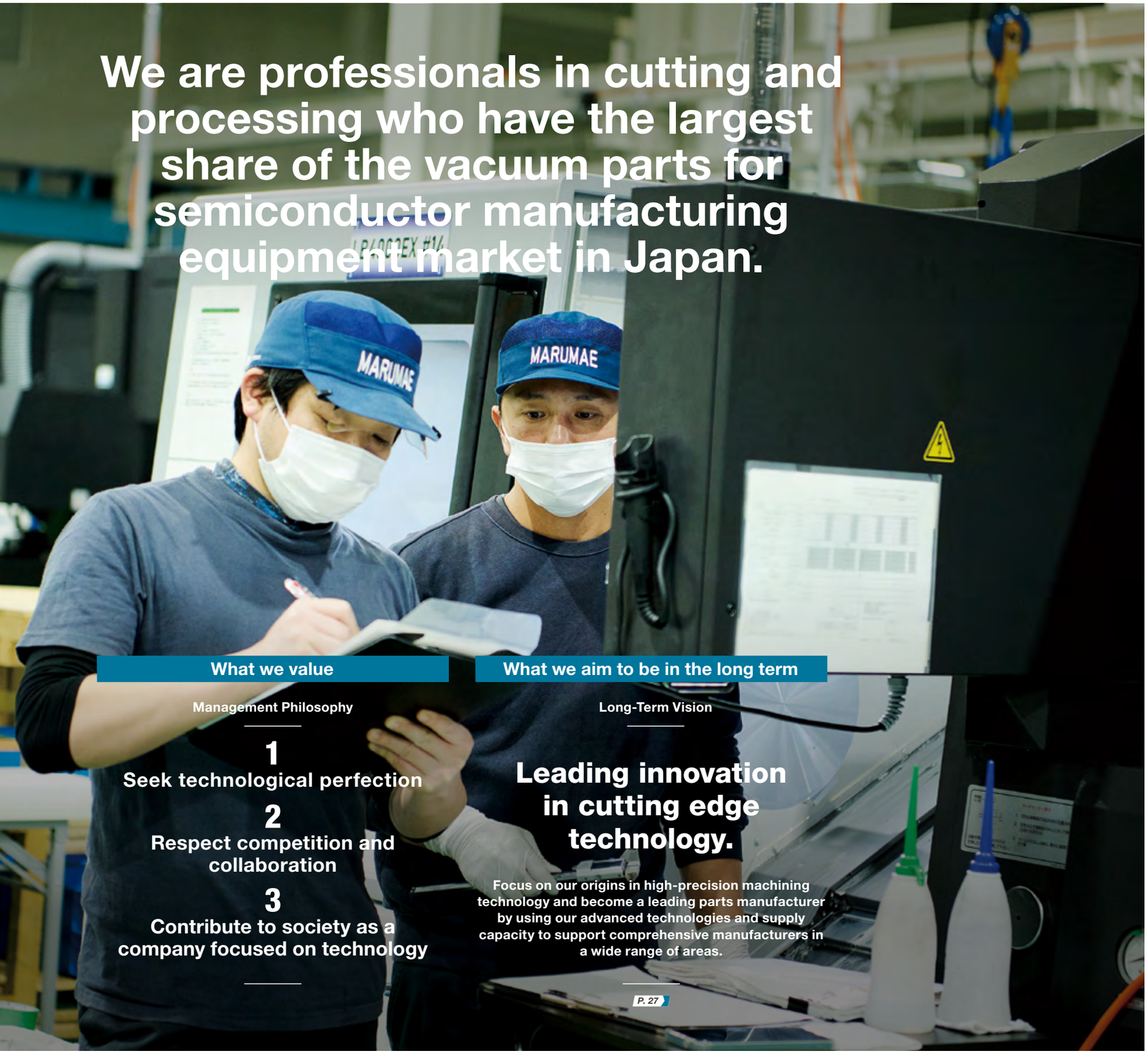
The market downturn triggered by the Global Financial Crisis led to the cancellation of large orders in the solar sector and to the loss of market share. Due to the increased cost of upfront investments and dramatic fluctuations in exchange rates, we reported losses.



Lessons learned from crisis

When we started out in business, we harnessed our technological capabilities to win more orders; however, in the years before the Global Financial Crisis, we won orders that relied on equipment strength in terms of large-scale machinery and we neglected to improve our technological capabilities. After the Global Financial Crisis, technological capabilities were necessary, but we expanded the semiconductor business where less investment was required. We also endeavor to make investments that are commensurate to our capital strength and have also increased our on-hand liquidity in case of market fluctuation.

Who We Are



We are professionals in cutting and processing who have the largest share of the vacuum parts for semiconductor manufacturing equipment market in Japan.

What we value

Management Philosophy

1
Seek technological perfection

2
Respect competition and collaboration

3
Contribute to society as a company focused on technology

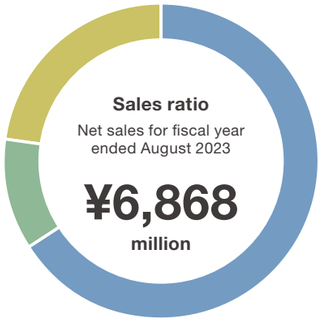
What we aim to be in the long term

Long-Term Vision

Leading innovation in cutting edge technology.

Focus on our origins in high-precision machining technology and become a leading parts manufacturer by using our advanced technologies and supply capacity to support comprehensive manufacturers in a wide range of areas.

P. 27



Semiconductor sector (66%)

¥4,534 million

We manufacture vacuum parts used in the semiconductor manufacturing process. Because they contact semiconductor substrates, called wafers, we need to stably produce highly precise and durable products. This requires advanced technologies and product management capabilities.

FPD sector (11%)

¥774 million

We own one of Japan's largest processing machines in the area of flat panel displays (FPDs) to carry out comprehensive multiple process operations, including electron beam welder (EBW). With our strengths in equipment and technologies, we supply highly precise high quality vacuum parts on a large scale with high efficiency supporting our market competitiveness.

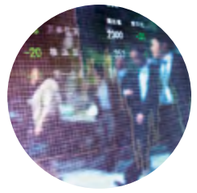
Other sectors (23%)

¥1,559 million

In other sectors, we receive orders for many different products. In recent years, we have been producing parts for solar cell manufacturing equipment with the use of surplus production capacity in the FPD sector. In line with our medium- and long-term growth strategy, we will diversify key technologies on the basis of our foundation for multi-purpose technologies in a bid to step into new sectors.



Established
1988



Operating profit
¥859 million

Source: Summary of Financial Results for FY2023



Market share in Japan
No.1
(Vacuum parts for semiconductor manufacturing equipment)
*Performance in FY2022



Headquarters
Izumi City, Kagoshima Prefecture



Number of Employees
323



Programmers
71



Our Core Message

Marumae's Unique Features

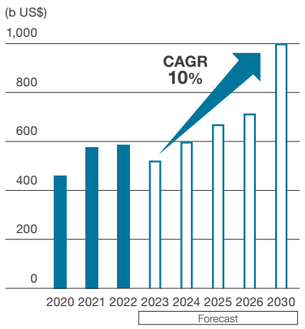
Growth opportunities

Semiconductor market to grow to $1 trillion by 2030

Will semiconductor demand double?
The semiconductor market is expected to grow to $1 trillion by 2030, which is twice its size in 2020

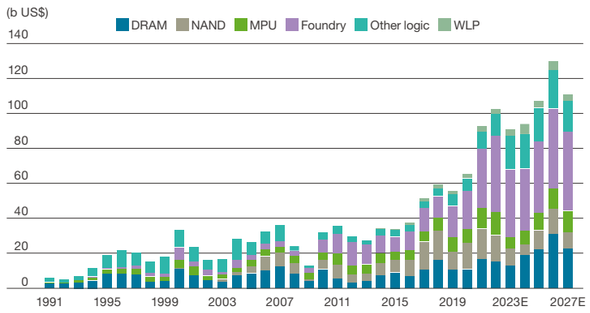
Equipment demand set to grow as much in the next 10 years as it has in the past 30 years
To satisfy twice as much semiconductor demand, the production capacity built up over the past 30 years will need to be doubled over the coming 10 years.

Semiconductor market forecast



Source: WSTS, Gartner, SEMI Forecast, 4Q23

Relationship between the WFE market, investments and net sales



Note: Forecasts are according to Mizuho Securities Co., Ltd
Source: Forecast by the Research Equity Division of MIzuho Securities Co., Ltd. based on data from SEMI and Gartner, Inc.

Market share

Largest share of Japanese market for vacuum components used in semiconductor production equipment*

In 2014, we were 12th in terms of market share. For the fiscal year ended August 31, 2022, we had the largest share of the market in Japan. For the fiscal year ended August 31, 2023, we were second, due to the differences in the timing of the end of our fiscal year and that of our competitors. Until February 2023, the market was good and companies whose fiscal years ended on March 31 reported brisk results. As Marumae's fiscal year ends on August 31, it was affected by the period where the conditions of the market were poor.

We believe there are four main reasons for this market share increase: (1) our activities to resolve customers' problems, (2) our programmers' prototyping capabilities, (3) our ability to invest capital to meet fast-growing demand in the semiconductor sector and (4) our one-stop manufacturing capabilities. P. 18

Industry share

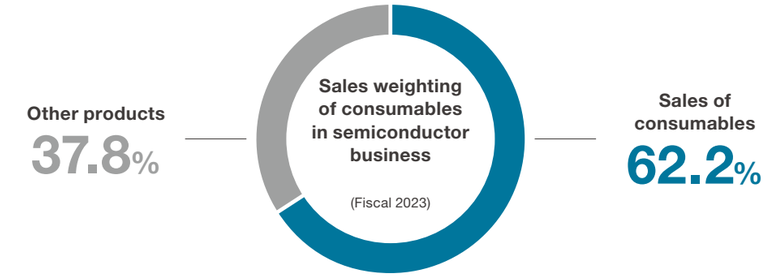
	Net sales	Profit	Market share by net sales	Market share rank
FY2020	4.38 (¥ billion)	0.69 (¥ billion)	6.3%	3rd
FY2021	5.36 (¥ billion)	0.90 (¥ billion)	7.0%	2nd
FY2022	8.58 (¥ billion)	1.8 1(¥ billion)	8.8%	1st
FY2023	**6.86 (¥ billion)**	**0.70 (¥ billion)**	**7.5%**	**2nd**

*According to the financial results for the fiscal year ended August 31, 2022. The market share data in this section is based on calculations using net sales data from research agencies regarding some of the companies, including Marumae, which we recognize as manufacturing vacuum components for semiconductor and FPD manufacturing equipment that are similar to our products (30 companies in total) for the fiscal years ended on the dates that fall within the individual calendar years.

Growth strategy

Strategically winning orders for consumables to respond to the silicon cycle

The semiconductor production equipment market is significantly impacted by the semiconductor demand cycle. We have therefore taken strategic action to win orders for consumables. Consumables require advanced technologies to meet stringent customer requirements; however, since demand for replacement parts arises every 6-12 months, we can expect to receive orders in a stable manner, regardless of production equipment sales.



Manufacturing system

Integrated manufacturing system for solving customers' problems

Under our integrated manufacturing approach, Marumae single-handedly carries out multiple individual production processes which were formerly shared out among different companies. We make products according to customer requirements and provide a service in the form of a factory system.

Why does Marumae acquire new technologies and adopt an integrated manufacturing approach?

Among our many processes, we aim to integrate the key technologies that influence product strength as much as possible. If we do not possess the key technologies, management is less stable: our customers may switch to another supplier, for example. Further, the acquisition of new technologies not only enables integrated manufacturing but also opens up new business areas and orders for new components. Naturally, the technologies involved in each process is highly specialized and it takes time to master them. Nonetheless, once technologies are deemed to be key technologies, we adopt a medium to long term perspective and commit to investing our management resources -funds, people and equipment into the technologies.

Four benefits of integrated manufacturing

1. **Workers at each production process can understand each others' processes closely.**
2. **Saves the customers a great deal of trouble, as delivery adjustments among multiple processes are unnecessary**
3. **Shortens transportation lead times**
4. **Marumae also takes care of transportation where necessary, reducing the cost of transporting large components in particular**



Marumae's ever-evolving path to value creation

Thank you for reading the MARUMAE REPORT.
We have built our reputation and grown into what we are today by working to solve customers' problems in a technological manner.
We go about our daily work aspiring to become a company that continues to serve society, leveraging the technologies that are our strengths and building on our achievements.

We started the process of producing this MARUMAE REPORT to inform stakeholders of our management policies and process for medium- and long-term value creation.
We particularly emphasize describing the views of the management team and the reasoning behind the decisions that are made more clearly so that stakeholders can be aware of the process for implementing the action plan. We have discussions with our president in the production of this report.

The progress in the efforts to express the ideas of the management team in writing and our discussions of our long-term business strategies and issues has clarified the matters that we should address.

We have established a process flow in which identified issues are shared at Board of Directors' meetings and other important meetings and in which the progress of response actions is monitored.

After the publication of the previous report, all directors including the outside directors and the production team reviewed the report to identify problems to be addressed in the future. Based on the results of these efforts, our president and relevant personnel developed courses of action to solve the identified issues in a cross-departmental manner.

We will expand the scope of the information we disclose and provide in-depth analyses to more actively engage in dialogue with stakeholders. We will discover new things and continuously improve based on them.

Meanwhile, we are aware of the need to further analyze our company and provide thorough explanations.

So, we set the goal of explaining our technologies and strengths verbally, starting in this report.

We studied separate ideas and systems that were naturally developed over Marumae's history and took a bird's eye view of them. We introduced outsiders' perspectives as appropriate to analyze our company.
We will listen to your opinions to continue our improvement activities.

Finally, there was a major change in the market environment in the fiscal year ended August 31, 2023.

The report covers our medium- and long-term business strategies for preparing ourselves financially for changes in the market environment and how we will ensure the stability of our business.

We hope that you will use the information when making your own decisions.
We will continue our efforts to increase our corporate value. We will be grateful for any unreserved feedback you give us.

Thank you very much for your continued support.

MARUMAE REPORT 2023

Editorial Policy

The MARUMAE REPORT has been designed for shareholders, investors, and other stakeholders. Viewing it as a communication tool for engaging in dialogue with all of our stakeholders, we have prepared this report with the aim of presenting, in a clear and coherent manner, our initiatives for achieving sustainable growth in both financial and non-financial terms, such as our environmental, social, and governance initiatives. In the process of editing this report, we referred to the Ministry of Economy, Trade and Industry's *Guidance for Collaborative Value Creation*, the International Financial Reporting Standards (IFRS) Foundation's *IFRS Sustainability Disclosure Standards* and other guidance documents.

Disclaimer

The forecasts for Marumae's future business results within this report reflect the current analysis of the Company based on information available at the time of preparation. Readers are cautioned that actual business results and other outcomes may differ from these forecasts due to a variety of factors, including economic trends and the Company's operating environment.
Period covered by the report:
Fiscal 2023
(from September 1, 2022 to August 31, 2023)

Contents

Introduction 01



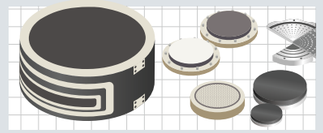
Our Basics 01
Long Track Record 03
Who We Are 05
Unique Features 07
Contents 10

CEO Message 11



CEO Message 11

How We Create Value 17



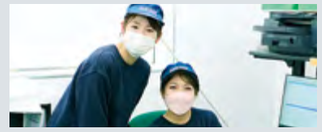
Why We Remain Chosen 17
Special Feature: Vacuum Components and Technologies 19
Our main products 21
Value Creation Process 23
Stakeholder Engagement 25
Long-Term Vision 27

Strategy 29



New Medium-term Business Plan 29
Business strategies: Semiconductor Sector 31
Business strategies: FPD Sector 33
Business strategies: Other Sectors 34
Financial Strategy 35
KPIs 37

Sustainability 39



Sustainability 39
Review of Material Issues and Improvement Activities 41
Material Issues (Materiality) 43
Description of Material Issues 45
Message from the Chair of the ESG Committee 52

Corporate Governance 57



Directors 57
Corporate Governance 59
Risk Management/Compliance 64
Information Security 65
Message from the Outside Director 66

Data 67



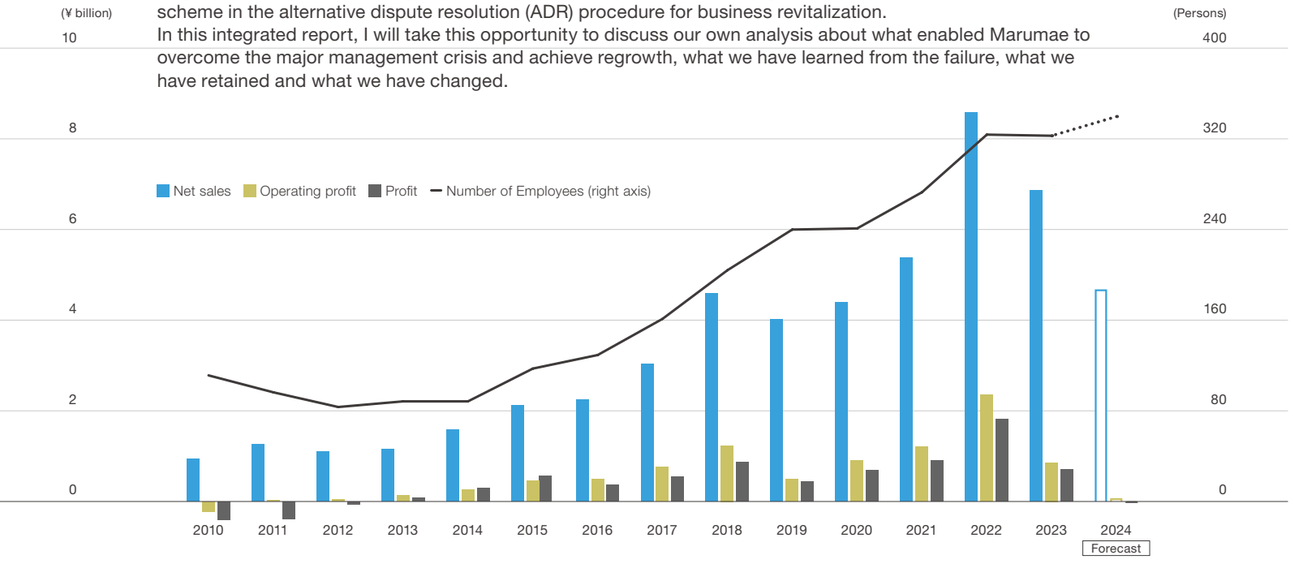
Financial statements for 11 years/ ESG Data 67
Balance Sheet 69
Statements of Income 70
Statements of Cash Flows 71
Company Overview 72

CEO Message

Committed to improving our technologies, increasing our corporate value and meeting expectations

Toshikazu Maeda
President and Representative Director

In the past ten years, I have managed the company with the objective of making it into a company that can withstand any event like the 2008 financial crisis.
As you know, we were severely impacted by the crisis. We achieved new growth under the business revitalization scheme in the alternative dispute resolution (ADR) procedure for business revitalization.
In this integrated report, I will take this opportunity to discuss our own analysis about what enabled Marumae to overcome the major management crisis and achieve regrowth, what we have learned from the failure, what we have retained and what we have changed.



Shifting to management that is resilient to change

What I did in the process of rehabilitating our business was to shift to management that is resilient to change. Before the 2008 crisis, we focused on receiving more orders and increasing staff and equipment in line with the growth of orders. Today, I see that we were not down-to-earth. It was fine during the period when orders were increasing. Once orders stopped growing, the increased fixed costs put pressure on management. Learning from this failure, I transformed as many different costs as possible into variable costs. Personnel expenses are an example. We introduced performance-based wages and gradually increased the proportion of wages that are performance-based. Regarding the manufacturing structure, we have emphasized the technological development of the partner companies that are our subcontractors. We established a mechanism for changing production to adapt to the fluctuation of orders.

We changed our stance on capital investment as well. Even if we have some surplus money on hand, we maintained the liquid assets we had on hand at a high level by borrowing to some extent. This is how we have invested capital. During the fiscal year ended August 31, 2023, there was a sudden market deterioration comparable with the 2008 financial crisis. I feel that our management that is resilient to change worked.

Returning to basics and changing strong points

In the past, our strength lay in equipment. There were few companies that possess large machinery in Japan. Our large facilities gave us a competitive edge. Of course, equipment is still one of our assets that enables us to compete. However, the essence of manufacturing strength is not equipment. Naturally, it is technology. We have returned to a policy of improving technology in addition to increasing equipment to receive more orders. We have been honing our technological capabilities over the past ten years. In the semiconductor sector, a very high level of technology is needed. The technological capabilities of many of our competitors are very high. In this situation, we managed to gain the largest share of the market. I believe this is a result of our efforts to deliberately change our own strengths.

Always thinking about developing systems

Moreover, I have kept thinking about developing systems. This stance has not changed. For example, all the machinery and equipment in our newest Izumi Factory is from the same manufacturer. In the past, we selected the machinery that was best suited to the production of products, focusing on the performance of the machinery. I suppose many companies do things the way that we used to. However, we shifted our focus to the quick development of engineers. People who have advanced skills or ample experience can learn to fully use new machinery in a relatively short time. It takes a long time for people who have limited experience or whose duties are similar to the operation of machinery to become capable of using new machinery. If all of the machinery is from a single manufacturer, personnel can learn to use machines in new areas in a much shorter time because they have already mastered the basics of using the machine. We aimed to develop a system that did not depend on humans by making the manufacturing operations as simple as possible.

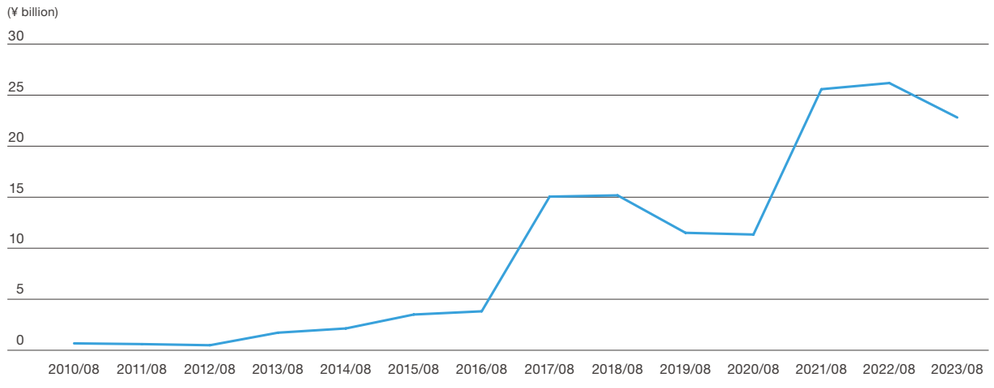
In addition, we changed the way we produce things, our system of production. In the past, manufacturing was left to individual engineers. Now, we have a system under which different roles are clarified in order to increase productivity. More specifically, programming, operation, finishing, inspection and other roles have been determined in line with the flow of the manufacturing process. They have been classified into two types: one is the roles that can be played by inexperienced engineers, and the other is those which can be done only by highly skilled engineers. We have ensured that competent engineers who previously carried out a wide range of processes from programming to manufacturing line operations, now concentrate on programming, enabling us to increase our competitiveness and productivity. The idea is to improve productivity by assessing individuals' skills and assigning them to their proper roles. We have improved the method of increasing productivity by creating an environment and a system in which each engineer increases their skills.

This is to adapt to the fluidity that is specific to the semiconductor manufacturing equipment market. Semiconductor demand may suddenly surge to two or three times its previous size. The way that we hired personnel one after another previously, it would take three to five years before newly hired people could become an asset to production. To increase the flexibility of our production capacity, we have established a system in which competent personnel concentrate on programming and inexperienced engineers can grow by fulfilling their roles.

Management with attention to share price and capital efficiency to meet shareholders' expectations

Our past growth would not have been possible without our stock being listed on the First Section of the Tokyo Stock Exchange (TSE). For our business to grow, we need capital. We were listed on the TSE Mothers section in 2006. Even with our growth potential, manufacturers were not well received by investors. The first section of the TSE was the only market where manufacturers could be appreciated by investors. For the sound procurement of funds, we aimed at being listed on the First Section of the TSE at a time when our market capitalization was below ¥4 billion. As a result of our efforts, we were listed on the first section of the TSE in 2018. We were able to procure funds to give us some surplus money we could invest, enabling us to grow. Ten years ago, our market capitalization was ¥1.6 billion. Today, it is approximately ¥22.8 billion. We owe our growth to the support of our shareholders. As Marumae's top manager, I feel responsible for always paying attention to the share price and capital efficiency in the management of Marumae. I will work to increase Marumae's corporate value to repay our shareholders for their support.

Market capitalization trend



Creating a company that attracts competent personnel

Our listing on the first section of the TSE did not just help us procure funds. It also opened the way to the evolution of our recruitment of personnel. It significantly increased our name recognition and our credibility and enabled us to hire competent personnel. In addition, things work in a bottom-up fashion in our company today, although we did things in a top-down manner in the past. I realize that it is a result of our highly skilled workers. The development team and the production team are composed mainly of engineers. Today, they are now becoming fairly independent.

Extending the final fiscal year of the Medium-term Business Plan one year

So far, I have discussed the changes over the past ten years. I will now move on to the progress of our Medium-term Business Plan that started in fiscal 2023. First, we will be looking at its first fiscal year, fiscal 2023. For the first half of the fiscal year, our performance was roughly as planned, mainly in the semiconductor sector. Especially in the first quarter, we reported record-high net sales. However, orders dropped tremendously in the second half. Accordingly, net sales slowed as well. In addition to the stagnation of the market, the inventories of our customers increased, a factor behind the slowdown. Until 2022, customers had a hard time due to the global shortage of materials. For this reason, many of them stockpiled a very large amount of materials for safety, despite sliding demand, hoping to avert any shortage of materials. In reaction to this, sales fell in the second half of fiscal 2023. I personally feel that the slowdown in the second half was comparable to the fall after the 2008 financial crisis. At the same time, orders for products for solar cells increased. Without these orders, we may have been in a very difficult situation. When we formulated the plan, we anticipated some slowdown in fiscal 2023, but the actual market decline was beyond our expectations. In these special market conditions, we decided to extend the final fiscal year of our Medium-term Business Plan one year without changing its numerical targets. In other words, the goals that we set in the plan are now set to be achieved in fiscal 2026.



Extension of the Medium-term Business Plan

		Innovation 2022	Innovation 2026
Net sales		¥7 billion	**¥14 billion**
Operating profit		¥2 billion	**¥4.2 billion**
ROIC	Asset-based	18%	**21%**
	Liability-based	14%	**18%**
Shareholder returns	Payout ratio	30% or above	**35% or above**
	Minimum annual dividend		**¥20***

* If the bottom line is a loss, the minimum annual dividend per share may be revised.



Expecting to reach a new high in 2026 in the semiconductor sector

The stagnant mood among our customers in the semiconductor sector continues to linger in fiscal 2024 due to their excess inventories. Since the beginning of the 2024 calendar year, I feel that excess inventories have been decreasing. We foresee that in fiscal 2025 the market will return to close to the level in fiscal 2022 and will reach a new high in 2026. This forecast is based on the global demand for servers that is expected to increase following the popularization of generative AI. Currently, we have some surplus production capacity after investing capital in fiscal 2023. Since we predict that demand will surely rise, we are preparing to invest additional capital. A difficulty faced by the manufacturers of parts for semiconductor manufacturing equipment is that when they identify a potential business, it is too late to draw up an investment plan. We may receive an inquiry that could lead to a big order unexpectedly. We must forecast the future ahead of market trends to create a plan. In a sense, this is a critical point that determines how successful the competing parts manufacturers are.

In addition, the market of products related to solar cell manufacturing equipment is very unstable at the moment, even though the performance in this sector was strong in the second half of 2023. This is partly because they are products for China. From the perspective of sales activities, there are still some opportunities in some areas. However, the plan does not take any growth of demand into account.

The significance of investing in human capital

Of course, it is necessary to prepare other things besides equipment up front as well. It is also necessary to increase the personnel who use the equipment. Looking at the recruitment of new graduates, many companies want to hire excellent science students. We must consider and implement various investments in human capital. This includes not only our existing employees but also the people who will join us in the future. One plain example is raising wages. Another is to constantly improve working conditions, such as increasing the number of holidays. It is already being done. Regarding recruitment, we are preparing to launch a program to cover student loan debt and a scholarship program. In addition, the project for constructing a new staff cafeteria is underway, although it differs slightly in perspective. We will develop and implement measures to increase our worker friendliness and appeal to people that are considering joining us.

Regarding the recruitment of graduates from industrial and other high schools, I assume that their parents' opinions will be important. We will continue to increase our branding activities chiefly in Kagoshima Prefecture. These include the purchase of the naming rights of sports facilities and the sponsorship of events. These activities will also help us serve local communities. Although we are listed on the Prime Market of the TSE, we, like many other BtoB companies, have poor name recognition. I am aware that it is an issue we need to improve.

Marumae Concert Hall Izumi





Marumae Sports Center Izumi

The development of programmers is a key to the realization of the long-term vision

In addition to recruitment, it is vital that we support the growth of our existing employees. Programmers are particularly significant in our realization of our long-term vision. When the Medium-term Business Plan was formulated, we had approximately 60 programmers. We plan to increase this to 100 by 2030. In 2022, we launched a project for the development of programmers. We commenced a training program that would transform engineers with limited experience into programmers. Currently, a curriculum has been created and a training program is in place. Another goal of programmer development is increasing the skill level of all of the engineers. Training inexperienced engineers will increase quality. We will invest a good deal of time and money in implementing the program.

Information security advanced through dialogue with investors

There is another thing that we have strengthened. It is our information security activities. In our dialogue with investors, we received comments about our drawbacks, and we decided to address them. To make ourselves ready to take action to address cyber risks, we have established an Information Security Committee. We will work to increase our readiness in an organized manner. We are currently striving to acquire ISO 27001 certification by the end of fiscal 2024. This is the international standard for information security management.

Cultivating new customers is the heart of the Medium-term Business Plan

I have explained the progress of our actions to handle different issues. Finally, I will mention our achievements. We succeeded in obtaining new customers. We have already announced this. To achieve the net sales target of ¥14 billion set in the Medium-term Business Plan, it was important that we gain new customers. However, the new contracts will not suddenly make a great contribution to net sales in fiscal 2024. The Medium-term Business Plan sets the target of earning ¥2.75 billion from the new customers. The amount will start at around ¥30 million on a monthly production basis for fiscal 2024. We envision that we will gradually gain larger orders. Our final order plan estimates that the amount ordered will be around ¥400 million on a monthly production basis assuming the market environment that we had in fiscal 2022. In fiscal 2026, the market may be larger, and we hope that the order amount may possibly be higher. We foresee that we can reach our target regarding new customers in around fiscal 2028.

Why Marumae is here

A short time ago, I asked a customer what they think our strengths are. That customer said as follows:

> The semiconductor manufacturing equipment market will probably grow immensely in the next ten years. However, there will not be many players in the world that can keep up with this growth.
> In this situation, Marumae proactively increases its production capacity to prepare for the growth of the market. This way, you respond to our expectations.
> It is very difficult to predict the future of the semiconductor sector. Despite this, if we ask you to do something, you are prepared to do it before we know it. I think this is a big advantage that you have.

I feel that this comment made me discover the mission that we have to fulfill. As the company or the business grows larger, the amount that we invest will also be larger and it will become more difficult to hire personnel. Therefore, we need to establish a solid system for it. This is my role as a manager. Semiconductors are essential for the evolution of society. As a supplier of semiconductor manufacturing equipment, we will develop our technologies to meet customers' expectations. Meanwhile, we will upgrade key technologies to make ourselves into a company that will play active roles in many different sectors.

We will work to increase our corporate value to fulfill the expectations of the shareholders and investors supporting us. Thank you for your continued support of Marumae.



Why did we succeed in increasing our market share?

Why We Remain Chosen

Nine years ago, Marumae posted ¥1.58 billion in net sales and was 12th in the industry's market share ranking.
After that, we steadily increased our net sales. In 2022, we obtained the largest share of the market with net sales of ¥8.58 billion.
This section investigates the factors behind Marumae's success in expanding its market share and why it is chosen by customers.

The accumulation of achievements and reliability through the solving of customers' problems

Using Marumae's comprehensive strengths to solve customers' problems

Marumae has been growing by solving customers' problems. Originally, the business was run by its founder Tsutomu Maeda alone. In response to customers' remarks that they could find no manufacturer producing specific products, he started to make new products. For most of them, there were no established manufacturing methods. He continued to research and experiment to achieve successful production. The accumulation of efforts to solve customers' problems resulted in the improvement of Marumae's technological strengths, an increase in orders and the expansion of the business. Our business is based on an underlying spirit of solving customers' problems based on the experience mentioned above.

Technology is important, but technology alone cannot resolve issues. Issues can be resolved leveraging production facilities, capacity, stable quality and the people who maintain them. In addition, manufacturing cannot be done without identifying customers' problems. At Marumae, the Sales Division acts as a bridge between customers and manufacturing teams. It will identify customers' issues and find solutions.

Solutions to problems that cannot be achieved by competitors

Technology	We respond to customers' issues that could not be handled by competitors. We have thus created products for which manufacturing methods were not established. We have managed to produce unknown products through research and experimentation.
Capacity	Especially in the semiconductor sector, demand occasionally rises sharply in the expansion phase of the business cycle. To fulfill customer demand in periods like this, we anticipate market conditions and prepare the necessary facilities and production capacity. We have funds on hand to invest and land and buildings for factories to ensure that we are ready to invest capital flexibly.
Delivery time and price	We have experience working with products and manufacturing methods in many different areas. This helps us ensure extensive technological strengths and high productivity. In addition, we conduct one-stop manufacturing that includes multiple processes to reduce delivery periods and costs. We possess multiple elemental technologies internally enabling us to perform multiple processes internally, reducing the time and costs necessary.

Constantly improving prototyping capabilities over the past decade as a source of future earnings

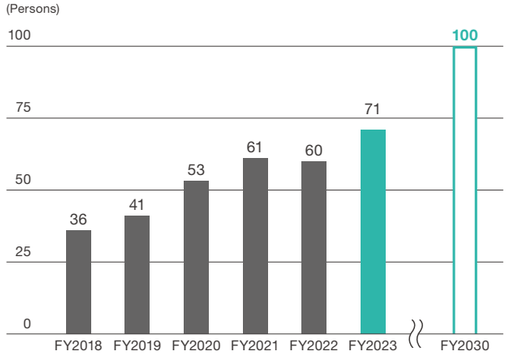
Ability to create multiple prototypes in a short time

Prototypes created by programmers lead to future orders. Therefore, we increase our prototyping capabilities with a view toward increasing our market share.

Prototyping is an initial step in the process leading up to our receiving orders. Our programmers create prototypes based on customers' drawings and requirements. We receive orders after the prototypes are approved. Producing a number of prototypes in a short time while ensuring quality aids future earnings.

To achieve future growth, we have drawn up the two measures below to improve our prototyping capabilities. One is to launch a programmer development project. It establishes a training system to increase programmers' skills and increase the number of programming personnel. The other is to rebuild our production structure. Highly skilled personnel are assigned to prototyping so that they can continuously concentrate on prototyping. In addition, we organize teams to ensure that multiple products can be launched in parallel to serve individual significant customers.

Number of programmers who are key personnel in prototyping



Quick decision-making and proactive capital investment to expand business

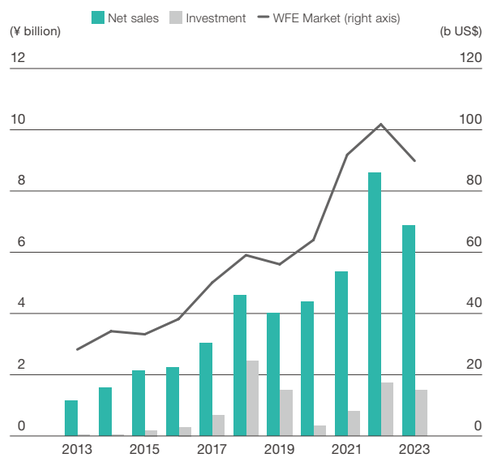
Strengths in market analysis to make decisions about upfront investments

To receive more orders, it is important that we possess the necessary production capacity when market demand is growing. Customers examine production capacity as well as price and delivery time when asking business partners to prototype equipment. Capacity is therefore a key element in the expansion of business.

The market fluctuations in the semiconductor industry are so intense that it is believed to be particularly difficult to make investment decisions to meet sharp increases in demand. It is vital that companies prepare every day and make quick investment decisions. It takes several months to a year from the placement of an order for equipment to the installation of the equipment. If a decision is made when demand is rising, the equipment will not be operating in time for the increase in demand, resulting in our missing an order. However, if we invest too early, we will own equipment that is not matched to the order level. The growth of fixed costs will result directly in the deterioration of profitability. To respond to the growth of demand in a timely manner, we always forecast market conditions based on multiple sources and monitor the operation ratio of machinery and the delivery time of equipment in order to make investment decisions.

In addition, it is necessary to secure the funds and land that make it possible to flexibly invest capital. We have established a financial strategy of maintaining liquid funds on hand and using areas where sufficient land is available like the city of Izumi in Kagoshima Prefecture for the agile investment of capital.

Capital investment and net sales



Note: The figures in the above diagram reflect estimates by the Equity Research Department of Mizuho Securities Co., Ltd. based on data from SEMI and Gartner.The WFE market figure for 2023 is an estimate and the figures concerning Marumae are actual results for fiscal years ending August 31.

Possessing multiple elemental technologies to increase cost competitiveness

One-stop manufacturing achieved after several breakthroughs

The products we produce require many different elemental technologies. When making finished goods, competitors commission different processes to several outside companies. We have worked to develop and acquire technologies to internally possess different elemental technologies that are necessary for the products that are ordered and technologies we find useful to own in view of the technical trends in the industry. We operate important processes and their preceding and subsequent processes internally to reduce transport and packing expenses and to limit the coordination between companies. This reduces costs and delivery periods.

In terms of quality management, one-stop manufacturing is a big advantage. The quality management representative stationed in proximity to the shop floor and the close communication between people involved in different processes makes it easy to maintain proper quality.

The one-stop manufacturing structure also aids the implementation of the Marumae Manufacturing System. This system has adopted a push-type production method moving from a preceding process to the next process. Coordinating the capacity of the preceding process with the capacity of the following enables production to be leveled and the reduction of fixed costs. The one-stop manufacturing system decreases dependency on outside organizations regarding middle processes and facilitates the leveling of work.

Advantages of one-stop manufacturing

Customer	Marumae
Shorter procurement periods	Quicker deliveries
Lower procurement costs	Lower expenses related to outsourcing, transport and consumables
	Fewer person-hours
	Optimized costs
Stable quality	Higher level quality management
Larger order quantities	Larger production volume
	Stable supply

Column

How are difficult products created?

Our products have complex shapes and high precision. In the prototyping phase, we fully leverage programmers' knowledge and experience and the know-how that has been passed down inside Marumae. Even so, the manufacturing of some products can be difficult due to the complexity of their form, the characteristics of their metals and demanding requirements. In this case, our staff study, think and utilize the technologies shared within the R&D group to complete the project. We will strive to improve the capabilities of individual programmers while carrying out production that does not solely depend on them. This is the basic concept that shapes Marumae's manufacturing. We will thus ensure that every single engineer will develop their skills and continue to improve the technological strengths of the whole company.

For the specific levels of difficulty of manufacturing methods, see Vacuum Components and Technologies.

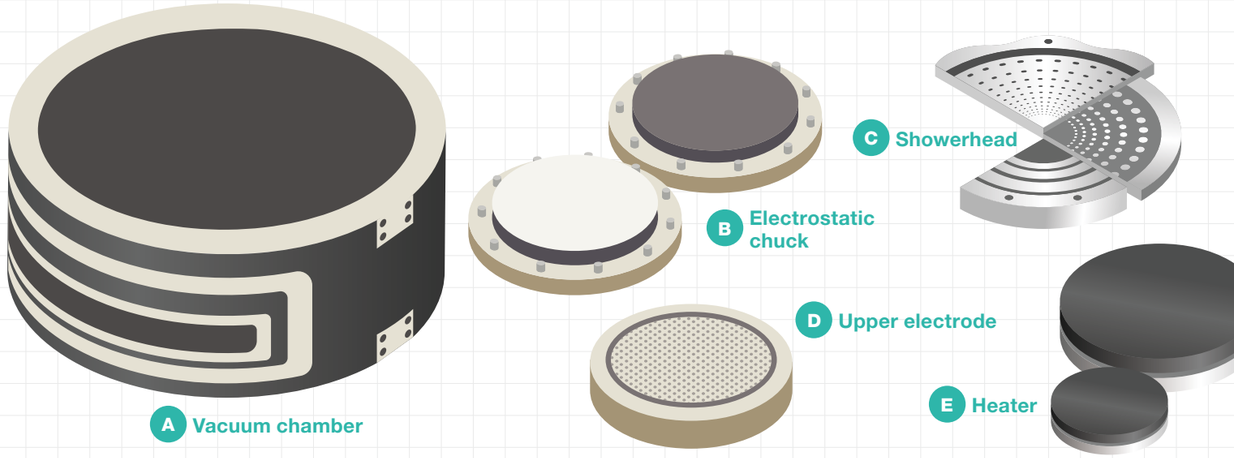


Special Feature

Vacuum Components and Technologies

The necessity of vacuum components in semiconductor manufacturing

The dry etching process and the chemical vapor deposition (CVD) process are important in semiconductor manufacturing. They require a vacuum environment or an environment with extremely limited air.
Air and other impurities are removed for microfabrication, and the atmosphere is replaced with a highly controlled gas to generate stable plasma.
Vacuum components are used to uniformly create and maintain this stable environment for all of the equipment.



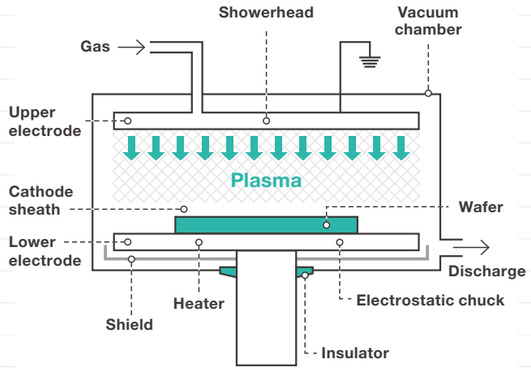
Vacuum components and consumables

Vacuum components are significant devices and components used to generate membranes (in the CVD process) and remove thin film materials (in the dry etching process) in the creation of circuits on semiconductor substrates which are known as wafers. These processes require gas to be introduced into a vacuum to facilitate a chemical reaction using plasma. This reaction is conducted inside a reactor vessel called a **vacuum chamber** A.

We manufacture **vacuum chamber** A and the components used inside them. Specifically, these components include **electrostatic chucks** B to secure wafers, **showerheads** C to evenly supply gas, **upper electrode** D for high frequency plasma* generation and **heaters** E to control temperatures. These parts are exposed to plasma in a vacuum and therefore likely to experience wear. They are treated as consumables that must be replaced periodically.

*Plasma: A state of matter with very high energy and activity, in which gas molecules are ionized and positively charged ions and electrons move under conditions of high temperature and high voltage. Etching, a process of dissolving a metal film to make a groove in the film, and other processes are performed using this activated state.

Interior of the process chamber of etching equipment



A high frequency voltage is applied inside the chamber, between the lower electrode where a wafer is placed and the upper electrode parallel to the lower electrode. This process transforms the introduced gas into a plasma. The resulting positive and negative ions and electrons react with the material. The etching process is conducted after discharging the volatile products generated from this reaction and removing them from the chamber.

Why are vacuum components difficult to produce?

Complex shapes | High precision | High precision stability

Semiconductor manufacturing is becoming more and more miniaturized. It is a process that requires fine and rigid control. The quality of manufacturing equipment impacts the quality of the process. Among other components, the vacuum components that act directly on wafers need to meet high quality standards. More importantly, the goal of the standards is to eliminate inconsistences in the precision from part to part, to standardize recipes, which are the combinations of gases, temperatures, electricity and many other elements needed for different manufacturing equipment.

POINT | Complex shapes

Since the semiconductor manufacturing process involves fine treatments, the components used in the process have complex shapes that are liable to deformation. One example is the **showerhead** C, which has a gas supply channel. To uniformly supply gas to wafers, it has a large number of fine high-precision holes and a complicated internal gas channel. To process this complex shape, programmers need to have the ability to design the processing process and also have expertise in a wide variety of devices and processing methods.

POINT | High precision

Given that showerheads are used mainly in a vacuum, they need to be airtight to prevent air or gas leaks. They must be manufactured precisely to one hundredth of a millimeter to maintain the precision of the wafer treatment process.

At the same time, the aluminum materials used for vacuum components deform due to thermal expansion and processing. A material about 300 millimeters across, the size of a wafer, the thermal expansion that results from a 10 °C temperature change is approximately a 0.07 millimeter change in size. When it is cut on any single plane, it could deform as much as 0.5 mm in the opposite direction. Therefore, high precision processing requires not only temperature control but also expertise in fastening the materials during processing, the steps for processing and the control of deformation. All of the tolerances of finished products are inspected before shipping and this inspection history is recorded.

POINT | High precision stability

Vacuum components are subject to strict standards regarding their high precision, stability, durability and exterior appearance. In addition, the precision of the products for shipment needs to be highly stable. Having to use a different recipe for individual equipment each time the consumables are changed inside factories operating a lot of equipment is not practical. Even the variance of any vacuum component within the set tolerances can result in unstable deposition or uneven etching in the manufacturing process, resulting in problems with wafers.

Quality management required for critical parts

Many of our vacuum components are designated as critical parts given that they are placed so close to the core part of the manufacturing equipment that they have a very significant impact on the manufacturing process. The smallest change in state could cause some defect and affect hundreds of processes, which could result in monetary losses. This is why the strict production process management explained on the right is in place.

Process of Record POR

Certification of manufacturing processes

This is customers' approval of semiconductor manufacturing processes. Critical parts need to be certified without exception. Customers inspect actual processes when deciding whether or not to certify them. It must be proved that they can always supply products with the same quality. The manufacturing methods, order, materials, equipment, places and other matters are specified in detail and the manufacturing process is documented.

Copy Exactly! CE!

Delivery of completely identical products

This means that identical products are manufactured using a completely identical method. To prevent any defects, the processes and procedures that have been certified cannot be changed in principle. Trained personnel use the same equipment and materials to manufacture products using predetermined procedures. Products are inspected using measuring instruments that meet requirements.

Change Control CC

Management of changes

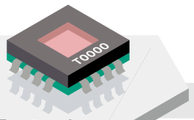
If any certified manufacturing process is to be changed, we need to submit an application for the change to the customer and their approval must be obtained.

Explained in the semiconductor and FPD production processes

Our main products

Semiconductors and liquid crystal screens are essential components of electronic devices.
Our products play a very important part in their production process. Here, we highlight our main products, together with the production processes in which they are used.

Semiconductor production process



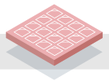
Front-end process

Circuit design



Design of a circuit pattern by combining various circuits together according to the required function

Photomask process



Creation of a photomask on which the pattern of the circuit to be transferred to the wafer is drawn

Exposure/development process



Transfer of the pattern of the circuit to the surface of the wafer by exposure to light using the photomask

Etching process



A B C D E

Removal of unwanted layer of oxides and unwanted resist by etching

Oxidation/Diffusion/CVD/Ion implantation



A B C D E

Ion implantation and/or thermal diffusion of the wafer, causing the silicon layer to act as a semiconductor

Wafer inspection



B

Testing of each chip on the wafer to determine if it is functional or not and marking of any defects

Electrode formation



A B F

Formation of an aluminum metal layer for electrode wiring on the surface of the wafer with inert-gas plasmas

Back-end process

Ingot production process



Production of the silicon single crystals (ingots) that form the basis of semiconductors

Ingot slicing



Slicing of the ingot using a special diamond blade to create wafers

Wafer polishing



Polishing of the surface of the wafer after slicing to give it a mirror-like finish

Wafer oxidation



Production of an oxide layer on the surface of the wafer in a thermal diffusion furnace in order to transfer a circuit pattern to the wafer

Resist coating



Coating of the surface of the wafer with a photoresist (a light-sensitive chemical) to make the wafer light sensitive

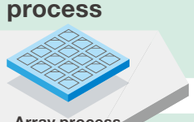
Planarization



Polishing of the surface of the wafer to make the pattern flat or planar

Processes in which our main products are used

LCD manufacturing process



Array process

Circuit design



Design of a circuit diagram through the arrangement of pixels and surrounding circuits according to the required function

Photomask fabrication



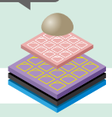
Creation of a photomask on which the TFT circuit pattern or CF circuit pattern to be transferred to the glass substrate is drawn

Film formation

A C D E

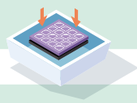
Sputter deposition of metallic films and deposition of insulating films through plasma-enhanced chemical vapor deposition (CVD), in order to form TFT

Exposure



Transfer of the circuit pattern shape to the photoresist coated on the substrate by exposure to light using the photomask

Development



Development of the substrate after exposure to light to transfer the circuit pattern in the photoresist to the substrate

Pattern inspection



Inspection of the pattern formed on the substrate to measure open/short of the circuit pattern and detect any foreign matter or other defects

Resist coating



Coating of the substrate thinly and evenly with a photoresist (a light-sensitive chemical)

Annealing



Thermal treatment of thin films to bring the substrate properties into play and improve performance

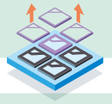
Back-end process

Substrate cleaning



Cleaning of the glass substrate with a brush and chemicals to remove any dirt and contaminants that might cause defects

Resist stripping



Removal of unwanted photoresist after dry etching

Dry etching



A C D

Removal of film unmasked by resist with plasma etching

Processes in which our main products are used

Main products

Core units of production equipment

A Vacuum chamber



A vacuum chamber is a container used to create a vacuum. A vacuum is created by using a vacuum pump fitted to the vacuum chamber to suck the air out of the vacuum chamber. Vacuum chambers are used in many semiconductor production processes, such as exposure, film formation, etching and sputtering.

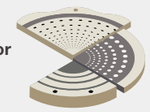
Consumables

B Electrostatic chuck



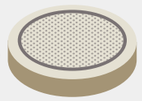
An electrostatic chuck (ESC) is a chuck used in semiconductor production chambers when shaping, according to the design, the silicon wafers, which is to be used as semiconductor substrate materials. The ESC holds the wafers using an electrostatic force and is an important component that influences semiconductor production efficiency.

C Semiconductor showerhead



A showerhead is a component that evenly supplies gas to the wafer/glass substrate as needed in the semiconductor production process/FPD production process. It, therefore, has many high precision pores and a complex arrangement of gas channels inside it.

D Upper electrode



The upper electrode is directly above the wafer in semiconductor production equipment and directly above the glass substrate in FPD production equipment, and it is the electrode that discharges gas through the hole and generates plasma at high frequencies.

E Heater (for semiconductors and LCDs)



Diverse heaters are used in the semiconductor production process as the process requires strict temperature control. In the CVD process and etching process, film formation and oxide layer removal take place in high temperature environments and a stage heater is used to achieve high precision temperature control of wafers.

F Sputtering targets (for semiconductors and LCDs)



Sputtering or sputter deposition is a technique to deposit thin films on substrates by introducing an inert gas to a vacuum chamber, charging negative voltage into the target material to form a glow discharge, and causing the ejection of atoms from the surface of the target to form a film on the substrate. High purity aluminum and titanium are used as sputtering targets.

Value Creation Process

Business Environment Analysis

Opportunities
- Semiconductor market estimated at $1 trillion by 2030
  - Construction of semiconductor plants worldwide
  - Support for semiconductor-related business as part of national policy
- Growing PV*1 demand alongside expansion in demand for renewable energy

Risks
- Equipment production lags due to parts shortages
- Demand fluctuations in semiconductor and FPD markets
- Supply chain decoupling
- Fierce competition to secure human resources

Long-Term Vision: Leading innovation in cutting edge technology

Strategies

Medium-term Business Plan: Innovation 2026 P. 29

Sustainable Strategy P. 39

Cash Allocation P. 36

Input (Fiscal 2023)

Human Capital
- Number of employees: 323
- Programmers: 71
- Training Hours: 5,106 hours

Social Capital
- Relationships of trust with customers
- Business foundations in local communities
  Manufacturing industry in Kagoshima Prefecture listed on the Prime Market of the TSE

Intellectual Capital
- Marumae Manufacturing System—Achievement of both prototyping and mass production at a high level
- Programming know-how-Unrivalled and unique manufacturing expertise based on business experience
- R&D expenditure: ¥84.49 million
- Number of registered patents: 4

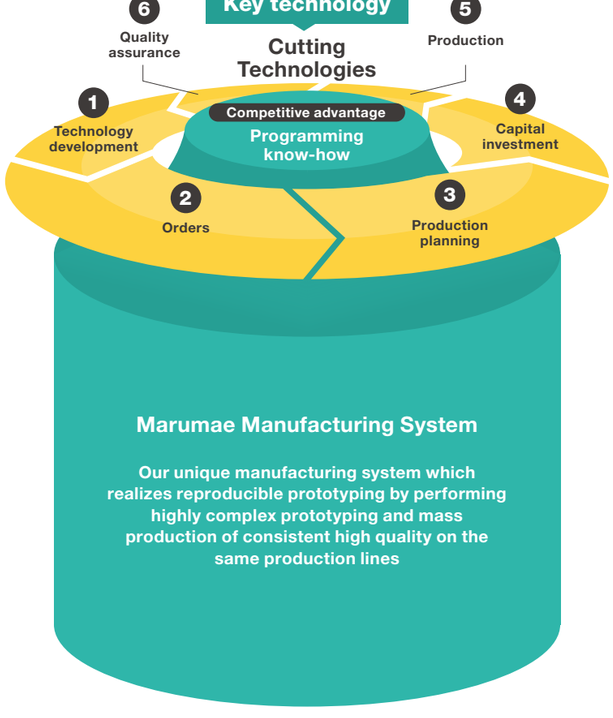
Manufacturing Capital
- Capital investment: ¥1,487.51 million
- Machine tools owned: 181 units (industry leading)
- 24/7 automated production line
- Manufacturing staff: 258 (plus 32 temporary employees)
- Number of Safety Committee meetings: 36

Natural Capital
- Raw materials (aluminum, stainless steel, etc.)
- Energy consumption: 6,808.7 MW/h Of which, solar power generation:1,246.6 MW/h
- Investment in solar power generation: ¥78 million
- Water usage: 25,413 t

Financial Capital
- Total assets: ¥11,612.02 million
- Shareholders' equity: ¥7,473.76 million
- Interest-bearing debt: ¥3,519.02 million

Production process

Refining the very best technologies to solve customers' problems

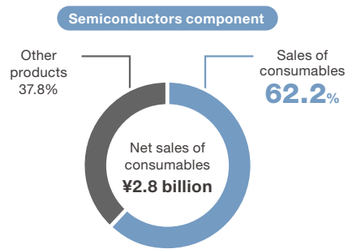


Marumae Manufacturing System

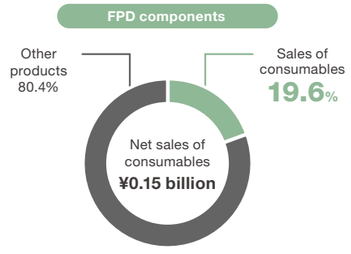
Our unique manufacturing system which realizes reproducible prototyping by performing highly complex prototyping and mass production of consistent high quality on the same production lines

Output

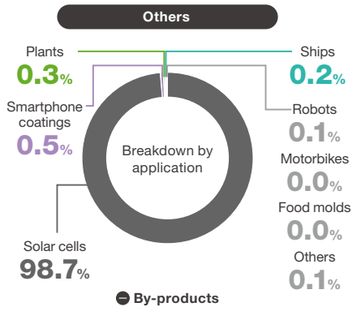
Semiconductors component



FPD components



Others



By-products
Experience/Technology/Production know-how/Chips/Heat/Mist/GHG (greenhouse gases)

Waste
Wastewater/Industrial waste

Outcome (Fiscal 2023)

Continuous and constructive dialogue
Stakeholder engagement P. 25

Human Capital
- Preparation for establishment of HR divisions
- Establishment of HR Strategy Committee
- Additional 20 days of annual paid leave
- Average annual salary: ¥5,641 thousand
- Number of new hires: 34 (men: 24, women: 10)
- Number of regular employees who left their jobs: 6
- Turnover rate of regular employees: 3.28% (Average turnover rate in Japan: 15.0%)
- Ratio of women: 23.53%
- Ratio of women in managerial positions*2: 10.2%
- Employment ratio of people who have disabilities: 2.86%
- Wellbeing of employees and their families

Areas for improvement and goals
- Establishment of HR strategy linked to management strategy
- Companywide implementation of strategic HR development plan
- Development of programmers
- Continuous improvements to create pleasant work environments
- Continuous improvement of the evaluation system
- Provision of welfare benefits
- Diversity training

Social Capital
- Number of customers dealt with during the period: 41
- Tax: ¥817.63 million
- Subcontract expenses: ¥853.73 million
- Number of subcontractors: 56

Areas for improvement and goals
- Development and strengthening of relationships from a customer perspective
- Quality improvement measures to improve customer satisfaction
- Prevention of release of defective products through inspection

Intellectual Capital
- Improvement of marginal profit per employee (¥12.12 million)*3
- Accumulation of know-how and experience
- Number of new prototypes: 325
- Rework ratio per marginal profit: 2.60%

Areas for improvement and goals
- Diversification of key technologies

Manufacturing Capital
- Newly introduced manufacturing equipment: 13 units
- Monthly production capacity: ¥1,050 million
- Safety indicator - TRIFR: 13.10*4

Areas for improvement and goals
- Development of environment enabling concentration on prototyping
- Improvement of quality through strengthening of Quality Assurance Department
- Knowledge sharing through collaboration between factories
- Provision of effective safety training
- Work safety analysis and measures

Natural Capital
- GHG emissions per marginal profit: 5.3 t-CO_2/¥ million*5
- Rate of reduction through renewable energy: 15.5%
- Wastewater treatment volume per marginal profit 10.2 L/¥ million
- Rework ratio per marginal profit: 2.60%
- Recycling: 1,102t
- CDP score: C

Areas for improvement and goals
- Initiatives to achieve carbon neutrality
- Analysis of climate-related risks
- Improvement of CDP score though environmental-related disclosures and strengthening of environmental measures

Financial Capital
- Net sales: ¥6,868.46 million
- Operating profit: ¥859.48 million
- Marginal profit per employee: ¥12.12 million*3
- Operating margin: 12.5%
- EPS: ¥55.92
- Asset-based ROIC: 7.7%
- Liability-based ROIC: 5.4%
- Total amount of dividends: ¥555.82 million

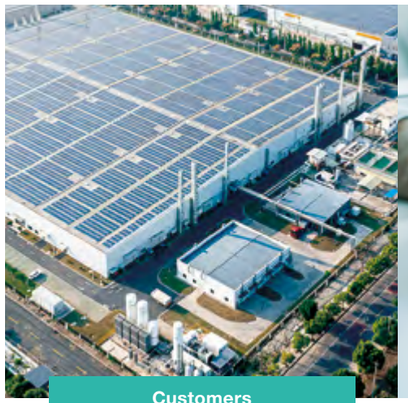
Areas for improvement and goals (By FY2026)
- Net sales: ¥14.0 billion / Operating profit:4.2 billion
- Marginal profit per employee: ¥20 million
- Asset-based ROIC: 23% or higher
- Liability-based ROIC: 18% or higher

*1 PV stands for "Photovoltaics" and refers to solar power generation
*2 Ratio in position of Group Manager or higher
*3 Includes temporary employees
*4 TRIFR is the rate of recordable injuries that occur per million hours worked calculated as follows: total number of occupational accidents ÷ total actual working hours ×1,000,000
*5 Scope 1 and Scope 2 emissions

Stakeholder Engagement

Our name “Marumae” conveys our desire to move forward (mae in Japanese) with business smoothly and peacefully (maruku in Japanese).

Our business has moved forward in the past thanks to the support of our various stakeholders. In the future, we intend to build win-win relationships with our stakeholders through continued dialogue and to collaborate with them as we continue advancing forward.



Customers

Why we engage

Marumae has achieved growth by solving the problems faced by our customers, who are world-class equipment manufacturers. We always seek to communicate closely with customers so that we can quickly notice the challenges they face and propose solutions.

Our stakeholders’ interests

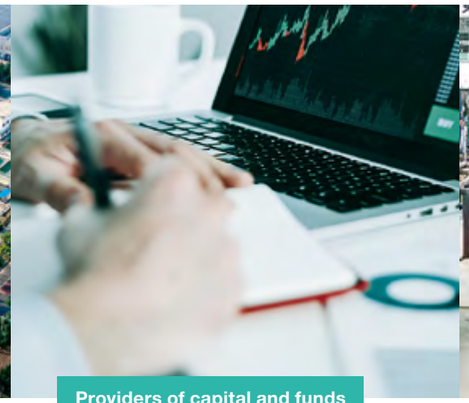
- High-precision machining of complex shapes
- Production capacity to meet spikes in demand
- System allowing integration of multiple processes
- Stable supply of high quality products at reasonable prices

How we respond

- Communication with designers and proposals
- Flexible capital investment
- Development of new technology
- Continual improvement activities

Improvement activities

- Strengthening of information security measures
- Enhancement of BCP implementation
- Organization of training on labor human rights and diversity
- Action on climate change



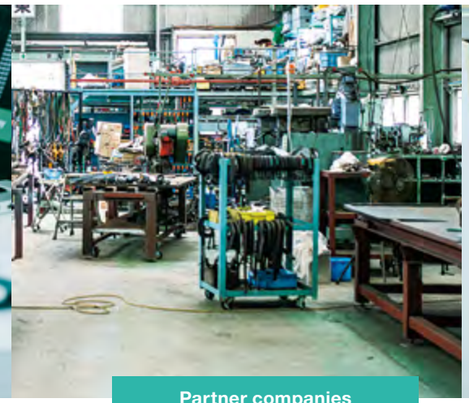
Providers of capital and funds

Our business is supported by capital from our shareholders and loans from financial institutions and, thanks to these funds, we can meet customer demand through flexible capital investment. We regularly engage in dialogue with our investors to ensure we live up to their expectations and we share information with financial institutions as appropriate to fulfill our responsibility to keep them informed.

- Stable growth, rising stock price, and dividends
- Sound financial structure
- ESG initiatives

- Preparation of medium-term business plans and other equity plans
- Information sharing with financial institutions
- Establishment and implementation of ESG plans

- Formulation of strategy for carbon neutrality in 2050
- Disclosure of GHG emissions from the supply chain
- Disclosure of water consumption
- Promotion of understanding through the publication of integrated reports



Partner companies

We conduct our business activities in collaboration with partner companies. To achieve stable supply and high quality, we communicate closely with our partner companies. Furthermore, in the interests of maintaining sound corporate governance, we build equitable, fair and transparent partnerships with them.

- Stable orders
- Maintenance of financial soundness
- Maintenance of competitiveness
- Reasonable prices

- Expansion of repeat orders
- Maintenance of a certain equity ratio
- Improvement of technological capabilities
- Orders for high added value products

- Organization of briefings for partner companies
- Explanations of demand trends
- Organization of training on copy exactly and change control (CE! CC)
- Organization of training on insider trading and compliance



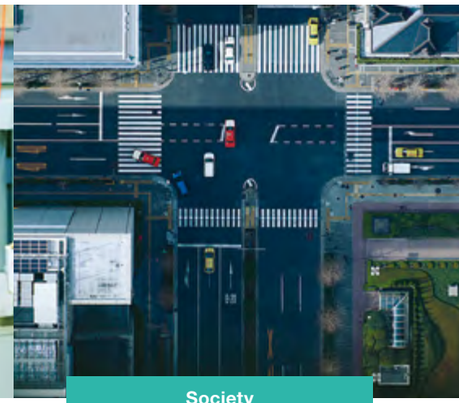
Employees and their families

Our business depends on our technological capabilities, in other words, the knowledge and skills of all our divisions. To steadily accumulate and improve such technological capabilities, we intend to improve our working environment and evaluation system to increase employee satisfaction, make it easier to recruit talent, and maintain and improve our retention rate. To this end, we are engaged in dialogue with employees and implementing improvements through the HR Strategy Committee.

- Better work-life balance
- Higher pay
- Job satisfaction
- Pleasant workplaces

- Additional holidays
- Pay increases and performance-based pay system
- Improvement of evaluation system
- Improvement of work environments

- On-site interviews and environmental improvements
- Increase in base pay
- Improvement of rules of employment to ensure fairness
- Improvement of internal public relations



Society

Marumae is committed to fulfilling its corporate social responsibility by paying its taxes and contributing to cultural activities. We also recognize the importance of building relationships of trust with local communities and complying with laws and regulations. Consequently, we are focusing on social activities such as acquiring naming rights and providing compliance training.

- Creation of employment/Contribution to development of local economies
- Safe environment
- Reduction of environmental impact
- Compliance with laws and regulations

- Increased employment, payment of taxes, and naming rights
- Enhancement of safety training
- Reduction of consumables, and use of renewables
- Encouragement of acquisition of various licenses and permits, and compliance training

- Additional acquisition of naming rights for facilities
- Regional sports promotion activities
- Reduction of environmental impact
- Blood donation activities

Long-Term Vision

Focus on our origins in high-precision machining technology and become a leading parts manufacturer by using our advanced technologies and supply capacity to support comprehensive manufacturers in a wide range of areas

In the past, a medium-term business plan with a timeframe of three or four years has served as the basis for management; however, we have now formulated a Long-term Vision with 2030 as the target year and are adopting a more long-term management perspective.
During the plan period, we will achieve growth alongside the robust growth of the semiconductor market and at the same time we will prepare for the next great growth phase.
We will aim for technological diversity through the expansion of key technologies.

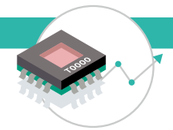
Our Vision 2030

Net sales	Operating profit	Operating margin
¥ 30.0 billion	¥ 9.0 billion	30%

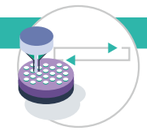
Simultaneous achievement of growth and preparation for next growth period

Leading innovation in cutting edge technology

Point !



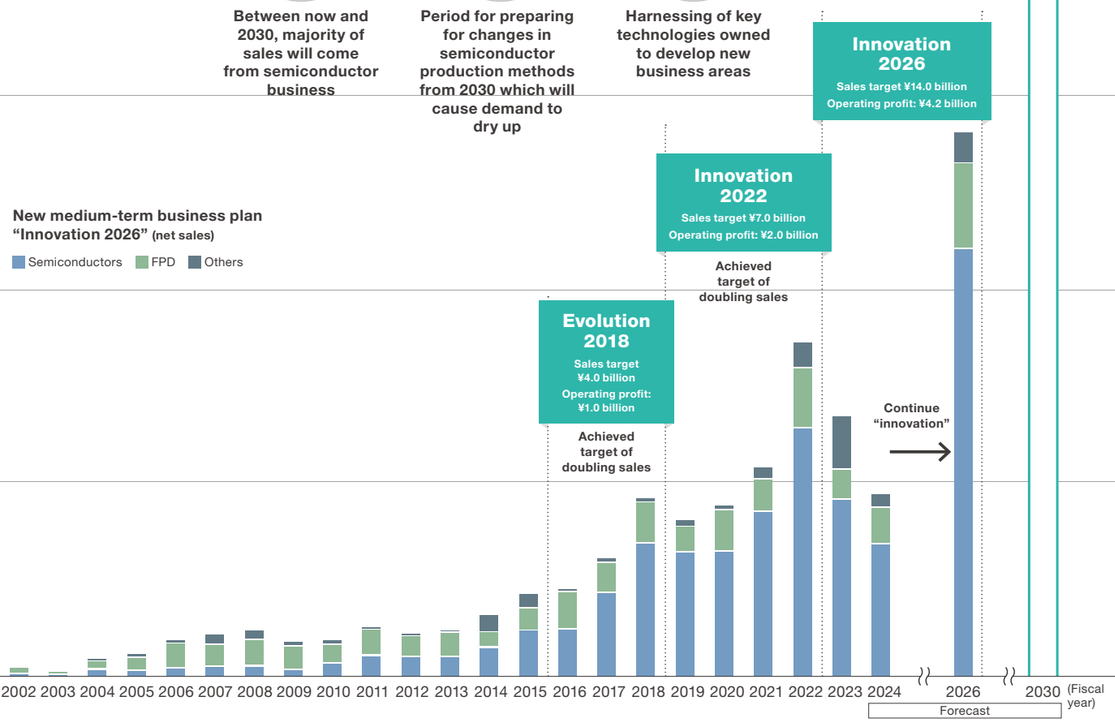
Between now and 2030, majority of sales will come from semiconductor business



Period for preparing for changes in semiconductor production methods from 2030 which will cause demand to dry up



Harnessing of key technologies owned to develop new business areas

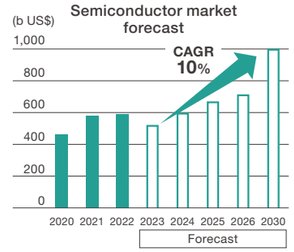


Reasoning behind Vision

Market environment analysis

The global semiconductor market will most likely grow significantly between now and 2030. Forecasters predict it will double in size, growing from around $500 billion in 2020 to $1 trillion by 2030. As a result, the market for semiconductor production equipment is also sure to grow considerably.

Source: WSTS, Gartner, SEMI Forecast, 4Q23



Identification of issues

Although market growth can be expected between now and 2030, due to changes in manufacturing methods, there is no guarantee that our vacuum components and cutting technologies, which are currently in strong demand, will continue being sought after. Since vacuum components in particular account for a large proportion of our sales, we need to recognize this as a risk.

Recognized issues

Market fluctuations in the semiconductor business	Development of semiconductor equipment without vacuum components	Market fluctuations in the FPD business	Development of FPD equipment without vacuum components	Obsolescence of technologies owned

Solutions

To address this risk, we will enhance our technology and diversify our key technologies. Leveraging more diverse key technologies, we will seek to diversify our operations. We believe this means making more versatile technologies into our key technologies.
Developing technological capabilities and systems which will be picked not only by the semiconductor market but by various markets is key.

Issues to be addressed

Diversity of operations	Diversity of technologies	Expansion of versatile technologies	Enhancement of key technologies	Diversity through M&A

Vision

By addressing risks, we will achieve our vision.
Advanced technology will give rise to high added value and increase productivity. As a result, we will be capable of generating high profit and achieving stable growth. Between now and 2030, we will refine our technological capabilities for the next growth phase, whilst at the same time achieving growth in the semiconductor production equipment market.

Direction to be pursued

Component manufacturer with advanced technological capabilities	High production capacity	High productivity	Manufacturer dealing with a wide range of business areas	Stable growth

New Medium-term Business Plan 2023-2026

Innovation 2026 Innovation

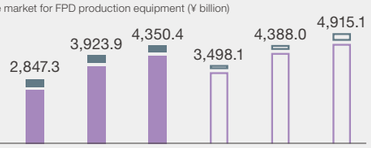
Revision of the Medium-term Business Plan

We have recently extended the period of our Medium-term Business Plan by one year, changing the final fiscal year of the plan to the fiscal year ending August 31, 2026. The targets have not been revised. The period of the plan was extended due to unexpected drastic changes in market conditions which will delay our planned capacity increase.

A full-scale recovery of the semiconductor manufacturing equipment market is forecast to begin in 2025 and the market is forecast to reach a new high in 2026. To achieve our targets, we will strive to receive orders for mass-produced products from new customers and to increase our share of the markets our existing customers operate within. Our progress to date includes the successful acquisition of orders for mass-produced items from two new customers in the semiconductor sector, both of which we received before the end of 2023. We are making good progress towards meeting our targets.

Market Outlook

Japanese market for semiconductor production equipment (¥ billion)
Japanese market for FPD production equipment (¥ billion)



(Fiscal year)	2020	2021	2022	2023	2024	2025
FPD growth rate (%)			-11.0	-25.0	10.0	35.0
Semiconductor growth rate (%)			13.9	-19.0	27.0	10.0

Source: Market Forecast Report Semiconductor and FPD Manufacturing Equipment (FY2022 - FY2024) Released in January 2023 by Semiconductor Equipment Association of Japan (SEAJ)

Performance in FY 2023

Net sales	¥6.86 billion
Operating profit	¥0.85 billion
ROIC Asset-based	7.7 %
Net sales Liability-based	5.4 %

Achievements in the fiscal year ended August 31, 2023 and issues

For the fiscal year ended August 31, 2023, net sales tumbled due to a market slowdown in the semiconductor sector and customers adjusting their component inventories which had been built up. In the FPD sector, we received orders and carried out production using electron beam welding (EBW) amid the stagnation of the market. In the other sectors, net sales soared significantly due to orders being received for parts of solar cell manufacturing equipment. In these circumstances, we acquired certification from new customers in the semiconductor sector in the fiscal year under review for growth in the next fiscal year and beyond. This will be a powerful driver of our expansion of sales in the future. We increased our large component production capacity for the FPD sector and for the other sectors from around ¥200 million to more than ¥300 million.

Issues that we are facing include conducting high-level production with the fewest possible assets and fixed costs to achieve stable growth in a changing market situation. To address these issues, we will carry out companywide streamlining through digital transformation (DX), including the automation of production and the active use of robotic process automation (RPA). Also, human resources measures are a top priority issue. While maintaining quality amid a future demand turnaround, we are reviewing the details of our training programs and building a training system to support the expansion of production.

For achieving → Investment as a basis for → Monitoring the progress of measures

KGI → **Investment plan** Total over 3 years → **Key Measures** → **KPI**

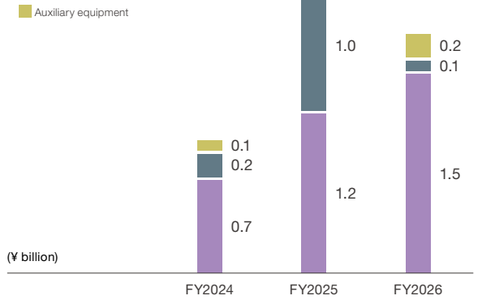
KGI

	Evolution 2018	Innovation 2022	Innovation 2026
Net sales	¥4.5 billion	¥8.5 billion	¥14.0 billion
Operating profit	¥1.2 billion	¥2.3 billion	¥4.2 billion
ROIC Asset-based	16.3%	17.9%	21%
ROIC Liability-based	11.5%	15.6%	18.0%

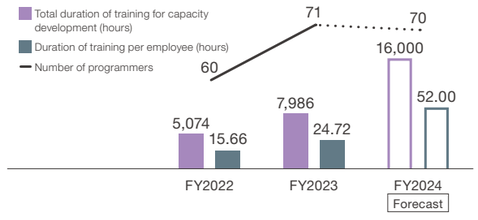
Investment plan

Capital investment

(Expansion of manufacturing capacity)



Human resources investment



Sustainabilty

By 2030	By 2050
50% reduction Compared to FY2021	Achievement of carbon neutrality

Sustainable investment

From August 2024 to August 2026

Solar power generation equipment

160 million

Key Measures

Business strategies

Semiconductor Sector

1. Expand manufacturing capacity
2. Aim to stabilize orders by strengthening consumables
3. Focus on processes where growth can be expected

P. 31

FPD Sector

1. Offer many processes as a one-stop-shop
2. Meet needs for large area of organic EL panels
3. Increase market share in oligopoly created by withdrawal of competitors

P. 3

Other Sector

1. Expand orders for solar cell production equipment
2. Focus on new areas such as space industry, including satellites

P. 34

Human resources strategies

Improve work environments
Introduce new personnel systems
Develop engineers
Promote diversification



P. 47

Sustainability strategies

Set aside budget of ¥640 million for the gradual installation of solar panels between now and FY2030

P. 53

KPI

Marginal profit per employee
Target: ¥20 million

Number of programmers developed
Target: Develop 100 programmers

Ratio of female regular employees
Target: 20% or higher

Turnover rate of regular employees
Target: 1% or less

Ratio of female managers
Target: 18% or higher

Welfare expenditure per employee
Target: ¥120,000 per year

Employment ratio of people who have disabilities
Target: 3.0%

Solar power generation at factories
Target: 20%

Reduction of Scope 3 emissions
Target: 2%



Business strategies

Semiconductor Sector

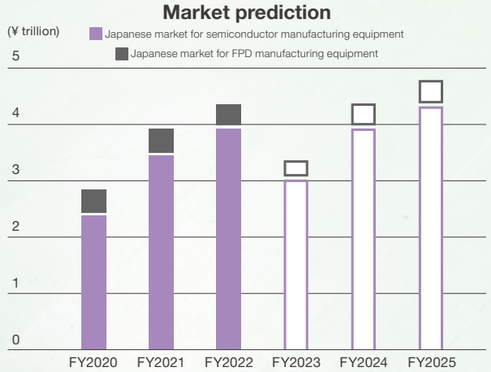
In the semiconductor sector, we mainly produce vacuum components which are core parts of semiconductor manufacturing equipment.

These components must be highly precise and durable, without unevenness to generate stable plasma in a vacuum. The semiconductor manufacturing process is so fine that it takes a long time to prototype and evaluate products. Once a part is selected for the equipment, orders for the part will be continuously received for a long time, without change.

Business Environment

For the fiscal year ended August 31, 2023, net sales and orders began to fall in the semiconductor sector in the second quarter because of the stagnation of the market and customers' adjusting their inventories which had built up. While the market remained weak, we have been moving toward clearing these excess inventories since the start of 2024. In 2024, capital investment is expected to rally. The turnaround will begin with investments related to advanced DRAM and, from March onwards, investments related to logic semiconductors will be made. Regarding the medium-term outlook, we expect a full-scale market recovery to begin in 2025 and anticipate that the pre-process semiconductor manufacturing equipment market will hit a record-high size in 2026.

Market prediction



Source: The figures are Marumae's forecasts based on data from the Semiconductor Equipment Association of Japan.

The business cycle of the semiconductor market, known as the silicon cycle, and inventory adjustments

The silicon cycle is the cycle of strength and weakness that is repeated with a period of about three to four years in the semiconductor market. It is caused mainly by a sharp rise in demand for new technologies and subsequent large-scale capital investments. Orders increase in the rising phase and they are limited due to excess inventories in the falling phase. This cycle stems from the fact that there is considerable time from the investment of capital to the start of semiconductor manufacturing and from the complexity of the supply chain. This leads to the disruption of the supply-demand balance.

The slump in our semiconductor sector for the fiscal year ended August 31, 2023 was estimated to be due to poor sales of advanced manufacturing equipment and an increase in excess inventories of equipment components resulting from long-term orders for materials placed by the equipment manufacturers that we serve to address the shortage of materials they faced during the busy period until 2022.

Measures for addressing the silicon cycle

01	02	03
Control fixed costs	Increase on-hand liquidity	Increase the proportion of orders for consumables

Learning from the management crisis in the past, we have developed a business strategy based on the three measures above with a view toward managing the silicon cycle and withstanding major economic slowdowns. We are working hard to ensure the stability of business by, in particular, receiving more orders for consumables for semiconductor manufacturing equipment that need to be replaced periodically.

Key Measures

01 Win new orders

Receiving mass production orders from new customers

We aim to achieve our Medium-term Business Plan by acquiring mass production orders from new customers. As a result, we succeeded in receiving orders from two new customers in the semiconductor sector before the end of 2023. We understood that the acquisition of mass production orders from new customers was essential for the fulfillment of the numerical targets in the Medium-term Business Plan. We see our successful reception of these orders as a significant step forward towards the accomplishment of the plan. We are striving to increase orders from new customers to the level of ¥0.4 billion per month in terms of monthly production by 2028. We expect an effect of this process to be the achievement of net sales in the semiconductor sector for the fiscal year ending August 31, 2026 that are ¥2.75 billion higher than in the fiscal year ended August 31, 2022.

Increasing the market share among the existing customers at a higher pace than the market

Even in the period of market stagnation, customers are developing new products and improving the performance of existing products. This means that we receive a large number of prototyping orders. These will lead to mass production orders after the recovery of the market. Currently, we produce numerous vacuum component prototypes each month. Our programmers are operating at nearly their full capacity. To receive orders in the future, we are implementing a programmer development project in preparation for the prototyping of more products.

02 Increase production capacity

Given that semiconductor demand rises suddenly, it is vital to be able to invest flexibly in response to the expansion of the market. We draw up a capital investment plan to be able to meet the medium- and long-term expansion of demand and respond to new orders. To prepare for economic crises, we pay attention to financial stability. We continuously gather market information to closely monitor market conditions, and in view of the machinery operating rates and equipment delivery time, we carry out investments.

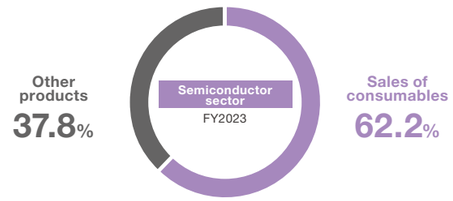
We formulated a plan for the construction of a new plant as a part of the Medium-term Business Plan. We believe it is an investment that is necessary for us to fulfill customers' requests. Construction is scheduled to begin by the end of the fiscal year ending August 31, 2025 pending a final decision in consideration of market conditions and the operating rates. We estimate that the period from design to construction will be about a year. Apart from that, we have started preparing to invest capital in the expansion of production in 2025. At the moment, there are no delays in the delivery of equipment.

Fiscal year	2024/8	2025/8	2026/8
Capital expenditure (forecast) CF basis	¥0.7 billion	¥2.4 billion	¥1.8 billion
Depreciation (current forecast) (Cost of products manufactured)	¥0.834 billion	¥1.04 billion	¥1.18 billion
Monthly production capacity forecast at the end of fiscal year	Semiconductor: ¥0.8 billion FPD and others: ¥0.3 billion	Semiconductor: ¥0.9 billion FPD and others: ¥0.3 billion	Semiconductor: ¥1.1 billion FPD and others: ¥0.3 billion

03 Increase the proportion of orders for consumables

We will strive to maintain and expand the orders we receive for consumables for semiconductor manufacturing equipment that are to be replaced periodically in a bid to stabilize the business. In the fiscal year ended August 31, 2023, semiconductor factories reduced their operations. This resulted in the congestion of inventories of consumables at different points in the supply chain to device manufacturers. As a results, orders we received for consumables were weak. However, after the start of 2024, the clearance of excess inventories is now in sight. New customers helped increase orders. For the fiscal year ending August 31, 2024, the ratio of consumable sales will exceed 70%.

Ratio of consumable components



Source: (p.14) https://ssl4.eir-parts.net/doc/6264/tdnet/2343363/00.pdf



Business strategies

FPD Sector

In the FPD sector, we manufacture vacuum components for manufacturing and inspection equipment for liquid crystal, organic electro-luminescence (OLED) and other panels.

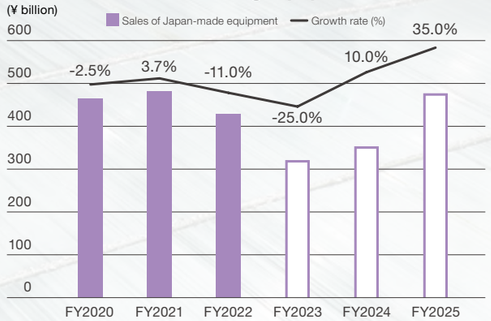
These components are large in size, measuring three meters or more. They have complicated forms and are susceptible to deformation.

However, they must meet tough flatness and precision requirements. They cannot be produced without special attention and technologies.

Business Environment

In the fiscal year ended August 31, 2023, capital investment was weak amid the stagnant demand for finished goods such as televisions, computers and smartphones. Near the end of the fiscal year, plans to investment in sixth- and eighth-generation* OLEDs started increasing. Capital investment comparable with the investments in eighth-generation OLEDs is expected to continue in 2024 and later. We now foresee that the shift of IT panels to OLEDs will drive a market recovery.

Forecast of demand for FPD manufacturing equipment



Source: The Semiconductor Equipment Association of Japan (SEAJ)'s *Demand Forecast for Semiconductor/FPD Manufacturing Equipment* (FY2022-FY2024) released in January 2023

* The generation suggests the glass substrate size. Sixth-generation OLEDs are approximately 1.5 m x 1.8 m, and eighth-generation OLEDs are approximately 2.2 m x 2.4 m. We support up to the 10.5th generation (approximately 3 m x 3.4 m).

Key Measures

01
Receive more repeat orders including orders for consumables

02
Make active use of large facilities in the cultivation of new sectors

03
Expand market share and increase sales

Unique Features

As the size of the components is close to 4 m x 4 m, it is becoming increasingly difficult to produce materials. We manufacture the materials using electron beam welders. Competitors assign different processes to separate operators. We integrate elemental technologies internally, including transport, welding and gun drilling processes. We thus shorten the delivery period and reduce transport expenses. This one-stop manufacturing results in the expansion of orders for large components that cannot be produced by competitors.

Risks and measures

The FPD market is expected to remain strong in the foreseeable future. But in the long run, it involves uncertain factors including the fluctuation of demand. Therefore, we focus our efforts on promoting large machinery used in the FPD sector in new areas and on expanding orders for consumables for which stable demand is expected. We presume that the advancement of applications in other sectors will lower the risk of additional investments and lead to an increase in orders.



Business strategies

Other Sectors

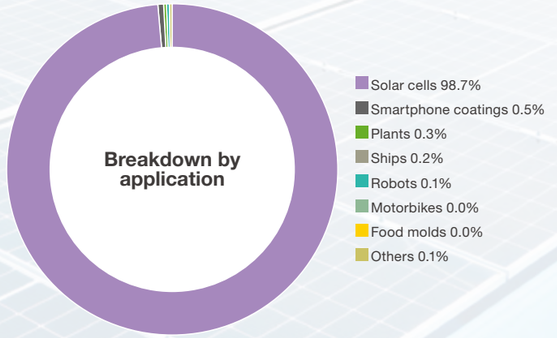
In other sectors, we manufacture a wide variety of products.

In recent years, we have been producing parts for solar cell manufacturing equipment using our surplus production capacity in the FPD sector. These parts make up a large proportion of production.

The products in these sectors include large-sized vacuum chambers for the CVD process and shower plates for the flow of process gas in the chambers.

Business Environment

Today, renewable energy is attracting an increasing amount of attention and the related market may expand. The solar cell sector is highly compatible with our business. Although innovation using new technologies may trigger the regrowth of the market, the destinations are currently limited to China and the market is unstable. It is difficult to develop prospects in this sector. In other areas, we have a track record of receiving orders for nuclear fuel vessels and components for smartphone case coloring equipment. We believe that the outer space industry is promising, including artificial satellites that are now globally shifting to the private sector.



Key Measures

01
Diversify key technologies to cultivate new areas

With a view toward achieving medium- and long-term growth by going beyond the existing business domains, we will diversify key technologies based on general-purpose technologies and aim to cultivate new market areas. The semiconductor market in which our mainstay business operates is expected to expand over the long term. Our vacuum components and cutting technologies currently earn high praise, but it may not be that the same or similar demand conditions for them will last forever. To address these uncertainties, we endeavor to increase our technological strengths, and we will build a structure for earning the trust of our customers as a company that is chosen in various markets.

02
Gain orders from more diverse sectors by means of large machinery

The manufacturing equipment for FPDs and solar cells are so similar in construction that our large machinery is used in both sectors. Our support for multiple applications has increased the stability of our business, but these sectors still include some uncertain factors. We will strive to expand the promotion of our machinery in other sectors, which involve large sizes and require highly precise processing, to reduce the risks involved in capital investment and to receive more orders. With this strategy, we will obtain orders from more diverse sectors leveraging our large machinery and facilitate the continued growth of business.

Financial Strategy

Basic approach Our basic approach is to adopt financial strategies that will allow us to maintain an equity ratio of 50%. It is also our policy to ensure around ¥3.0 billion in readily convertible liquid assets (combined total of notes receivable, electronically recorded monetary claims - operating, accounts receivable and other operating receivables, and cash and deposits) in case of economic fluctuation or in readiness for agile M&A. Our capital investment policy is to make investments that ensure we do not miss out on opportunities, provided such investments are financially safe.
When making capital investments, one investment criteria is that the investment must contribute to improvement in ROIC. If we borrow for capital investment, we make it a rule to align the borrowing period with the depreciation period and fund half of the capital investment ourselves and the other half with borrowing, thereby ensuring on-hand liquidity.
We will also proactively consider M&A opportunities. To procure the necessary funds, we will temporarily implement share exchange using treasury shares, in addition to using our cash on hand and borrowings. Our policy is to make a careful reassessment to balance our finances when considering M&A.

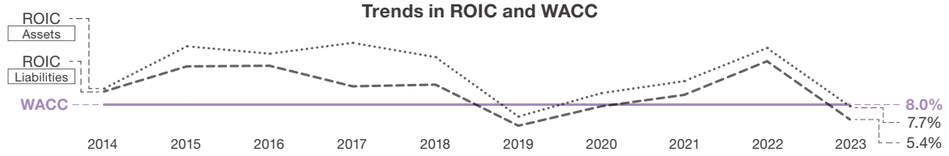
Deepening of ROIC-focused management

Under our Medium-term Business Plan “Innovation 2026,” we set a liability-based ROIC target of 18% and an asset-based ROIC target of 21%. With a view towards meeting these targets, all personnel from management to working-level staff are working to increase their own awareness of ROIC. We have a policy of aiming to increase ROIC by increasing the operating profit margin as well as capital efficiency instead of decreasing capital investment.

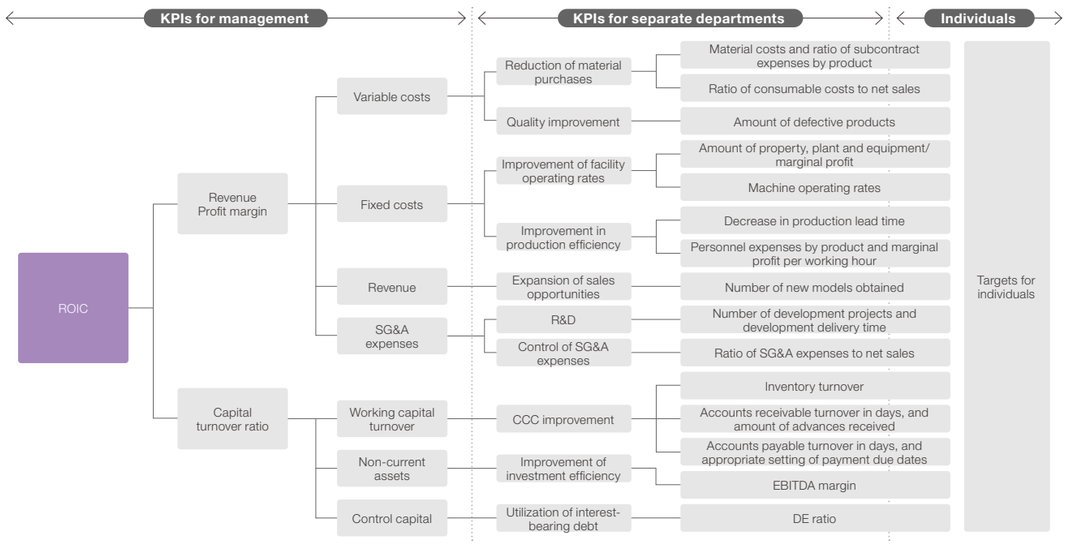
To increase awareness of the improvement of ROIC at the working level, we have defined key performance indicators (KPIs) linked to the corporate ROIC target for separate levels ranging from management to the working level. At the working level, indicators are further set for separate groups and individuals. Progress management is implemented with manageable targets set for individual products and functions. The status of the achievement of the KPI targets of individual departments are reported in monthly Management Meetings and best practices are shared with other organizations.

We value ROIC when we are implementing capital investments. We assume a weighted average capital cost (WACC) of 8%. One of our criteria for investment, excluding ESG investments, is that the effect of the investment surpasses the WACC.

Trends in ROIC and WACC



ROIC Tree



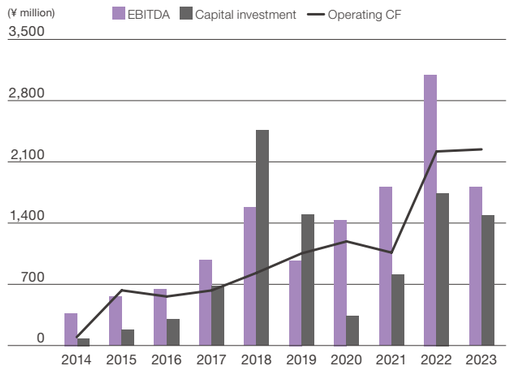
Cash Allocation

Creation of cash flows

In addition to proactive capital investment, we have implemented original initiatives including Marumae Manufacturing Systems aiming to increase production efficiency. Moreover, we adopted ROIC as our corporate key goal indicator (KGI) and carried out management paying attention to investment efficiency. We thus succeeded in increasing our EBITDA. EBITDA grew at an annual rate of 19.3% from the FY2014 level.

Net cash provided by operating activities for the fiscal year ended August 31, 2023 hit a record high of ¥2.25 billion, due to a rise in depreciation and a fall in working capital.

EBITDA, capital investment and cash flow from operating activities



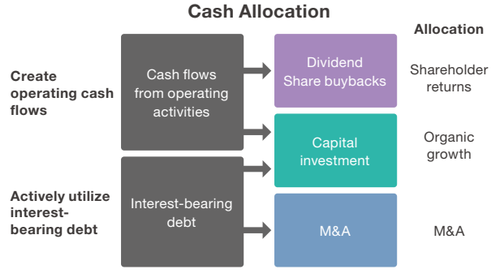
Cash Allocatione

Net cash generated by operating activities will be appropriated to funds for investing capital in organic growth and to shareholder returns. We will invest capital strategically with an eye on the future possible EBITDA and using interest-bearing debt mainly in cash flows from operating activities. Regarding M&A transactions, we will comprehensively consider corporate value, business synergy and other factors, especially during an economic downturn, and invest in view of the balance between shareholders’ equity and interest-bearing debt.

We will basically use the net cash provided by operating activities to pay shareholder return.

In accordance with this policy, we implemented capital investments totaling ¥1.49 billion, which is 66.1% of the net cash generated by operating activities, and procured funds worth ¥0.90 billion by means of interest-bearing debt in the fiscal year ended August 31, 2023. Shareholder return was ¥0.55 billion, which is 24.6% of the net cash generated by operating activities.

Cash Allocation

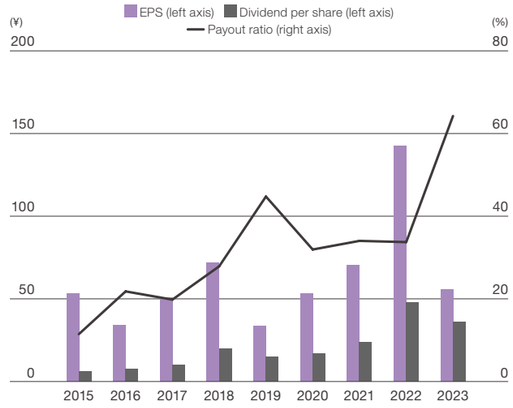


Shareholder returns

Our profit distribution policy is to make investments from a long-term perspective and to aim for profit distribution based on profitability, taking operating results and financial conditions into consideration. We consider the dividend payout ratio when calculating dividends. Our Medium-term Business Plan “Innovation 2026” states that if the full-year bottom line is a loss, the minimum annual dividend per share may be revised; however, we have set a target dividend payout ratio of 35% or more and a minimum annual dividend of ¥20 (interim dividend of ¥10).

We also implement share buybacks flexibly and in the event of sudden share price fluctuations that are not based on fundamentals, we implement share buybacks for the signaling effect*1. Most recently, we implemented share buybacks of ¥161 million in FY2020 and ¥400 million in FY2022. The share buybacks aid the improvement of return on equity (ROE) as well as earnings per share (EPS) and book value per share (BPS).

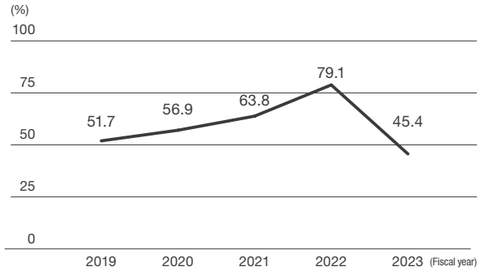
EPS, dividend per share*2 and payout ratio



*1 The signaling effect is when investors perceive dividend measures, etc. as a signal and try to infer from them the information held by management and management’s true intentions
*2 EPS and dividend per share are calculated assuming that the 100-for-1 share split on March 1, 2014, the three-for-one share split on September 1, 2015, and the two-for-one share split on March 1, 2017 took place at the beginning of the fiscal year ended August 31, 2013.

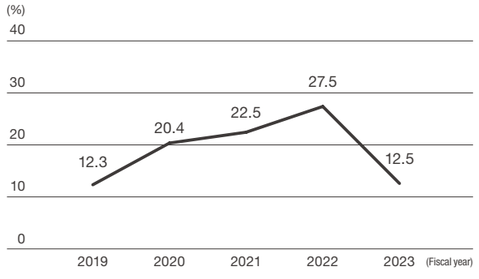
Financial KPIs

Machine operating rates



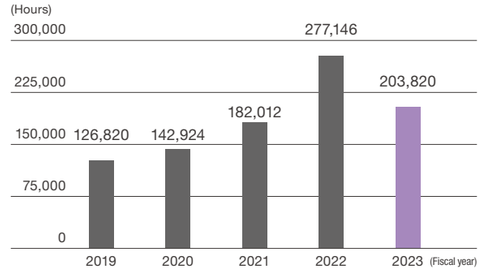
We monitor and analyze machine operating rates as a KPI every week and use these results to achieve efficient operations in subsequent weeks. Machine operating rates indicate cutting time per week as a percentage of target cutting time per week and are used as a lead indicator for the profit margin.

Profit margin



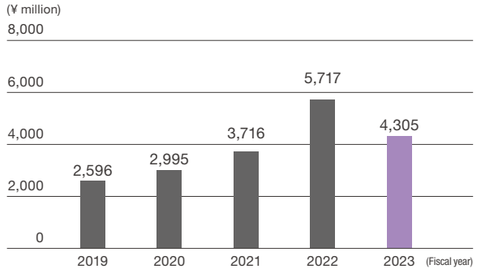
The profit margin, which is our KGI, is operating profit from our main business as a percentage of sales.
Depreciation of equipment is a fixed cost and the higher the operating time, the lower the cost per machine, which means the product cost is lower and the profit margin is higher.

Total operating time



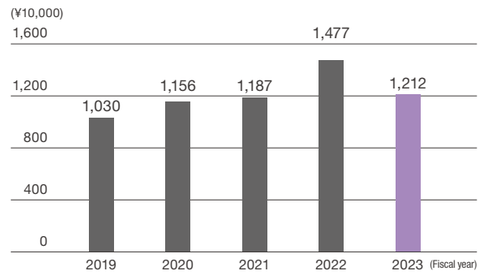
Total operating time is the total cutting time of all machines. The added value of our products comes from cutting and this cutting time is, therefore, the source of added value, and total operating time has a similar relationship with added value (= marginal profit).

Marginal profit



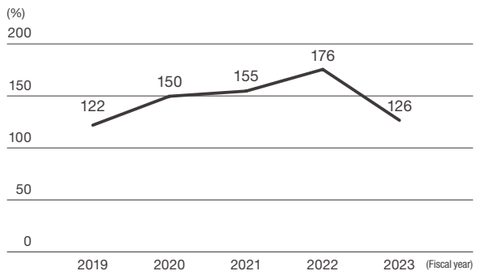
Marginal profit is sales less variable costs (costs that fluctuate when sales go up and down: material costs, subcontract costs, consumable costs, etc.) and is similar to the sum of internally generated added value. We use total operating time as a leading indicator for marginal profit.

Labor productivity



We define labor productivity as marginal profit per employee, calculated based on all employees including temporary employees. Since our inception, we have used this marginal profit per employee as our KPI, and our 2026 target is annual marginal profit per employee of ¥20 million.

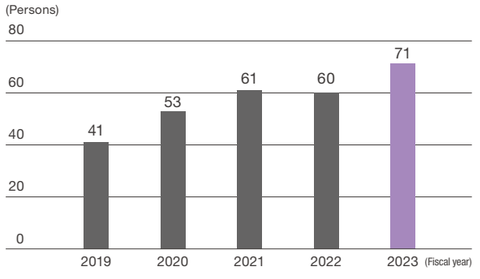
Equipment productivity



We define equipment productivity as marginal profit per item of property, plant and equipment excluding land and buildings. We verify the ratio of marginal profit generated by property, plant and equipment and reflect this in our medium-term capital investment plan.

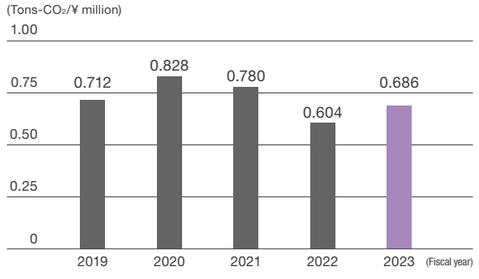
Non-financial KPIs

Number of programmers



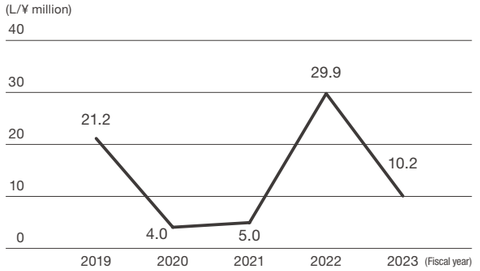
We set the number of programmers as an indicator for strengthening our future business because programmers win new orders by thinking about how to make products and providing customers with prototypes.

Scope 1 and 2 emissions intensity (per marginal profit)



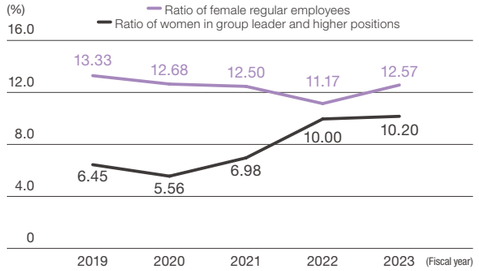
Due to society's growing awareness of climate change, action on climate change has emerged as a risk factor, prompting us to monitor our monthly CO_2 emissions, with the aim of achieving carbon neutrality by 2050.

Wastewater treatment volume/Marginal profit



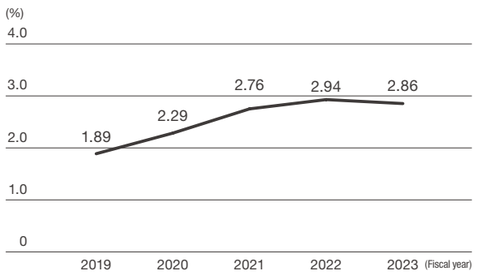
By reducing the volume of waste water we generate through promotion of the recycling of cutting fluid used in cutting and cleaning fluid, we aim to mitigate our environmental impact and cut costs by purchasing less.*1

Ratio of female employees



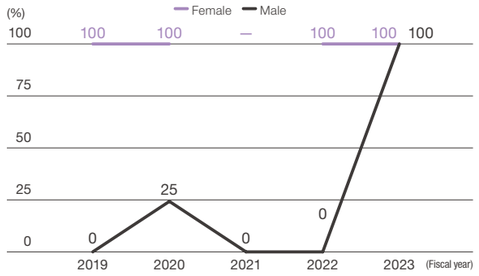
Believing that a workplace which encourages diversity is beneficial for everyone, we adopted the ratio of female employees, who are the biggest minority group, as an indicator and aim to increase the ratio of female regular employees to 20% or more and the ratio of female managers*2 to 18% or more by fiscal 2030.

Employment ratio of people who have disabilities



We encourage the employment of persons with disabilities, utilizing the specific skills of individuals and establishing ways in which they can effectively contribute to our business activities.

Rate of childcare leave taken



We began monitoring the rate of childcare leave taken to develop a more worker-friendly environment. The rate of childcare leave taken by men has remained at a low level in the past; however, we are implementing initiatives to make it easier for those eligible to take leave by considering how they feel.

*1 In fiscal 2022, our wastewater emissions increased due to wastewater accumulated for reuse; however, wastewater emissions are expected to decrease in the future
*2 The number in managerial positions means the number in the position of group leader or higher, excluding chief technician, technician and assistant technician



SUSTAINABILITY

Aiming to Build a Sustainable Society

Marumae's Approach to Sustainability

A sustainable society is indispensable for ensuring business continuity and establishing a foundation for growth. Marumae has identified environmental, social, and governance (ESG) issues in relation to its business and is promoting initiatives pertaining to these issues with a view to improving its corporate value over the medium to long term. When identifying ESG issues, we continuously assess whether our actions are leading to corporate value improvement, giving considerable thought to how these issues affect our corporate value.

Basic Sustainability Policy

1. **Contribute to our information-driven society by supplying parts for semiconductor and flat panel display manufacturing equipment.**
2. **Aim to realize a sustainable society.**
3. **Build on and improve the workplace environment to enable everyone to actively participate.**
4. **Establish a robust management foundation.**





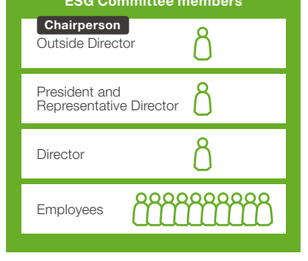


The ESG Committee

Sustainability Promotion System

The Board of Directors has delegated sustainability matters to the ESG Committee. The committee's role is to identify and address material issues (materiality) that should be addressed for management purposes to increase corporate value. It constantly monitors business conditions to identify medium- and long-term issues. It then works out and implements response measures in collaboration with relevant organizations.
In principle, it meets monthly to incorporate business circumstances into its activities in a timely manner. In these meetings, it discusses and reviews its activities. The deliberations of the ESG Committee are reported to the Board of Directors every month. The Board of Directors comments on the activities of the committee and provides guidance to the committee.

Diagram of the structure of the ESG Committee



Member

Management executives and diverse personnel

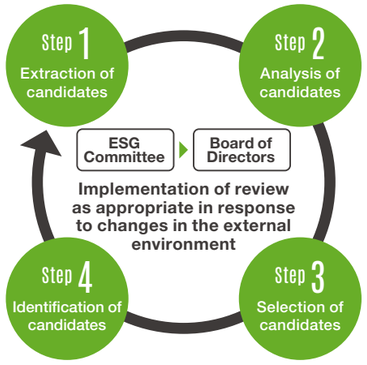
The ESG Committee is chaired by an outside director and composed of the president and representative director, other director and ten employees. In total, the committee has 13 members. Given that sustainability efforts address medium- and long-term management issues, management executives are members of the committee to increase its impact on the management of Marumae. The committee's chairperson is an outside director who is a women. This helps introduce the knowledge of people outside the company into the committee's deliberations and energize these deliberations.
The employees participating in the committee are selected from all of the factories and from a wide variety of organizations. They include people from the manufacturing, production management, sales, facility engineering, personnel, accounting and development sections. The purpose of appointing these employees is to incorporate their understanding of problems and their opinions from their individual perspectives into the actions for solving issues.

Review of Material Issues and Improvement Activities

The ESG Committee reviewed the material issues (materiality) and discussed them based on evaluations from outside experts. It decided that the material issues from the previous year were still material and chose to incorporate individual remarks into the action plan for carrying out improvements, given that the main remarks from outside experts are already included in the material issues. In addition, it determined through dialogue with the management team that quality had very significant impact on the business, so it increased the importance of customer satisfaction to the top level and set a new target.

Process for Identifying Key ESG Issues

When identifying material issues, the ESG Committee classified "issues (materiality candidates)" based on consideration of industry-specific issues, impact on sustainable business growth, and financial impact, referencing the ISSB, the SASB standards and ESG evaluation criteria. The extracted issues were given scores from the perspectives of "impact on our value creation" and "impact for five main stakeholder groups" to identify material issues. The committee established countermeasures and targets for material issues, which were then deliberated and approved by the Board of Directors.



Key points for reviewing material issues and targets

1 Changes in the external environment
Impact of conflicts, foreign exchange fluctuations and market trends on the Company, the demands of society and other factors

2 Outside stakeholder evaluations
Customers' evaluations, items requiring improvement determined after dialogues and feedback from investors

3 Sustainability assessment standards
Frameworks for the disclosure of sustainability information (Sustainability Accounting Standards Board (SASB) and International Sustainability Standards Board (ISSB)) and assessments by S&P Global and the CDP

Outside stakeholder evaluations

We are regularly audited by customers. This section states the results of sustainability assessments and progress in the issues requiring improvement.

Points of assessment

Tokyo Electron Ltd. Green Partner program

We were recognized as a Green Partner for our contribution to Tokyo Electron's environmental supply chain management activities.



Responsible Business Alliance (RBA)* Audit

Our working environment was audited by customers and rated as being above average without any priority non-compliance issues.

91 / 100 points

Business Continuity Plan (BCP)

We earned the highest S-rating from major customers and have implemented actions for issues requiring improvement.

S

*RBA: A corporate alliance aimed at supporting safety in the working environment and workers' rights in the supply chains in the electronics industry

Issues requiring improvement

Labor human rights training Implemented
We have conducted the training program and tested all employees' comprehension of the program's curriculum. In the future, we will carry out training once a year.

Demand for diversity training Implemented
We received a request that we provide diversity training to all of our employees once a year. For the fiscal year ended August 31, 2023, we organized a training program that covered basic matters. We will improve the content of this program for the next time we implement it and further in the future, and test all employees' comprehension of the program's curriculum.

Request for information security measures In progress
We received a request that we acquire ISO/IEC 27001 certification, a standard for information security management systems. An external organization examination is currently in progress with a view towards acquiring certification in the fiscal year ending August 31, 2024.

Request for BCP improvement In progress
We received a request to organize a drill to check the recovery process in preparation for a presumed disaster, and we did so. Additionally, we received a request for a night time evacuation drill. We will be holding the drill in the fiscal year ending August 31, 2024.

Working hours restrictions Measures in place
Our employees' working hours are within the statutory limit, but some employees work more than 60 hours a week. We have introduced a no-overtime workday in an effort to address this issue.

Sustainability assessment standards

We are conducting improvement activities based on trends in sustainability criteria and related bills and the results of external assessments.

CDP

The CDP is an international non-governmental organization that rates organizations' environmental actions. We started responding to CDP questionnaires on climate change in 2022 and on water security in 2023.

ISSB standards

After the publication of the IFRS Sustainability Standards (ISSB Standards) in 2023, the ESG Committee held a workshop and it is successively implementing efforts to comply with the standards.

SASB standards

We operate within the Industrial Machinery & Goods industry category. Our material issues already reflect the topics in the standards for this category. We will work to comply with the accounting indicators.



Main points in the recent assessment (climate change)

- Creation and disclosure of scenario analyses
- Disclosure of the findings of the analysis of risks and opportunities and their financial impact
- Development and disclosure of risk management systems

Points requiring future improvement

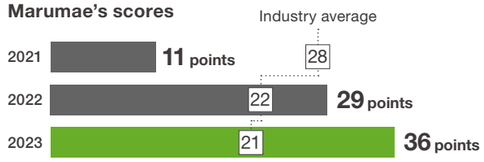
Climate change: Continuous enhancement of the process for addressing climate issues and disclosing information (improvement continued)

Water security: Evaluation of water risks (conducted for the fiscal year ending August 31, 2024)

Corporate sustainability assessment (CSA) by S&P Global

The CSA focuses on sustainability issues peculiar to specific industrial sectors that affect long-term corporate financial performance and assesses the environmental, social and governance aspects of companies.

Marumae's scores



Marumae was above the average for 19 of the 23 assessment items.

Main points of the recent assessment

The main items that were deemed to require improvement in 2022 and assessed recently were as follows.

Materiality	We improved by disclosing analyses of risks and opportunities and actions.
Information Security	We earned high marks for the establishment of the Information Security Committee under the direct control of a director and for taking various steps.
Climate change	We improved by using scenario analyses to analyze medium- and long-term risks and opportunities and by disclosing figures regarding the impact of climate-related issues on our financial position and the impact of our operations on climate-related issues.

Points requiring future improvement

We use the assessment results to prioritize issues in consideration of their urgency and significance and allocation of company resources and take action to address them. For the fiscal year ending August 31, 2024, we will focus on risk management activities.

- Implementation of companywide risk management
  In progress
  It was determined that in the fiscal year ended August 31, 2023 the ESG Committee conducted companywide risk management and reported its deliberations to the Board of Directors. In the fiscal year ending August 31, 2024, it will identify the material issues faced by the company as a whole and discuss measures to address them.

Material Issues (Materiality)

MATERIALITY

Material Issues	Themes of Initiatives	Risks if not achieved	Opportunities if achieved	Timing of achievement	Targets	Progress	Listed pages
Increase in productivity	■ Strengthening of prototyping capabilities	■ Decline in technological capabilities ■ Decrease in new orders	■ Improvement of technological capabilities ■ Increase in orders ■ Gain of customer trust	FY2030	■ **Train 100** programmers	■ Number of programmers **60** → **71**	1 MATERIALITY P. 45
	■ Capital investment	■ Loss of opportunities to expand orders	■ Expansion of orders	FY2026	■ Achieve asset-based ROIC of **23%** ■ Achieve liability-based ROIC of **18%** ■ Achieve marginal profit per employee of **¥20.0 million**	■ Achieved asset-based ROIC of **7.7%** ■ Achieved liability-based ROIC of **5.4%** ■ Achieved marginal profit per employee of **¥12.12** million*1	
Improvement of customer satisfaction	■ Quality, cost, delivery (QCD) improvements	■ Loss of customer trust ■ Decreased orders and decreased sales	■ Building of customer trust ■ Increased orders and increased sales	Every year FY2026 (for quality items)	■ Achieve customer satisfaction (overall) score of **More than 4.57 out of 5** ■ Quality assessments by all customers **More than 4 out of 5**	■ Achieved customer satisfaction (overall) score of **4.20** → **4.53**	2 MATERIALITY P. 46
Human resources strategies	■ Human resources development	■ Decline in technological capabilities	■ Improvement in technological capabilities	FY2025	■ Establish a team dedicated to developing human resources (create a personnel section) ■ Prepare and implement a human resource development plan and increase investment in training per employee ■ 10 hours per year per employee	■ Added numerical targets	3 MATERIALITY P. 47
	■ Development of work environments	■ Decline in motivation and performance ■ Drain of human resources	■ Reduction in employee stress/strain ■ Improvement of commitment ■ Enhancement of motivation and performance	FY2025	■ Achieve rate of parental leave by female employees of **more than 75%** ■ Achieve rate of parental leave and parental related annual paid leave by male employees of **more than 30%** ■ Reduce turnover rate, achieving a regular employee turnover rate of **less than 1%** ■ Achieve welfare expenditure per employee of **¥120,000/year**	■ Achieved rate of parental leave taken by female employees of **100%** ■ Achieved rate of parental leave taken by male employees of **100%**	
	■ Realization of diversity and equal opportunity	■ Decline in international competitiveness ■ Loss of reputation	■ Demonstration of the skills of individuals through equal opportunity ■ Creation of innovation ■ Elimination of discrimination and exclusion	FY2030 (Ratio of female employees) Continued target (Employment of persons with disabilities) Continued target (Diversity education)	■ Achieve a ratio of female regular employees of **more than 20%** ■ Achieve a ratio of female managers*2 of **more than 18%** ■ Achieve a **3%** employment ratio of people who have disabilities ■ Provide training on diversity and LGBTQ issues once a year	■ Achieved a ratio of female regular employees of **12.6%** ■ Ratio of women at section manager and higher positions **11.1%** ■ Ratio of women in group leader and higher positions **10.2%** ■ Achieved a **2.86%** employment ratio of people who have disabilities ■ Provided diversity training	
	■ Analysis of human rights risks and protection of human rights	■ Risks associated with human rights violations ■ Loss of public trust	■ Avoidance of the risk of human rights violations ■ Peace of mind stemming from visualization of human rights risks ■ Anticipatory compliance with regulations	FY2025	■ Analyze, take measures against and disclose human rights risks ■ Provide human rights training once a year	■ Conducted a survey at a briefing for partner companies	
Action on climate change	■ Reduction of GHG emissions ■ Understanding of total energy consumption	■ Risk of incurring carbon taxes ■ Risk of decline in business with business partners ■ Business risks stemming from tighter regulation	■ Fundraising advantages ■ Ability to cope with rising energy prices	FY2050	■ Aim for carbon neutrality ■ Reduce CO_2 emissions per marginal profit by 50% or more compared with fiscal 2021 by 2030	■ Rate of reduction through renewable energy: **7.5%** → **15.5%**	4 MATERIALITY P.53
Minimization of environmental impact	■ Reduction of consumables	■ Increased waste disposal costs ■ Delayed compliance with regulations ■ Environmental impacts	■ Reduction of costs ■ Mitigation of environmental impact	FY2030	■ Reduce the volume of cutting fluid waste by 40% compared with fiscal 2021 (**target level of not more than 11,160L**) ■ Reduce the percentage of the marginal profit ratio accounted for by packaging materials by 10% compared with fiscal 2021(**target level of 0.394%**) ■ Reduce the percentage of the marginal profit ratio accounted for by costs arising from remanufacturing due to defects by 40% compared with fiscal 2021 (**target level of 0.98%**)	■ Volume of waste fluid was **43,880L** ■ The percentage of the marginal profit ratio accounted for by packaging materials was **0.91%** ■ The percentage of the marginal profit ratio accounted for by costs arising from remanufacturing due to defects was **2.60%**	5 MATERIALITY P. 54
	■ Assessment of water risk and water stress ■ Effective use of water	■ Decreased production volume in the event of drought	■ Proposal of countermeasures in the event of drought	FY2026	■ Conduct water risk and water stress assessments, take action on water risk and water stress, and make water risk and water stress disclosures	■ Total amount of water supplied from the municipal water system **6,746t** ■ Total groundwater consumption **18,667t** ■ Started responding to CDP questionnaires on water security	
Safe and secure work environment	■ Reduction of occupational accidents ■ Appropriate management of chemical substances ■ Effective safety education	■ Damage to employees' health ■ Loss of reputation ■ Incurrence of penalties due to infringements and costs for corrective measures	■ Safe and secure work environment ■ Compliance with regulations	Continued target	■ A **100%** participation rate in safety training	■ A **100%** participation rate in safety training *3	6 MATERIALITY P. 55
Supply chain management	■ Stable procurement and supply	■ Production difficulties ■ Reputational risks	■ Stable supply	FY2026	■ Identify supply chain risks and take measures to address them	■ Conducted an RBA questionnaire	7 MATERIALITY P. 55
Utilization of digital technologies	■ Improvement of business efficiency	■ Decline in competitiveness	■ Cost reductions through business streamlining	FY2024	■ DX business improvements **18 per year** (12 in the previous year) ■ Innovate training methods using digital technologies	■ DX business improvements **12**	8 MATERIALITY P. 55
Robust corporate governance systems	■ Development of effective risk management system	■ Vulnerability stemming from changes in the environment	■ Preparation for a crisis ■ Improvement of resilience	FY2025	■ Develop an effective enterprise risk management system	■ New target	9 MATERIALITY P. 56
	■ Information security measures	■ Stoppage of operations due to the suspension of systems ■ Leakage of information	■ Stable operation ■ Avoidance of financial losses and loss of trust	FY2024	■ Acquire ISO27001 certification	■ Achieved the target for the previous year ■ Completed establishment of the Information Security Committee ■ Provided information security training	

*1 Includes temporary employees *2 Refers to position of Group Manager or higher *3 Employees taking a leave of absence are excluded from the calculation.





1/MATERIALITY

Increase in productivity

It is a material issue that is directly linked to our profitability.
We will aim for future growth leveraging the strength of our personnel and strategic capital investment.

Strengthening of prototyping capabilities

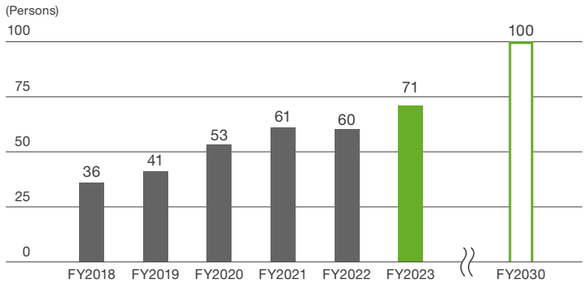
Impact on business Revenue P. 17

Reason for selection
Prototyping is an important process that directly leads to receiving orders in the future. To increase profitability, it is essential that we have a sufficient number of programmers for prototyping and that we help them develop their skills.

Target
- Train 100 programmers

Strategies
To achieve our targets, we have launched a programmer development project. We have constructed and begun implementing a training structure. The project team consists of members with various skill sets from the management team, the manufacturing team and the personnel team. In particular, the participation of team members that are highly experienced programmers and people who are responsible for the manufacturing team increases the effectiveness of the plan.
The development plan has been formulated with a long-term period of 10 years, given that programmers are professionals that must be both knowledgeable and experienced. This includes the development of a curriculum based on an analysis of the gaps between our current state and our goals, and the curriculum is to be updated regularly.

Number of programmers



Recognition of issues
To improve competitiveness and profitability we must ensure the quality and quantity of programmers. We need to develop skills to manufacture advanced products and to increase personnel to increasingly prototype products with a view toward the expansion of sales in the future.

Progress
- FY2021 The development of strengths in prototyping is selected as a priority issue.
- FY2022 The programmer development project is launched. A technology section dedicated to prototyping is established. Skill levels are defined and a curriculum is formulated to start training.
- FY2023 The curriculum is improved and training continues.



Capital investment

Impact on business Revenue P. 18

Reason for selection
To expand sales in the future, we must increase the production capacity of our facilities. If we do not have the necessary production capacity at the time when it is required by the customer, we will miss the opportunity to receive an order and it will affect our profit.

Recognition of issues
We must invest capital strategically according to market conditions. While insufficient production capacity carries the risk of missing an opportunity to receive an order, investing too early increases fixed costs. Therefore, decisions must be appropriate.
In addition, we understand that we must not only increase the number of facilities but also improve productivity so that we can carry out high-level production with limited assets and fixed costs.
We use return on invested capital (ROIC) to measure the profitability of the capital we have invested and define marginal profit per employee as a productivity indicator.

For information about individual strategies, see the following page.
Capital investment P. 18 **ROIC** P. 35

Targets
- Achieve asset-based ROIC of 23%
- Achieve liability-based ROIC of 18%
- Marginal profit per employee ¥20 million*

Progress
- Asset-based ROIC: 7.7%
- Liability-based ROIC: 5.4%
- Marginal profit per employee ¥12.12 million*

* Includes temporary employees



2/MATERIALITY

Improvement of customer satisfaction

To continue our business, we need to be a company that is required by customers. We will emphasize the customer's perspective and build relationships with them that are mutually beneficial.

Impact on business Revenue Risks

Reason for selection
It is impossible for a business to continue if it is not required by customers, so we believe we must keep customer satisfaction at a high level. Quality should particularly be valued. The components we manufacture operate at the heart of equipment and are therefore subject to strict quality standards. Products that fail to meet them may lead to a loss on orders received. We are aware that to maintain business continuity and continue to grow, we need to maintain customer satisfaction at a high level.

Recognition of issues
Customers assess seven points of our business. Two of them, overall satisfaction and quality, are priorities for us. We closely look at customer evaluations of quality, which significantly impacts our business, in addition to their evaluations of overall satisfaction. We set goals and develop strategies related to these two points and work to improve in these areas.

Targets
- Quality assessment score of four or more on a five point scale from all customers New
- Customer satisfaction (overall) score
  Score of 4.57 or more out of 5 (YoY: 4.20 → 4.53)

Strategies
All of the company's personnel understand that customer satisfaction is important and that quality is a top priority issue. All of the factory managers and the quality assurance team work as one to take the lead. Senior management and all the department and factory managers will share and discuss the findings of their analyses and their measures. The results of these deliberations are communicated to working-level staff and implemented. These actions are incorporated into the improvement of the organizational structure itself.

Progress
- Analysis of abnormality reports ■ Review of work procedures
- Creation of a collection of defects that have occurred and a collection of questions
- Incorporation of the things mentioned above into training and reconstruction of the training system
- Linkage of performance-related pay and training results to increase awareness of training



3 MATERIALITY

Human resources strategies

This section takes a look at our human resources strategy aimed at achieving our long-term vision and our Medium-term Business Plan.

Impact on business Revenue Risks

Reason for selection
Our staff improves technologies and uses them. When we seek more advanced technologies, our staff creates them. Our staff operates our business.
Engineers' abilities to acquire new technologies help us receive new orders in the future. The processing personnel engaged in manufacturing ensure our production quantity. The administration team works to build a fair governance system and operate the business, supporting it. However, a failure to provide training or to improve the working environment could reduce competitiveness or make it difficult to operate the business.

Management Philosophy
1. Seek technological perfection
2. Respect competition and collaboration
3. Contribute to society as a company focused on technology

Long-Term Vision 2030

We will aim for technological diversity through the expansion of key technologies

P. 27

Risks: Shift to non-vacuum technologies and the obsolescence of owned technologies
There is no guarantee that the technologies we possess will continue to be needed. With a view towards growth following the growth of the semiconductor market in the period up to 2030, we will improve our technological strengths.

Medium-term Business Plan

Innovation 2026

P. 29

Numerical targets

Net sales	¥14 billion
Operating profit	¥4.2 billion
ROIC	Asset-based 21% Liability-based 18%
Payout ratio	35% or above
Minimum annual dividend	¥20*

* If the bottom line is a loss, the minimum annual dividend per share may be revised.

Aiming to create a company that will last forever, we adopted "innovation" as the policy of our Medium-term Business Plan. To achieve constant growth in an ever-changing market environment, we will increase productivity without increasing employee workload. We will carry out high-level production with limited assets and fixed costs. Since the technological capabilities that underpin our strengths are the aggregation of skills of our employees, we will also focus on HR measures as a top priority.

The staff that are needed and that need to be developed

We understand that we will need the workers described below to realize our management philosophy and implement our long-term vision and Medium-term Business Plan.

	Issues	Measures
The next generation of management executives	To build a perpetual company, we need to develop the next generation of management executives.	In the fiscal year ending August 31, 2024, the Advisory Committee will begin discussing this matter.
CFO	Our lack of a dedicated chief financial officer (CFO) with technical knowledge of financial affairs to build financial strategies connected to our management strategies has been a problem.	The Board of Directors is discussing this.
Skilled engineers	We need technology developers who will work to diversify our technologies, a goal stated in our long-term vision.	We have established a technology development group to acquire new technologies. To secure a workforce that is engaged in development in the future, we are increasing our recruiting capabilities.
Manufacturing workforce	We need to increase the number of programmers who work out manufacturing methods and improve the skills of operators engaged in mass production.	We will split our employees into programmers and operators according to their skills. We will create and implement training plans suited to their tasks.
Administrative and back office staff	Given that the size of our staff is expected to grow in line with the increase in sales, we need to reconstruct an effective administrative structure and appoint staff members to operate it.	Separate teams will formulate training plans aimed at developing technical skills. Organizational changes and other actions for the long-term operation of our business are being discussed in major meetings.

How to secure the staff that will be needed in the future

In-house staffing
- Retain existing staff members to ensure a sufficient workforce (improvement of quality and quantity)
  Quantitative target: regular employee turnover rate of 1% or less (FY2025)
  Lowering the turnover rate and encouraging employees to work long-term for us paves the way toward the development of skills and the strengthening of our workforce.
- Improve skills to secure a sufficient workforce (improvement of quality)
  Quantitative target: 10 hours or more of training per year per employee (FY2025)
  We will identify the gaps between necessary skills and existing skills in individual job categories and provide training to fill the skill gaps.

Staffing from outside sources
- Increase recruiting capabilities (improvement of quality and quantity)
  Quantitative targets (FY2025)
  - Achieve welfare expenditure per employee of ¥120,000/year
  - Achieve rate of parental leave by female employees of more than 75%(Completely achieved)
  - Achieve rate of parental leave and parental-related annual paid leave by male employees of more than 30% (Completely achieved)
  - In addition to efforts to fulfill the quantitative targets above, we are striving to enhance our corporate appeal and increase public relations activities.

Human resources strategies

Our human resources strategy focuses on the acquisition and retention of competent workers and on the creation of an environment where all employees can be highly engaged in their work. Accordingly, we are working to improve the system and the work environment.

Enhancing Marumae's appeal

In the fiscal year ended August 31, 2023, we increased the number of opportunities to engage in dialogue with employees and improved the workplace environment. We now understand that it is necessary to provide psychological security that will help normalize employees talking about their workplace issues and we are discussing possible steps for improvement. In addition, we are working to improve internal public relations activities and events for developing and maintaining favorable relationships between employees.

Purpose
Making Marumae into a company that employees are proud of to secure competent workers, retain employees and improve employee engagement

Key measures
Engage in dialogue with employees and implement improvements, provide psychological security and promote internal communication

Quantitative targets
- Regular employee turnover rate of 1% or less (FY2025)
- Achieve welfare expenditure per employee of ¥120,000/year









Public relations to connect with students and communities

Relationships of trust are a necessary part of employment relationships. We are trying to disclose information to those who may work for us in the future and to our employees and their family members in ways that are highly transparent and to communicate with them. To increase name recognition, we began public relations activities using mascots and events.

Purpose
Increasing name recognition and building relationships of trust with local residents and with students

Key measures
Enhancement of information disclosure, communication using the official mascot Marumiru, naming rights and the organization of regional sporting events


Marumiru



Staff training

To provide staff training across the company, we are working to establish a human resources team. For manufacturing staff, we are preparing separate training curricula for different roles. Our efforts to construct a training system is in progress. There is also the issue of strengthening our management capabilities. It will enable the organization to be oriented in a single direction, increase its commitment to profit and increase the possibility of fulfilling targets. Therefore, we see it as a priority issue that should be addressed in the future.

Purpose
Improving technological strengths and developing manufacturing staff to increase profitability and increasing management capacity to increase the commitment to profit

Key measures
Establishment of a human resources development team, establishment of a training system for manufacturing staff and training for managers

Diversity, equity and inclusion

At our manufacturing bases, the percentage of our staff that were men was so high that the workplace environment was established from men's point of view. We modified the workplace environment from women's perspectives to improve the environment for women. Next, we will listen to opinions from men's perspective to construct a fair environment. In addition, we held a study meeting on minority issues and a workshop on unconscious biases in an attempt to reduce the risk of discrimination and exclusion. We believe that providing a fair environment and eliminating discrimination and exclusion will help improve psychological security and engagement.

Purpose
Deploying staff members with diverse knowledge and experience and equally providing career development opportunities to all of our employees to enable them to live up to their potential. Eliminating discrimination and exclusion.

Key measures
Discussions during different workshops and the organization of women's meetings

Quantitative targets
- Achieve a ratio of female regular employees of more than 20%
- Percentage of people in group leader and higher positions that are women of 18% or more
- Achieve a 3% employment ratio of people who have disabilities
- Providing training on diversity and LGBTQ issues once a year **New**

New New target













Protection of human rights

It is a subject that customers and society have a great interest, so its importance and related risks were explained at the Board of Directors' meetings and training was provided to increase employee awareness of human rights issues. As there are human rights risks in the supply chain, we explain these risks to partner companies and conduct related surveys. We will analyze human rights risks in the future and implement a series of actions to address this issue.

Purpose
Reducing human rights risks and making them visible to retain the trust of stakeholders

Key measures
Providing human rights training, implementing human rights risk analyses, taking response measures, disclosing information, briefing partner companies and implementing surveys

Performance-based pay system

The performance-based pay system was introduced to encourage employees to work with a focus on performance. Since it was introduced in 2004, it has been regularly reviewed. Recently, we started quantifying performance. At manufacturing sites, performance has been digitalized and visualized using a barcode system. These actions for fairly evaluating employees' performance and basing their wages on their performance help improve their motivation.

Staff allocation strategy

Dividing roles between programmers and operators to increase technological strengths and profitability

In the past, we trained manufacturing staff to perform multiple processes. However, it takes a long time for them to acquire these skills, so we have divided their duties. We assign staff to jobs matched to their personal characteristics in consideration of the differences in their skill levels to ensure that they could more easily display their potential.

Programmers are now assigned to programming tasks only. This allows them to develop skills, concentrate on programming and display their greater technical strengths.

Operators are very important in responding to abrupt market changes. Demand may suddenly soar in the semiconductor market, and we need to be able to quickly increase our manufacturing staff. We have therefore constructed a system for developing staff into a powerful asset on the shop floor through short-term training.

Programmers
Programming is a high value-added job that involves working out processes for the production of products. To acquire skills, knowledge and experience are necessary. Training needs to last for a relatively long period of time.

Operators
It is a job involving the implementation of manufacturing work. Skills can be acquired in a short period of several months.







Message from the Chair of the ESG Committee

Chairperson of the ESG Committee and Outside Director
Akiko Kadota

In my third year as chairperson of the ESG Committee

Since I am an outside director, I only visit the company two days per month. When I monitor progress in the disclosure of ESG information and related matters, I see what is happening in the company through these figures. The point of my involvement in this committee lies in my sensing the growth and development of Marumae directly. President Toshikazu Maeda's sincerity and his stance of seeking the truth has spread among the committee members. Members seriously discusses all of the material issues reviewed by the ESG Committee and prioritize them based on economic rationality, seeking measures to solve and improve them by leveraging the collective intelligence of the Company.

In the early days of the committee, I was daunted by the complicated and difficult subjects the committee addressed, but I continued learning and paying attention to related news every day. I worked positively to familiarize myself with ESG. With the aspiration to create opportunities to learn together with other members, I planned training sessions on unconscious biases, gender identity and others for corporate clients and these sessions were organized by the committee.

Great actions taken by the administrative office

It is run by three people, Mr. Igarashi, who is the manager of the Development Division, Ms. Hanada and Ms. Kigushi. They prepare not only the announcements of figures but also agendas that allow the committee to immediately discuss and study situations that may likely develop into problems. This enables us to engage in dialogue and helps increase the confidence of the members. This team also works to disclose information to the TCFD, the CDP, S&P Global and other ESG rating agencies. These activities are directly linked to corporate value.

All of the committee members look at and discuss the disclosed figures, examining issues such as why a large amount of cutting fluid was consumed in the previous month, whether or not the six month or longer streak of zero occupational injuries is connected to the percentage of employees receiving safety training and how we can increase the percentage of programmers and managers that are women. I feel that the ESG Committee is also a meeting body that is directly linked to the resolution of management issues.

One good example is the percentages of managers and employees that are women. Both of these figures are low, so we hope to increase the number of programmers that are women. First, we decided to listen to the employees on the manufacturing shop floor that are women about their workplace environment. Members of the administrative office spent half a year visiting the three factories and listened closely to the opinions of 31 women at the factories. The collected comments covered more than 150 issues. Many of them were constructive, discussing issues such as human relationships that are hard to discuss at ordinary Management Meetings, the poor user friendliness of restrooms for women, obsolete plumbing facilities and break rooms, proposals for the improvement of traffic lanes and unclear rules and instructions. The things that could be immediately improved at the individual sites were improved. The women employees we listened to reported that the process was a significant experience that increased their motivation. At the Kanto Factory, this de facto Council of Women triggered massive improvements in the workplace environment, including the construction of new restrooms, the renovation of women's restrooms and break rooms, the large-scale cleaning of the building and the revision of traffic lanes. After that, we receive requests that we listen not only to women but also to men. We will continue to improve the workplace environment based the president's idea that workplaces friendly to women are also friendly to men.

Marumae will continue its efforts to create an environment where anyone can play an active role in the Company and to establish a sound management foundation for sustainable corporate management through the activities of the ESG Committee with a view toward the realization of a sustainable society.



4/MATERIALITY

Action on climate change

We are well aware of the impact of climate change on sustainable management and we have set a carbon neutrality target. Climate change may directly impact earnings, risks and costs. Therefore we must assess the impact of climate change on business and develop measures to adapt to it.

Impact on business Revenue Risks Costs

Reason for selection
Since climate change significantly impacts society, we presume the following risks. Among them, the risk of a decrease in transactions and the risk of taxation directly impact our financial standing. The disclosure of climate-related information is required by the IFRS Sustainability Disclosure Standards, which is believed to impact Japan's statutory disclosures. We understand that the disclosure of climate-related information is of great significance.

Materiality	Action on climate change
Themes of initiatives	■ Reduction of GHG emissions ■ Understanding of total energy consumption
Risks if not achieved	■ Risk of incurring carbon taxes ■ Risk of decline in business with business partners ■ Business risks stemming from tighter regulation
Opportunities if achieved	■ Fundraising advantages ■ Ability to cope with rising energy prices

Carbon neutrality plan
https://www.marumae.com/sus_5.html

TCFD
https://www.marumae.com/sus_4.html

Response to the CDP Climate Change 2023 Questionnaire
https://www.marumae.com/img/sustainability/pdf/2023_k.pdf

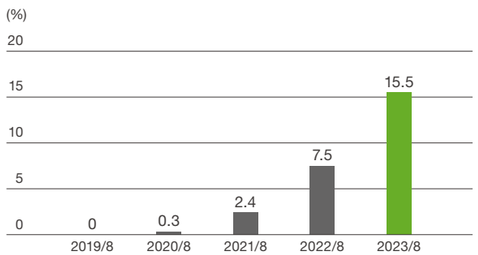
(Available only in Japanese)

Recognition of issues
The plan to achieve carbon neutrality is progressing steadily, but there is still room to improve our disclosure of information. We will increase our disclosure of processes and procedures for dealing with climate-related issues with the goal of raising our CDP score from the current C (awareness level) to a B score (management level). We seek to earn higher ratings from third-party organizations to increase our credibility.

Targets
- Aim for carbon neutrality (FY2050)
- Reduce CO_2 emissions per marginal profit by 50% or more compared with FY2021 (FY2030)
- CDP score of B (management level) (FY2025)

Progress
- Rate of reduction through renewable energy: 7.5% ⟶ 15.5%
- Move from a CDP score of D (disclosure level) to C (awareness level)

Rate of reduction through use of renewable energy





5/MATERIALITY

Minimization of environmental impact

We seek to reduce risks and costs by effectively using resources and to balance environmental protection and economic rationality. This section discusses our approach to addressing the reduction of consumables and the impact of this on business, and the current state of our activities.

Reduction of consumables

Impact on business Risks Costs

Reason for selection
We are aware that it is important to effectively use limited resources and reduce waste to reduce our environmental impact. Through these actions, we can achieve compliance with laws and regulations and reduce procurement expenses and waste disposal costs. Consequently, these efforts have a positive effect on our financial standing.

Recognition of issues
For the fiscal year ended August 31, 2023, the cost of remanufacturing due to defects per marginal profit was high. It is believed that defects not only increase raw material consumption but also impact the quality item in customer satisfaction, specified as the second material issue. It is seen as a problem by the Board of Directors and at Management Meetings as well. To reduce defects, working-level staff lead the analysis of the causes of defects and the implementation of response measures.

Targets
- Reducing the volume of cutting fluid waste by 40% compared with FY2021(target level of not more than 11,160L)
- Reduce the percentage of the marginal profit ratio accounted for by packaging materials by 10% compared with FY2021 (target level of 0.394%)
- Reduce the percentage of the marginal profit ratio accounted for by costs arising from remanufacturing due to defects by 40% compared with FY2021 (target level of 0.98%)

Water risk and water stress

Impact on business Risks

Target
- Conduct water risk and water stress assessments, take action on water risk and water stress, and make water risk and water stress disclosures

Progress
By responding to CDP questionnaires about water security and through the discussions of the ESG Committee, we are becoming more aware of issues. We conducted a drill using a hypothetical wastewater leakage scenario to examine and learn how to respond to the leakage and to remedy issues that were identified.

Reason for selection
Our manufacturing processes consume water and we need to understand the water shortage risk. In addition, we are accountable for the proper use of water resources and wastewater management. These are significant matters of concern to local communities.

Recognition of issues
Our factories are located at areas that are at low risk of a water shortage and the impact of water shortages on the business has been minor to date. However, we are aware of the inadequacy of the information we disclose to stakeholders regarding the use of water resources and wastewater management.

6/MATERIALITY

Safe and secure work environment

Impact on business Revenue Risks Costs

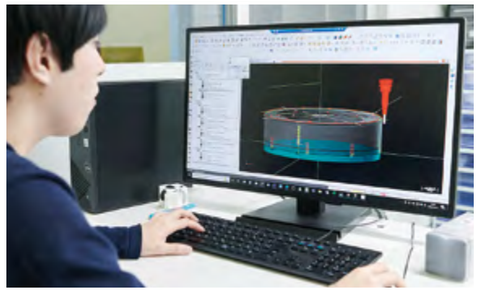
Reason for selection
We are convinced that safety is our top priority. A fatal accident can result in the suspension of business. In addition to the harm to humans, accidents can also hugely damage earnings. They also negatively affect stakeholders' confidence in us and affect business operations over the long term.

Recognition of issues
Since we changed our safety training approach, we have had no occupational accidents. We will continue our safety measures while seeking to improve them. Our current issue is to build a chemical management system. A law was revised to introduce stricter chemical management requirements. The Health Committee is leading the activities to comply with the law.

Target
- A 100% participation rate in safety training

Progress
- A 100% participation rate in safety training
  We revised the content of the program considerably and tested the trainees to ensure they fully understood the contents of the program. As a result, since we began providing the revised safety training program in April 2023, there have been no occupational accidents.





7/MATERIALITY

Supply chain management

Impact on business Revenue Risks

Reason for selection
It is important that the supply chain operates efficiently without problems to maintain our competitiveness and increase our profitability. Any supply chain problem could delay the delivery of components and seriously impact our customers' manufacturing processes. From the perspective of risk management, the stability of the supply chain is key to protecting the business from the impact of various external factors.

Recognition of issues
Our issues to address are identifying supply chain risks and taking measures to addressing them. In addition to manufacturing activities and maintaining quality, we also pay close attention to sustainability issues in the supply chain.

Target
- Identify supply chain risks and take measures to address them

Progress
- Supplier briefings
- Questionnaires based on the RBA Code of Conduct
- Conducting quality audits

8/MATERIALITY

Utilization of digital technologies

Impact on business Revenue Costs

Reason for selection
The introduction of digital technologies streamlines operations and reduces costs. This leads not only to increased earnings but also more optimal business processes. In contrast, if we used no digital technologies, we would be less competitive and have a poorer position in the market. Digital technologies are now a foundation that supports growth and sustainability.

Recognition of issues
We are increasing our use of digital technologies that help improve operations. This is not only to reduce workloads but also to increase cost efficiency. We do not merely streamline individual operations by developing systems internally, we also take steps to streamline the whole company. We take this approach to produce short-term results and long-term business value.

Targets
- Make 18 DX business improvements per year
- Innovate training methods using digital technologies

Progress
- Management of consumables and secondary materials and development of an automatic order placement system
- Centralized real-time management of the internal production status based on data on orders received from customers
- Integration of the core system and the scheduler
- Production of videos explaining procedures





9/MATERIALITY

Robust corporate governance systems

Developing an effective enterprise risk management system

Impact on business Revenue Risks Costs P. 64

Reason for selection
Enterprise risk management (ERM) is a strategy of comprehensively managing the various risks the company faces and preventing them from occurring to support the stability and growth of the organization. It protects corporate assets and interests from unexpected losses and reduces uncertainty in business activities. It also allows companies to proactively seek new opportunities and facilitates long-term earnings growth. Regarding costs, it helps reduce latent losses and expenses incurred due to disasters. It reduces unnecessary expenses through the optimal allocation of resources.

Recognition of issues
Currently, teams in charge analyze related risks and carry out measures to control them. However, it is necessary to construct a structure for the comprehensive management of all of the risks that concern the whole organization and the development of mitigation measures. By introducing ERM we will establish a system that helps quickly deliver risk information to the management team and effectively supports the management team's decision-making based on risks. Another significant issue is responding to changes in the business environment in a timely manner and incorporating these changes into our risk management process.

Target	Progress
Develop an effective enterprise risk management system	It was determined that the ESG Committee would discuss ERM. To address all of the enterprise risks, new members were added to the committee. Its deliberations will all be reported to the Board of Directors and it will give instructions to the ESG Committee. We will understand and analyze enterprise risks in the fiscal year ending August 31, 2024.

Information security measures

Impact on business Revenue Risks Costs P. 65

Reason for selection
Information security measures have a positive impact on earnings by protecting material corporate data from cyberattacks to maintain customers' trust in us. From the perspective of risk management, they serve to prevent operations from being interrupted and prevent us from experiencing legal repercussions due to a security breach and to ensure organizational stability. In terms of cost, they help prevent our incurring enormous expenses due to a security breach. Because of this, information security is indispensable to a corporation's sustainable growth and maintenance of competitiveness.

Recognition of issues
Major issues concerning information security are the handling of technological vulnerabilities, the control of risks arising from human factors and the acquisition of third party certifications. To address these issues, we must upgrade system security, improve employees' awareness of security and receive ISO 27001 and other standard certifications to build a security management system and earn the trust of people outside Marumae. These steps are essential for comprehensively reducing information security risks faced by the organization and supporting a strong security system.

Target	Progress
Acquire ISO 27001 certification	In December 2022, we launched the Information Security Committee and built a structure for fulfilling the target. This committee implements security measures and provides training to employees. It delivers regular reports on its progress to the Board of Directors. The Board of Directors gives instructions on matters of concern. The committee takes actions based on them. The third-party examination process necessary for ISO 27001 certification is currently underway.

Directors

as of November 22, 2023



President and Representative Director
(Responsible for overall coordination/ Administration Headquarters)

Advisory Committee Member

Toshikazu Maeda

Mr. Toshikazu Maeda founded the Company's business, mastered our core business technologies, and handed them down to employees.
Moreover, as a manager, he steered the company's management, strategically changing our business portfolio according to the market environment, and also overcoming a financial crisis to achieve growth. He was elected as Representative Director because, in view of his track record, he is necessary for the Company's growth.



Director
General Manager, Sales Headquarters
(Responsible for Sales Headquarters)

Kota Kaizaki

Mr. Kota Kaizaki has been involved in the semiconductor production equipment market for many years and knowledgeable about the industry. In his role in charge of sales, he built strong relationships of trust with our business partners and made a huge contribution to our entry to the semiconductor business and the expansion of orders.
He was, therefore, elected as Director because he is essential for the Company's future growth in the semiconductor business.



Director
General Manager, Manufacturing & Technology Headquarters
(Responsible for Manufacturing and Technology Headquarters)

Hiroto Ando

Mr. Hiroto Ando is experienced in the machining business and very knowledgeable about testing and product finishing. Additionally, due to his many years of production management experience gained through involvement in quality assurance operations, Mr. Ando is also currently serving as General Manager of Manufacturing & Technology Headquarters, overseeing all our manufacturing operations. He was elected as Director because he is essential for execution of the Company's production operations.



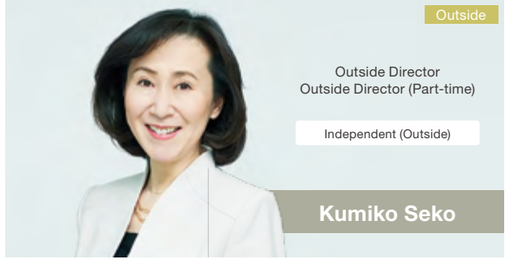
Outside

Outside Director
Outside Director (Part-time)
Representative, Go! Kagoshima Corporation

Independent (Outside)

Akiko Kadota

Ms. Akiko Kadota has profound insights regarding the promotion of diversity, including the active participation of women in the workforce, in addition to her extensive career, international experience and profound insights as a manager. The Company expects her to use this experience to play a role in supervising the execution of business operations.



Outside

Outside Director
Outside Director (Part-time)

Independent (Outside)

Kumiko Seko

Ms. Kumiko Seko has a wealth of experience and broad insights gained through her involvement in national politics as a member of the Diet and Parliamentary Vice-Minister of Education, Culture, Sports, Science and Technology, as well as profound insights regarding the promotion of diversity, including the active participation of women in the workforce. The Company expects her to use this experience to play a role in supervising the execution of business operations.



Director
Audit and Supervisory Committee Member
(Full-time)

Audit and Supervisory Committee Member

Keiji Hokanishi

Mr. Keiji Hokanishi has professional financial expertise, and the Company believes this knowledge will be useful for accounting audits and cooperation with the audit firm and internal audits. He also has management experience, having worked as branch manager at a financial institution, and was elected as Audit and Supervisory Committee member because he has the ability to bring the Outside Directors together and the ability to make appropriate judgements on matters such as the exercise of voting rights.



Outside

Outside Director
Audit and Supervisory Committee Member (Part-time)
Lawyer (Momokino Law Office)

Independent (Outside)
Advisory Committee Member
Audit and Supervisory Committee Member

Satoshi Momokino

Mr. Satoshi Momonoki has professional knowledge and broad experience as a lawyer and is familiar with corporate legal affairs. He also has international experience, and the Company expects him, to comment objectively on the management of operating companies and to help improve its corporate governance.



Outside

Outside Director
Audit and Supervisory Committee Member (Part-time)
Advisor, Seiko Solutions Inc.

Independent (Outside)
Advisory Committee Member
Audit and Supervisory Committee Member

Takaaki Yamamoto

Mr. Takaaki Yamamoto has abundant experience and broad insight serving as a manager for many years. He has contributed to enhancing the corporate value of the Company, by providing appropriate advice on the Company's management and supervising the execution of business operation as an Outside Director. The Company expects him to continue playing such roles.



Outside

Outside Director
Audit and Supervisory Committee Member (Part-time)
Certified Public Accountant (Miyakawa Certified Public Accountant Office)

Independent (Outside)
Advisory Committee Member
Audit and Supervisory Committee Member

Hirotsugu Miyakawa

Mr. Hirotsugu Miyakawa has professional expertise and broad experience as a certified public accountant. The Company expects him to supervise the execution of duties by the Directors, and to provide advice from a professional perspective.

Specific knowledge and experience that we expect

Name	Term of office	Corporate management and management strategy	Development, technology and quality	Planning and sales	Finance and accounting	Risk management and legal affairs	International experience	Government experience
Toshikazu Maeda	35	●	●	●	●	●		
Kota Kaizaki	19	●		●				
Hiroto Ando	5	●	●					
Akiko Kadota	3	●					●	
Kumiko Seko	1	●						●
Keiji Hokanishi	3				●			
Satoshi Momokino	6					●	●	
Takaaki Yamamoto	4	●				●		
Hirotsugu Miyakawa	4				●			

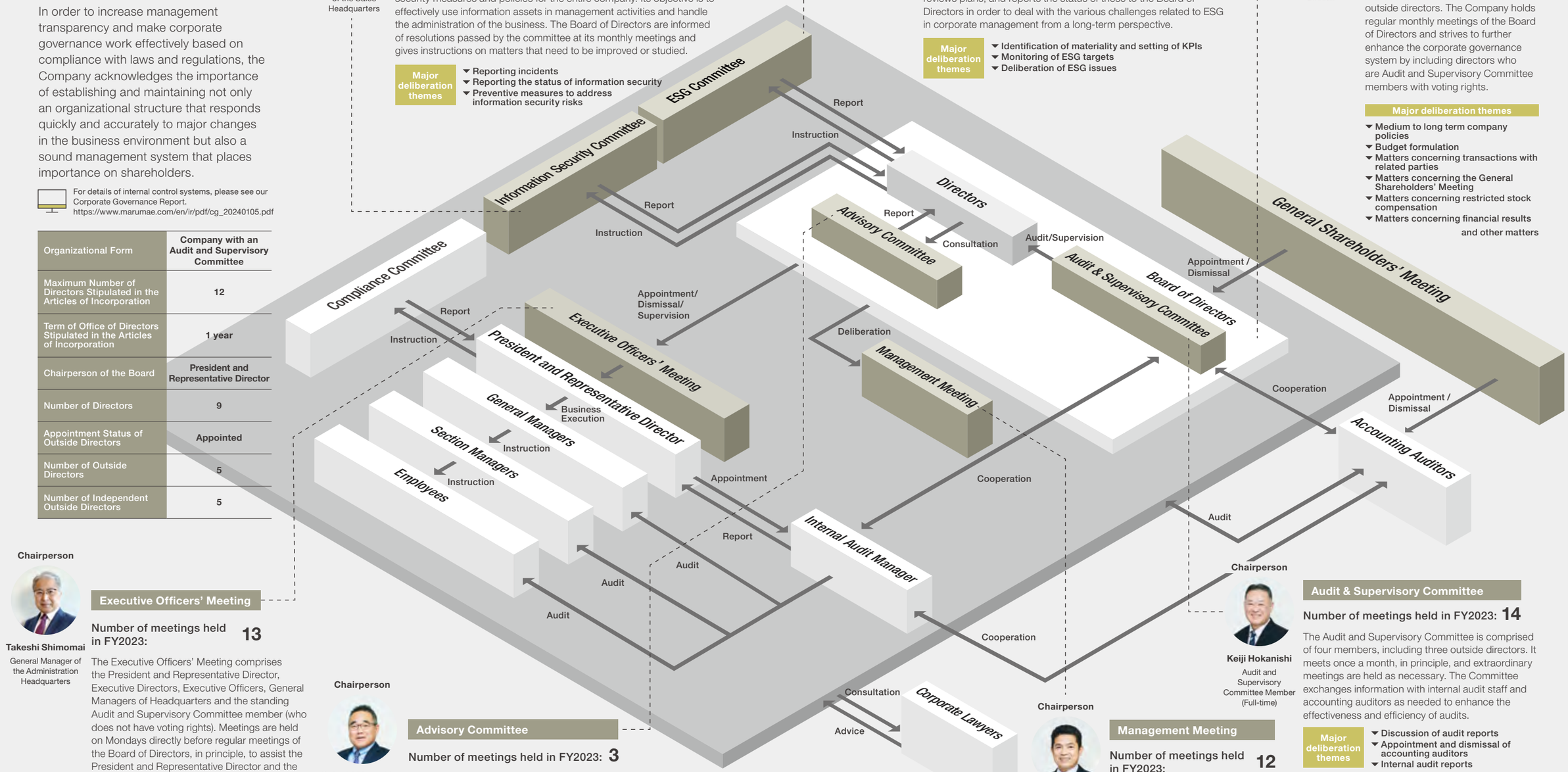
Corporate Governance

Basic Stance

In order to increase management transparency and make corporate governance work effectively based on compliance with laws and regulations, the Company acknowledges the importance of establishing and maintaining not only an organizational structure that responds quickly and accurately to major changes in the business environment but also a sound management system that places importance on shareholders.

For details of internal control systems, please see our Corporate Governance Report.
https://www.marumae.com/en/ir/pdf/cg_20240105.pdf

Organizational Form	Company with an Audit and Supervisory Committee
Maximum Number of Directors Stipulated in the Articles of Incorporation	12
Term of Office of Directors Stipulated in the Articles of Incorporation	1 year
Chairperson of the Board	President and Representative Director
Number of Directors	9
Appointment Status of Outside Directors	Appointed
Number of Outside Directors	5
Number of Independent Outside Directors	5



Information Security Committee

Chairperson



Kota Kaizaki
Director
General Manager of the Sales Headquarters

Number of meetings held in FY2023: 9

The Information Security Committee consists of one director who is the chief information officer (CIO) and five employees. (It will have seven employee members in the fiscal year ending August 31, 2024.) It holds meetings every month. It is a decision-making body that determines security measures and policies for the entire company. Its objective is to effectively use information assets in management activities and handle the administration of the business. The Board of Directors are informed of resolutions passed by the committee at its monthly meetings and gives instructions on matters that need to be improved or studied.

Major deliberation themes
- Reporting incidents
- Reporting the status of information security
- Preventive measures to address information security risks

ESG Committee

Chairperson



Akiko Kadota
Outside Director

Number of meetings held in FY2023: 12

The ESG Committee is composed of the President and Representative director, two directors (one of whom is an outside director) and ten employees. The committee identifies material issues (materiality), sets KPIs, checks the status of achievement, reviews plans, and reports the status of these to the Board of Directors in order to deal with the various challenges related to ESG in corporate management from a long-term perspective.

Major deliberation themes
- Identification of materiality and setting of KPIs
- Monitoring of ESG targets
- Deliberation of ESG issues

Board of Directors

Chairperson



Toshikazu Maeda
President and Representative Director

Number of meetings held in FY2023: 19

The Board of Directors comprises nine directors, including four directors who are Audit and Supervisory Committee members, and five of whom are outside directors. The Company holds regular monthly meetings of the Board of Directors and strives to further enhance the corporate governance system by including directors who are Audit and Supervisory Committee members with voting rights.

Major deliberation themes
- Medium to long term company policies
- Budget formulation
- Matters concerning transactions with related parties
- Matters concerning the General Shareholders' Meeting
- Matters concerning restricted stock compensation
- Matters concerning financial results

and other matters

Executive Officers' Meeting

Chairperson

Takeshi Shimomai
General Manager of the Administration Headquarters

Number of meetings held in FY2023: 13

The Executive Officers' Meeting comprises the President and Representative Director, Executive Directors, Executive Officers, General Managers of Headquarters and the standing Audit and Supervisory Committee member (who does not have voting rights). Meetings are held on Mondays directly before regular meetings of the Board of Directors, in principle, to assist the President and Representative Director and the Board of Directors by deliberating and resolving important management-related matters in accordance with basic management policies determined by the Board of Directors.

Major deliberation themes
- Deliberation of agenda items to be submitted to the Board of Directors
- Deliberation of important capital investment and other matters based on approving authority thresholds
- Deliberation of revisions to the fiscal year budget
- Determination of internal regulations

Advisory Committee

Chairperson

Satoshi Momokino
Outside Director
Audit and Supervisory Committee Member (Part-time)

Number of meetings held in FY2023: 3

The Advisory Committee comprises the President and Representative Director and three Independent Outside Directors who are Audit and Supervisory Committee members. The committee is convened when necessary and reports as an advisory body to the Board of Directors on matters such as the nomination of directors, policies for determining the remuneration of directors and the appropriateness of remuneration levels from an independent and objective perspective.

Major deliberation themes
- Proposals relating to the election or dismissal of directors to be resolved at General Shareholders' Meetings
- Amount of remuneration of individual Directors
- Policies, etc. for determining officers' remuneration

Management Meeting

Chairperson

Toshikazu Maeda
President and Representative Director

Number of meetings held in FY2023: 12

The management meeting consists of the 32 members who are at the deputy manager position or above. It is held monthly in principle to share perceptions and exchange opinions on business strategy and business operation. Among the matters discussed and resolved at the Board of Directors, those that are particularly necessary are also discussed at this meeting to enhance the deliberations at the Board of Directors. Directors who are Audit and Supervisory Committee members also attend various critical internal meetings, including this management meeting, and express their opinions.

Major deliberation themes
- Reporting on the status of management and countermeasures to address any issues
- Reporting on KPIs and countermeasures to address any issues
- Reporting by each arm of operations and countermeasures to address any issues

Audit & Supervisory Committee

Chairperson

Keiji Hokanishi
Audit and Supervisory Committee Member (Full-time)

Number of meetings held in FY2023: 14

The Audit and Supervisory Committee is comprised of four members, including three outside directors. It meets once a month, in principle, and extraordinary meetings are held as necessary. The Committee exchanges information with internal audit staff and accounting auditors as needed to enhance the effectiveness and efficiency of audits.

Major deliberation themes
- Discussion of audit reports
- Appointment and dismissal of accounting auditors
- Internal audit reports

Evolution of Governance

Marumae shifted to a company with an Audit and Supervisory Committee in 2015 with a view to enhancing corporate governance. With the establishment of the Audit and Supervisory Committee, meetings of the Board of Directors became more effective because Directors who are Audit and Supervisory Committee members also have voting rights at Board of Directors' meetings and deliberate agenda items with a sense of responsibility. The Board of Independent Outside Directors was established in September 2017, for the exchange of information and shared recognition necessary for Independent Outside Directors to actively contribute to discussions at meetings of the Board of Directors and for the free discussion of matters related to the Company's business and corporate governance.

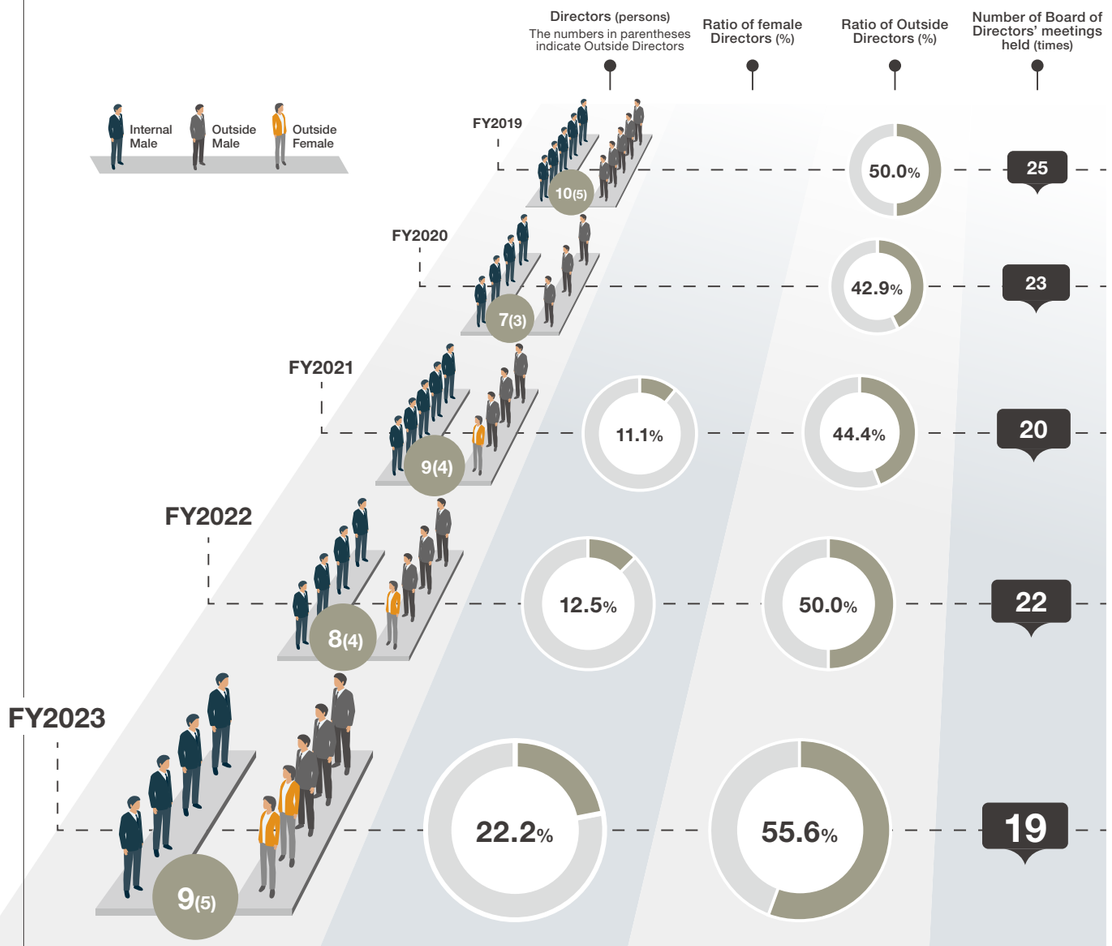
In October 2017, we established the Advisory Committee for the purpose of strengthening the independence and objectivity of functions and accountability of the Board of Directors regarding the nomination, remuneration, etc. of Directors. Our first female director was appointed in November 2020 and we increased the number of female Directors to two in November 2022, thereby increasing the diversity of the Board not only in terms of knowledge, experience and skills but also in terms of gender and breathing new life into discussions. Moreover, in September 2021, we established the ESG Committee and sought to further enhance our corporate value by identifying material issues from a medium to long term perspective, setting targets and implementing measures to achieve them.

2015
Shifted to a company with an Audit and Supervisory Committee
Established the Audit and Supervisory Committee

September 2017
Established the Board of Independent Outside Directors

October 2017
Advisory Committee

September 2021
ESG Committee



Main Matters Deliberated at Board of Directors' Meetings and Executive Officers' Meetings

Roles of Board of Directors and Executive Officers' Meeting

We aim for a supervisory Board of Directors, with Outside Directors accounting for almost half of the Board. The Board delegates some authority to the Executive Officers' Meeting, which hold discussions on matters related to business execution.

Matters resolved by the Board of Directors	Matters to be resolved by the Executive Officers' Meeting
Matters concerning the General Shareholders' Meeting	Acquisition or forfeiture of assets (including lease agreements)
Matters concerning Directors	Establishment of credit limit
Matters concerning shares and corporate bonds	Processing of overdue receivables
Matters concerning financial results	Testing, research and development
Important matters concerning business operations	Revision of fiscal year budget
Important matters concerning affiliated companies	Borrowing (including deposit of collateral)
Matters concerning the Executive Officers' Meeting	Utilization of securities
Other important matters	Change of accounting policy

Evaluation of Effectiveness

To make the Board of Directors function more effectively, we analyze and evaluate the effectiveness of the Board of Directors every year in accordance with the principles of the Corporate Governance Code set out by the Tokyo Stock Exchange. Our Board of Independent Outside Directors conducts a confidential and anonymous survey of all Directors and carries out a fair and transparent analysis and evaluation, with reference to Directors' self evaluations. The survey results are reported to the Board of Directors by the lead Independent Outside Director to strengthen Directors' monitoring and supervision of each other. Once every three years, we ask an outside specialist to conduct a survey and carry out interviews and analyze and evaluate the results.

Initiatives FY2023

- Establish the Information Security Committee. Guided by a policy of protecting our information assets from accidents, disasters, crimes and other threats and living up to the expectations of our customers and society, increase our efforts to increase our corporate value.
- Review the progress of the Medium-term Business Plan that started in the fiscal year ended August 31, 2023 and fully discuss strategies for achieving its targets.

Results of evaluation FY2023

- We were highly rated on all evaluation criteria including the composition and operation of the Board of Directors, meeting agendas and the systems supporting the Board of Directors, and our Board of Directors is well-balanced and effective. A majority of the Board of Directors is comprised of Outside Directors, putting emphasis on keeping executive directors in check and the Board is also well-balanced in terms of the knowledge, experience and skills of the Outside Directors who play a central role in supervision.

Initiatives FY2023 onward

- Improve discussion of succession plans.
- Seek to enhance corporate value by further stepping up ESG initiatives.
- Properly monitor risk management initiatives and strengthen Directors' monitoring and supervision of each other.
- Focus on more strategic discussions such as medium to long term management strategies, management targets and sustainability and properly monitor progress.

Performance-linked Remuneration for Directors

We introduced performance-linked remuneration in September 2007.

Currently, remuneration is calculated using the three indicators specified below. Initially, an indicator linked to the share price was also used to calculate remuneration.

The goal of introducing performance-linked remuneration was to incorporate a system of self-discipline into the remuneration for directors. Generally, the remuneration for a specific director stays flat. This is due to tax rules according to which any variable portion of director remuneration cannot be treated as expenses. This rule is intended to prohibit using director remuneration to manipulate profit. This is why it is a common practice to reward directors with bonuses via a resolution at the General Shareholders' Meetings for fiscal years where the company performed strongly. However, when business results are poor, remuneration is not reduced unless the Remuneration Committee or other organization decides to reduce it. In reality, no decision to decrease the remuneration is made.

We had already adopted a performance-related pay scheme for employees, and we thought that we needed a system that linked director remuneration to performance.

With this concept, we have introduced a mechanism in which directors' monthly remuneration reflects the previous month's performance, even though this increases our tax burdens.

We have also selected three indicators for linking performance to remuneration. The first is the indicator used for the performance-related pay (bonuses) of employees. This is to link performance to employee satisfaction. The second indicator is the ordinary profit to net assets ratio. This is to seek capital efficiency from the shareholders' point of view. The third indicator is the ordinary profit to total assets ratio. This is to discourage directors from relying on liabilities and neglecting the productivity of all of the company's assets.

An indicator linking remuneration to the share price was initially used but it was eliminated on the occasion of the rehabilitation of the business. At that time, our share price was so low that it was expected to produce a greater effect pushing remuneration upwards beyond actual performance. The goal of eliminating this indicator was ensuring that remuneration is linked to real business growth.

After experiencing a management crisis following the 2008 financial crunch, we are more eager to increase productivity. At that time, we failed to make good use of our production facilities which were sharply increased through capital investment and we plunged into a difficult situation. In addition, that investment was mainly funded by interest-bearing debt. We renewed our awareness of the importance to manufacturers of management to increase not only ROE but also ROA.

The management indicators that we selected later include ROIC. This is because we thought that increasing the productivity of all of the capital invested, including liabilities, was an appropriate goal.

The indicator for which we have set a corporate goal, ROIC, may appear to deviate from the indicators used to calculate performance-linked remuneration for directors, but they are based on the same goal. We intend to continually improve ROIC by increasing productivity and then the operating profit margin. If we use ROIC as the sole indicator for performance-linked remuneration, we may incorrectly manage the company, reducing capital to increase ROIC. The indicators used to calculate performance-linked remuneration for directors are necessary for avoiding this and achieving essential goals.

Indicators	❶ Bonus per employee	❷ Ordinary profit to total assets	❸ Ordinary profit to net assets
Purpose	Improving employee satisfaction	Implementing management to increase ROA	Implementing management to increase ROE

Policy on determining the ratio of the amount of monetary remuneration, performance-linked remuneration or non-monetary remuneration to the amount of individual remuneration for each director

The Advisory Committee reviews the ratio of remuneration for each type of executive director based on the benchmark remuneration levels of companies of a similar business scale and operating in related industries and business categories as the Company, with the weight of performance-linked remuneration increasing for higher positions. The Board of Directors respects the Advisory Committee report and decides the individual remuneration of directors within the percentage range of remuneration types indicated in said report.

The approximate ratio of each type of remuneration is as follows: (if the Company achieves a consolidated operating profit ratio of 20%)

Position	Representative Director	Director
Base remuneration	40%	50%
Performance-linked remuneration	40%	30%
Non-monetary remuneration, etc.	20%	20%

Matters concerning decisions on the details of remuneration paid to individual directors

Regarding the amount of a director's individual remuneration, the Advisory Committee receives an explanation from the President and Representative Director on the status of business performance and the degree of target achievement. The Committee also hears the President's remuneration proposal, discusses it, makes any necessary adjustments to the content, and reports the results to the Board of Directors, which then passes a resolution. Furthermore, for stock-based compensation, the Board of Directors determines the number of shares allocated to each director based on the report from the Advisory Committee.

Risk Management

Purpose

The principal purposes of risk management are to protect our assets and profitability and to help achieve organizational targets through the identification, assessment, monitoring and control of risks. Appropriately responding to risks will minimize latent losses and the impact of crises and accelerate sustainable growth.

Risk management system

The ESG Committee is in the charge of enterprise risk management (ERM). It reports its deliberations on this matter to the Board of Directors and receives instructions from the Board of Directors. Separate teams analyze individual risks and take measures to address them. The ESG Committee monitors material risks and the state of the response actions to address them that are taken by these teams.



Risk management flow



Progress and future process flow

Assessment of individual risks and measures to address them are progressing well, but we changed the system to increase the effect of ERM. For the fiscal year ending August 31, 2024, we will identify and analyze enterprise risks and improve our disclosure of the results of these analyses. In addition, we will make efforts to improve the risk management process and increase employees' understanding of risks. Employees' understanding of the significance of risks and their relationships with separate operations is expected to improve our company-wide risk-handling capabilities.

Compliance

Purpose

The purposes of our compliance structure are to ensure compliance with laws, regulations, industrial standards and corporate ethics and to improve corporate reliability and transparency. Its goal is to avert risks, to protect corporate value and to live up to stakeholders' expectations. Through compliance activities, we will prevent illegal acts and misconduct, quickly learn of them and take appropriate actions to address them.

Compliance structure

We have the Compliance Committee whose roles are to improve our compliance structure and direct and supervise investigations into illegal acts and the corrective actions to address these acts. This committee is directly controlled by our President and Representative Director. It is chaired by the General Manager of the Administration Headquarters and its members are full-time directors.

Progress and future process flow

In the fiscal year ended August 31, 2023, we actively discussed compliance. We reviewed the content of training programs and introduced a test to check the comprehension level. In addition to these efforts, we provided training on methods to increase employee awareness of rules and to facilitate their appropriate behaviors.

For the fiscal year ending August 31, 2024, we will make intensive efforts to improve the training program to link the training program to the enhancement of ERM and to foster a sound organizational culture. Through these initiatives, we will increase the practicality and effectiveness of our compliance training programs to further improve the compliance awareness of the entire organization.

Internal whistleblowing system

We established a whistleblowing system to effectively identify and handle compliance violations, illegal acts and other matters of concern. Its purpose is to maintain organizational transparency and ethical standards. This system can be used by directors, employees (including employees who have left the company) and temporary staff members. Whistleblowing contact points are provided inside and outside the company. Within the company, the Administration Headquarters and the Audit and Supervisory Committee act as contact points. Externally, this function is fulfilled by the office of our corporate lawyer.

We have a system in place that strictly protects the privacy of whistleblowers and that helps to ensure they are not disadvantaged because of their notifying the whistleblowing system of a matter or consulting it. When it has been notified of a matter, the contact point will report the details of the matter swiftly to the Compliance Committee. The Administration Headquarters checks if the lawyer has been notified of any matters quarterly. We will respect the privacy of whistleblowers and victims in the process of investigating the facts of matters. The results of investigations will be communicated to the Compliance Committee and to whistleblowers. If any violation is confirmed, the committee will take corrective measures and measures to prevent any recurrence of the matter, and the Administration Headquarters will regularly follow up on the implementation of these measures.

Item	Breakdown	FY2019	FY2020	FY2021	FY2022	FY2023
Number of violations	Corruption or bribery	0	0	0	0	0
	Discrimination or harassment	0	0	0	0	0
	Breach of data about customers	0	0	0	0	0
	Conflicts of interest	0	0	0	0	0
	Money laundering or insider trading	0	0	0	0	0
	Information leakage	0	0	0	0	0

Breakdown	FY2019	FY2020	FY2021	FY2022	FY2023
Number of times the contact points were contacted*	0	0	0	0	10

*Until the fiscal year ended August 31, 2022, the number of reports submitted to the Board of Directors was disclosed. From the fiscal year ended August 31, 2023 onwards, the number of times the contact points were contacted is disclosed. No violations of laws, regulations or the Articles of Incorporation were confirmed.

Information Security

Information security target for the fiscal year ending August 31, 2024

Department target

Fulfill the requirements of the ISO 27001 standard.

Numerical targets Zero non-compliance incidents found by internal audits

Purpose

The goals of our implementation of information security are to protect our corporate value and ensure our business continuity. This includes the construction of a structure to prevent the failure of IT systems and information security or cybersecurity incidents, and properly respond to incidents in the event of their occurrence. Ensuring information security protects the company from technical failures, human error, malicious attacks and many other risks.

Basic information security policy

Marumae Co., Ltd. (hereinafter the “Company”) will make information security efforts across the organization in accordance with the policy set out below to protect information assets acquired from customers and those that we own from accidents, disasters, crimes and other threats and to live up to the trust of customers and society.

1 Management responsibility

The Company will endeavor to improve its information security on the initiative of the management team in a systematic and continuous manner.

2 Development of internal systems

The Company will set up an organization to maintain and improve information security and formulate information security measures as official internal rules.

3 Employees’ efforts

The Company’s employees will acquire the knowledge and skills necessary for information security to make sure its information security efforts are successful.

4 Compliance with laws, regulations and contractual requirements

The Company will comply with laws, regulations, norms and contractual obligations relating to information security to live up to customers’ expectations.

5 Response to violations and incidents

Should any violation of law, regulation or contract relating to information security or any incident relating thereto occur, the Company will deal with it properly and strive to prevent recurrence.

Information security system

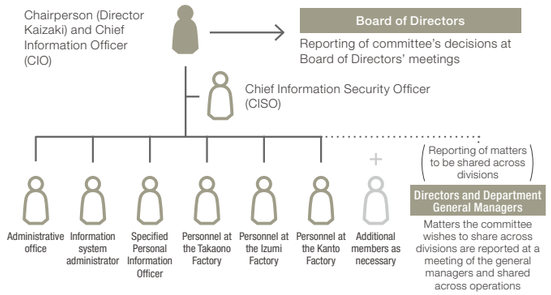
In our information security system, the Information Security Committee develops security action policies and rules for the entire company and the information systems group implements and operates them.

The committee is chaired by the director who is also the Chief Information Officer (CIO) responsible for information systems and overall information strategies. The person in charge of the information systems team shall be the Chief Information Security Officer (CISO), who will supervise and control our information security systems and measures. The information systems group will act as the committee’s administrative office. The members of the committee include information system administrators, personal information protection representatives and the relevant personnel at individual factories.

The committee holds meetings once a month in principle. Upon receipt of reports from the chair of the committee, the Board of Directors discusses the appropriateness of the information security measures. The CIO communicates the items to be observed in the implementation of security measures to the heads of teams. We make them known to all employees using training materials.

To increase the effectiveness of our information security measures, our outside director specializing in legal affairs presents example security measures and violations and make proposals. We listen to advice provided from the perspective of people outside the Company to optimize our security measures.

Structure of the Information Security Committee



Implemented in the fiscal year ended August 31, 2023

- Formulation of the Information Security Policy and management regulations
- Identification of priority items and implementation of measures
- Information security training for all employees
- Information asset inventory and implementation of measures

Planned for the fiscal year ending August 31, 2024

- Formulation of items to be implemented in accordance with the ISO 27001 standard and acquisition of certification
- Provision of security training
- Information asset inventory and implementation of improvement activities
- Risk analysis and implementation of measures

Message | Message from the Outside Director

Marumae’s future potential and issues



Takaaki Yamamoto
Audit and Supervisory Committee Member

In response to an invitation from President Toshikazu Maeda, I became an outside director of Marumae in 2019. I hear that I was appointed because my establishment of business and my experience in business administration were appreciated. When I launched a business, I discovered the latent needs of customers and clues to developing the business through friendly relationships with them. I have thus cultivated that business. I believe that these experiences can be helpful in the running of any business or the serving of any customer. I hope to serve through the exchange of opinions. Like Marumae, I experienced a period of difficulty as a business manager. Because of this experience, I empathize with Mr. Maeda, who is in the position of running a business, and I would like to support him.

I have great hopes for Marumae’s future in the aspects of the market environment and the corporate culture. I am sure that the semiconductor market will continue to grow. I believe that there are two factors that drive this growth. The first is the increase in semiconductor demand following the acceleration of big data applications including generative AI. Demand for logic semiconductors and memory semiconductors is expected to surge at an accelerating pace since it is necessary to process a huge volume of data. The second factor is that the strategic importance of semiconductors will increase amid political division. This increases the demand for manufacturing equipment in different countries. In my view, Marumae’s response to this demand will positively affect its sales.

Additionally, Marumae’s characteristics positively affect its growth potential. The position of Marumae reflects Mr. Maeda’s sincerity, keen sensitivity and advanced technical skills. His sincerity, advanced skills and keen sensitivity give him insight into what customers think and help him earn their trust. I feel that the current progress is a result of sincere efforts based on these values. Even when problems happen, the management team responds sincerely and works to redress the problem together with employees. I am sure this will lead to greater trust in the future.

At Board of Directors’ meetings, all members show their great eagerness in discussions. They consider specific strategies for Marumae’s development. The Board of Directors solidly discusses investments with an eye toward the future, even in the period of weak performance. It looks at the current and future market conditions from a medium- and long-term perspective to make decisions on the timing of investments as appropriate. When performance is weak, people tend to take a short-term view. Marumae has an advantage in looking toward the future and taking action.

The biggest issue facing Marumae is securing a workforce. The labor market conditions are becoming increasingly difficult. The decrease in the population will result in a labor shortage and the competition for workers with other companies will be more intense. To address this question, Marumae carried out a work style reform, upgraded its welfare programs and built relationships with educational institutions. These actions are, however, insufficient in consideration of the company’s future expansion in size. A step to overcome this issue is to implement a substantial digital transformation that increases productivity using generative AI and digital data. This does not mean producing some major innovation immediately. This means to hone personal sensitivity to feel what is happening now, to discover what Marumae can do and to put it into practice. A large portion of Marumae’s manufacturing process is original. Quick thinking in consideration of this will open the way to operating ahead of the competition.

Another issue is mitigating the impact of the silicon cycle. The formation of semiconductor manufacturing blocs around the world will reduce market fluctuations. In this case, each bloc will have to keep its customers. Sales activities are significant here. Marumae’s customers are the manufacturers of manufacturing equipment. It is important to understand what their research and development teams and their management executives have in mind and what they want to do and take action accordingly.

I am convinced that Marumae has been and will remain a company with the potential to evolve. I will continue to increase my sensitivity, improve my skills and serve society with sincerity. Future workers who will join us will be able to increase their presence in the company if they have the will to do so. There is also a foundation for changing the company for the better. I myself will also endeavor to help Marumae grow. Thank you for your continued support.

Data | Financial Information

Financial statements for 11 years

(¥ million)

	2013/8	2014/8	2015/8	2016/8	2017/8	2018/8	2019/8	2020/8	2021/8	2022/8	**2023/8**
Net sales	1,162	1,585	2,124	2,242	3,035	4,588	4,019	4,388	5,369	8,585	6,868
Operating profit	126	267	450	488	764	1,234	495	896	1,207	2,361	859
Ordinary profit	128	255	435	458	737	1,211	477	834	1,200	2,366	789
Profit	81	302	559	363	538	866	436	690	902	1,817	706
Total assets	1,660	1,765	2,188	2,569	5,418	8,088	8,329	8,894	9,742	12,552	11,612
Total liabilities	1,566	1,369	1,473	1,590	2,281	2,955	3,021	3,188	3,415	5,253	4,138
Net assets	93	396	715	978	3,137	5,132	5,307	5,706	6,327	7,299	7,473
Cash flows from operating activities	164	88	626	556	626	829	1,052	1,190	1,062	2,227	2,252
Cash flows from investing activities	(30)	(14)	(185)	(296)	(681)	(2,458)	(1,496)	(337)	(809)	(1,744)	(1,489)
Cash flows from financing activities	(206)	(239)	(206)	(141)	1,966	1,814	96	(575)	(291)	8	(286)
Cash and cash equivalents at end of period	326	162	397	513	2,425	2,612	2,263	2,540	2,505	3,011	3,496
Earnings per share (¥)	7.82	28.90	53.16	34.50	50.74	72.01	33.45	53.34	70.51	142.58	55.92
Net assets per share (¥)	(14.6)	14.3	67.9	92.9	263.4	393.2	406.7	445.7	494.2	578.0	591.2
Annual dividends per share (¥)	—	—	6.0	7.5	10.0	20.0	15.0	17.0	24.0	48.0	36.0
Operating profit to net sales (%)	10.9	16.9	21.2	21.8	25.2	26.9	12.3	20.4	22.5	27.5	12.5
Ordinary profit to total assets (%)	7.5	14.9	22.0	19.3	18.5	17.9	5.8	9.7	12.9	21.2	6.5
Return on equity (%)	155.5	123.6	100.7	42.9	26.2	20.9	8.4	12.5	15.0	26.7	9.6
Asset-based ROIC (%)	6.1	10.8	18.2	16.9	18.8	16.3	5.9	10.0	12.1	17.9	7.7
Liability-based ROIC (%)	5.1	10.3	14.7	14.8	11.2	11.5	4.3	7.7	9.7	15.6	5.4
Equity ratio (%)	5.6	22.4	32.7	38.1	57.9	63.5	63.7	64.2	64.9	58.1	64.4
Payout ratio (%)	—	—	11.3	21.7	19.7	27.8	44.8	31.9	34.0	33.7	64.4

Notes 1. Figures are rounded down to the nearest million yen.
2. Per share data has been calculated as if stock splits conducted on March 1, 2014 (100-for-1 split), September 1, 2015 (3-for-1 split), and March 1, 2017 (2-for-1 split) had taken place at the beginning of fiscal 2011.
3. Figures in parentheses indicate negative figures.

Please refer to our website for the latest ESG data.
https://www.marumae.com/sus_3.html (only Japanese)

ESG data

	2013/8	2014/8	2015/8	2016/8	2017/8	2018/8	2019/8	2020/8	2021/8	2022/8	**2023/8**
Marginal profit (¥ million)	—	—	—	—	—	3,103	2,596	2,995	3,716	5,717	4,305
Total number of employees (including temporary employees)	—	—	—	—	—	230	252	259	313	387	323
Marginal profit per employee (productivity indicator) (¥ ten thousand)	—	—	—	—	—	1,349	1,030	1,156	1,187	1,477	1,212
Scope 1 and 2 emissions Intensity (per marginal profit) (t-CO_2/¥ million)	—	—	—	—	—	0.594	0.712	0.828	0.780	0.604	0.686
Number of programmers (person)	—	—	—	—	—	36	41	53	61	60	71
Ratio of female regular employees (%)	—	—	—	—	—	12.15	13.33	12.68	12.50	11.17	12.57
Turnover rate of regular employees (%)	—	—	—	—	—	4.67	2.50	0.70	1.25	3.91	3.28
Ratio of Female Directors of the Board of Directors (%)	—	—	—	—	—	0.0	0.0	0.0	11.1	12.5	22.2
Ratio of Outside Directors of the Board of Directors (%)	—	—	—	—	—	44.4	40.0	42.9	44.4	50.0	55.0

Notes 1. The figure for fiscal 2023 is calculated based on the figure for fiscal 2022 as the emission factor since it has yet to be determined.

Balance Sheet

(¥ thousands)

	Previous fiscal year 2022/8	Fiscal year under review 2023/8
Assets		
Current assets		
Cash and deposits	3,011,795	3,496,246
Notes receivable - trade	8,001	-
Accounts receivable - trade	1,284,632	467,109
Electronically recorded monetary claims - operating	1,200,815	515,384
Finished goods	16,152	15,583
Work in process	1,027,314	769,950
Raw materials and supplies	19,256	27,502
Prepaid expenses	17,074	23,779
Others	12,102	134,920
Allowance for doubtful accounts	(5,241)	(2,085)
Total current assets	6,591,903	5,448,393
Non-current assets		
Property, plant and equipment		
Buildings	2,417,374	2,546,328
Accumulated depreciation	(666,652)	(790,423)
Buildings, net	1,750,722	1,755,905
Structures, net	163,992	188,604
Accumulated depreciation	(78,082)	(88,532)
Structures, net	85,910	100,071
Machinery and equipment	6,986,945	8,154,112
Accumulated depreciation	(4,015,360)	(4,882,816)
Machinery and equipment, net	2,971,585	3,271,296
Vehicles	108,606	108,606
Accumulated depreciation	(97,597)	(103,357)
Vehicles, net	11,008	5,248
Tools, furniture and fixtures	66,177	72,213
Accumulated depreciation	(47,184)	(57,184)
Tools, furniture and fixtures, net	18,993	15,028
Land	766,549	782,004
Leased assets	30,006	30,006
Accumulated depreciation	(3,496)	(7,958)
Lease assets, net	26,510	22,048
Construction in progress	126,137	6,190
Total property, plant and equipment	5,757,418	5,957,794
Intangible assets		
Software	38,814	23,238
Patent right	-	3,047
Others	7	-
Total intangible assets	38,822	26,285
Investments and other assets		
Investment securities	7,000	7,000
Investment in capital	111	101
Long-term prepaid expenses	1,155	-
Deferred tax assets	155,845	171,760
Others	690	690
Total investments and other assets	164,801	179,551
Total non-current assets	5,961,042	6,163,631
Total assets	12,552,945	11,612,024

	Previous fiscal year 2022/8	Fiscal year under review 2023/8
Liabilities		
Current liabilities		
Accounts payable – trade	331,972	188,585
Current portion of long-term borrowings	559,512	607,132
Lease liabilities	4,276	4,352
Accounts payable – other	353,964	51,941
Accrued expenses	226,957	141,966
Income taxes payable	527,417	-
Advances received	328,035	82,966
Deposits received	10,954	14,206
Unearned revenue	245	245
Provision for loss on order received	32,200	29,500
Provision for share-based compensation	16,000	24,000
Others	113,161	20,249
Total current liabilities	2,504,697	1,165,146
Non-current liabilities		
Long-term borrowings	2,664,182	2,889,550
Long-term lease liabilities	22,342	17,990
Provision for retirement benefits	48,179	59,871
Asset retirement obligations	1,069	1,069
Guarantee deposits received	2,700	2,700
Others	10,685	1,934
Total non-current liabilities	2,749,158	2,973,116
Total liabilities	5,253,856	4,138,263
Net assets		
Shareholders' equity		
Share capital	1,241,157	1,241,157
Capital surplus		
Legal capital surplus	1,125,157	1,125,157
Other capital surplus		
Gain on disposal of treasury shares	825,530	831,699
Total capital surplus	1,950,687	1,956,856
Retained earnings		
Legal retained earnings	14,112	14,112
Other retained earnings		
Reserve for tax purpose reduction entry	7,923	3,961
Retained earnings brought forward	4,643,567	4,798,280
Total retained earnings	4,665,603	4,816,354
Treasury shares	(558,359)	(540,607)
Total shareholders' equity	7,299,089	7,473,761
Total net assets	7,299,089	7,473,761
Total liabilities and net assets	12,552,945	11,612,024

Statements of Income

(¥ thousands)

		Previous fiscal year (from Sep. 1, 2021 to Aug. 31, 2022)	Fiscal year under review (from Sep. 1, 2022 to Aug. 31, 2023)
Net sales		8,585,027	6,868,463
Cost of sales	Beginning finished goods inventory	15,410	16,152
	Cost of products manufactured	5,445,023	5,342,315
	Total	5,460,433	5,358,468
	Transfer to other account	37,363	75,843
	Cost of lease revenue	19,954	17,949
	Ending finished goods inventory	16,152	15,583
	Cost of sales	5,426,871	5,284,990
Gross profit		3,158,156	1,583,472
Selling, general and administrative expenses	Remuneration for directors (and other officers)	116,340	114,445
	Salaries and allowances	200,470	184,106
	Retirement benefit expenses	5,865	2,185
	Share-based payment expenses	15,991	31,997
	Depreciation	25,346	23,825
	Commission expenses	74,915	84,446
	Taxes and dues	56,888	41,940
	Provision of allowance for doubtful accounts	1,704	(3,156)
	Research and development expenses	137,156	84,498
	Others	161,869	159,696
	Total selling, general and administrative expenses	796,548	723,986
Operating profit		2,361,607	859,486
Non-operating income	Interest income	49	125
	Dividends income	1	1
	Foreign exchange gains	22,090	5,250
	Insurance claim income	1,969	6,747
	Outsourcing service income	4,151	14,283
	Gain on sale of scraps	629	4,695
	Others	4,363	3,636
	Total non-operating income	33,252	34,740
Non-operating expenses	Interest expenses	19,755	23,570
	Depreciation	-	70,932
	Compensation expenses	4,394	-
	Others	3,941	10,611
	Total non-operating expenses	28,091	105,114
Ordinary profit		2,366,768	789,112
Extraordinary income	Subsidy income	66,546	211,037
	Total extraordinary income	66,546	211,037
Extraordinary losses	Impairment losses	-	2,280
	Loss on retirement of non-current assets	418	211
	Total extraordinary losses	418	2,491
Profit before income taxes		2,432,896	997,658
Income taxes - current		661,186	306,992
Income taxes - deferred		(45,309)	(15,914)
Total income taxes		615,876	291,077
Profit		1,817,019	706,580

Cash Flows

(¥ thousands)

		Previous fiscal year (from Sep. 1, 2021 to Aug. 31, 2022)	Fiscal year under review (from Sep. 1, 2022 to Aug. 31, 2023)
Cash flows from operating activities	Profit before income taxes	2,432,896	997,658
	Depreciation	823,698	1,040,546
	Impairment losses	-	2,280
	Increase (decrease) in allowance for doubtful accounts	1,704	(3,156)
	Increase (decrease) in provision for losses on orders received	(3,846)	(2,700)
	Increase (decrease) in provision for share-based compensation	15,991	31,997
	Increase (decrease) in provision for retirement benefits	22,927	11,692
	Interest and dividends income	(50)	(126)
	Insurance claim income	(1,969)	(6,747)
	Interest expenses	19,755	23,570
	Foreign exchange losses (gains)	(15,400)	(8,407)
	Loss on retirement of non-current assets	418	211
	Decrease (increase) in trade receivables	(812,218)	1,506,458
	Decrease (increase) in inventories	(464,845)	249,686
	Increase (decrease) in trade payables	82,701	(143,386)
	Decrease (increase) in consumption taxes refund receivable	253	-
	Increase (decrease) in accrued consumption taxes	111,814	(93,286)
	Decrease (increase) in other current assets	4,290	(112,218)
	Increase (decrease) in other current liabilities	404,445	(410,483)
	Others	(6,235)	3,350
	Subtotal	2,616,332	3,086,938
	Interest and dividend income received	50	126
	Interest paid	(20,471)	(23,931)
	Proceeds from insurance income	1,969	6,747
	Income taxes paid	(369,914)	(817,635)
	Net cash provided by (used in) operating activities	2,227,966	2,252,246
Cash flows from investing activities	Purchase of property, plant and equipment	(1,735,722)	(1,484,537)
	Purchase of intangible assets	(8,942)	(4,974)
	Proceeds from divestments	-	10
	Net cash provided by (used in) investing activities	(1,744,664)	(1,489,501)
Cash flows from financing activities	Proceeds from long-term borrowings	1,400,000	900,000
	Repayments of long-term borrowings	(527,012)	(627,012)
	Purchase of treasury shares	(400,033)	(76)
	Dividends paid	(462,510)	(555,336)
	Repayments of finance lease liabilities	(2,369)	(4,276)
	Net cash provided by (used in) financing activities	8,074	(286,701)
Effect of exchange rate change on cash and cash equivalents		15,400	8,407
Net increase (decrease) in cash and cash equivalents		506,776	484,451
Cash and cash equivalents at beginning of period		2,505,018	3,011,795
Cash and cash equivalents at end of period		3,011,795	3,496,246



Company Overview (as of August 31, 2023)

Company Name	Marumae Co., Ltd.
Representative	Toshikazu Maeda
Headquarters	2141 Onohara, Izumi, Kagoshima 899-0216, Japan
Established	October 1988
Fiscal Year-End	August 31
Share capital	¥1,241,150,000
Number of Employees	323 (including 140 contingent workers and 32 temporary employees)
Scope of Business	Design, manufacture, and processing of highprecision machinery Design and manufacture of high-precision machine parts Design, manufacture, and sale of industrial and medical equipment Development and sale of software Plate working Plumbing Transportation Real estate leasing

Stock Information (as of August 31, 2023)

Securities Code	6264
Stock Exchange Listing	Prime Market of the Tokyo Stock Exchange
Annual Shareholders' Meeting	November
Total Number of Shares Authorized	52,212,000
Total Number of Shares Outstanding	13,053,000 (of which 412,494 are shares of treasury stock)
Number of Shareholders	11,914
Shareholder Registry Administrator	JAPAN SECURITIES AGENTS, LTD. 1-2-4 Kayabacho, Nihombashi, Chuo-ku, Tokyo

Major Shareholders

Name	Number of Shares Held	Shareholding Ratio (%)
Toshikazu Maeda	4,829,117	38.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	806,600	6.4
Misako Maeda	504,000	4.0
Custody Bank of Japan, Ltd. (Trust Account)	202,500	1.6
STATE STREET BANK AND TRUST COMPANY FOR STATE STREET BANK INTERNATIONAL GMBH, LUXEMBOURG BRANCH ON BEHALF OF ITS CLIENTS: CLIENT OMNI OM25	197,161	1.6
Nomura Securities Co., Ltd.	182,758	1.4
Yoshiko Maeda	180,000	1.4
Koei Igarashi	169,000	1.3
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB)	142,700	1.1
Marumae Kyoeikai	128,600	1.0

Notes 1. Although the Company holds 412,494 shares of treasury stock, it is excluded from the above list of major shareholders.
2. The shareholding ratio is calculated by subtracting treasury stock.