

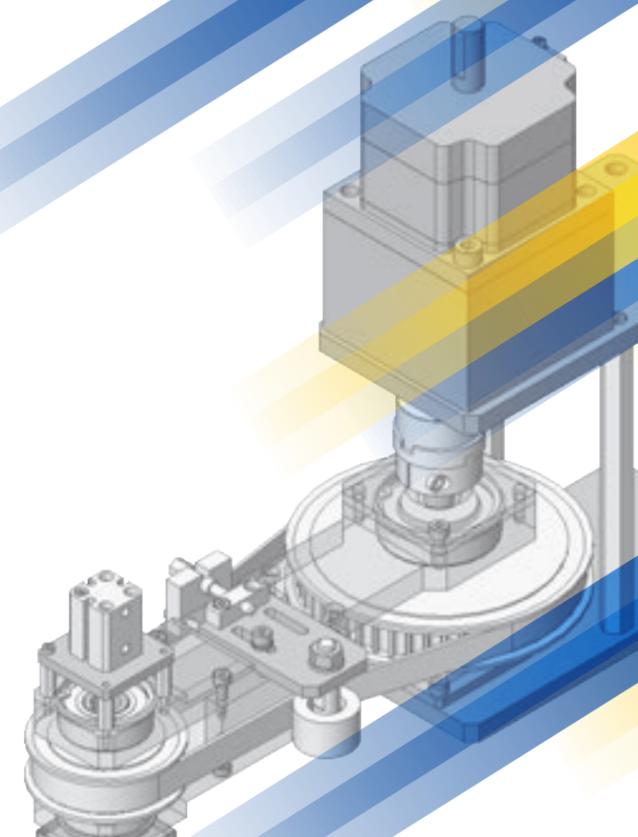
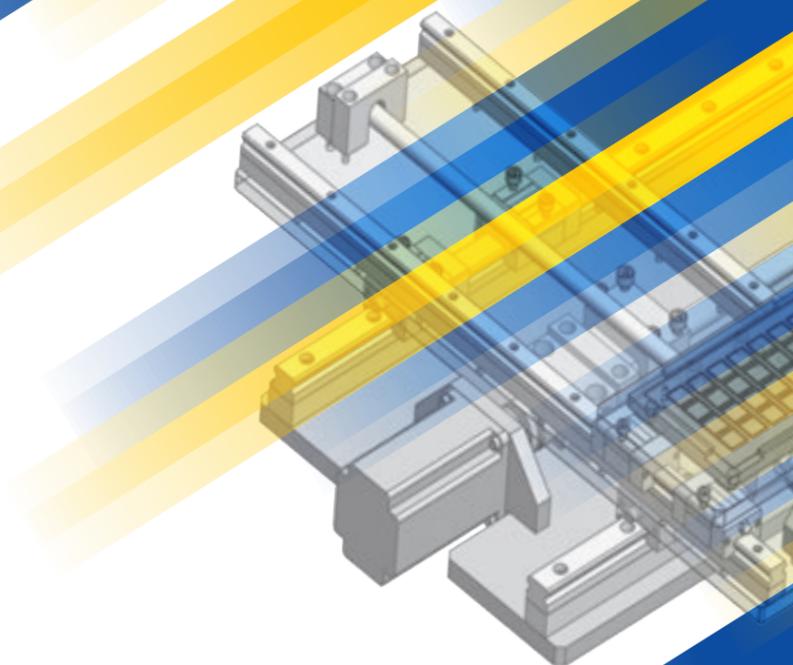
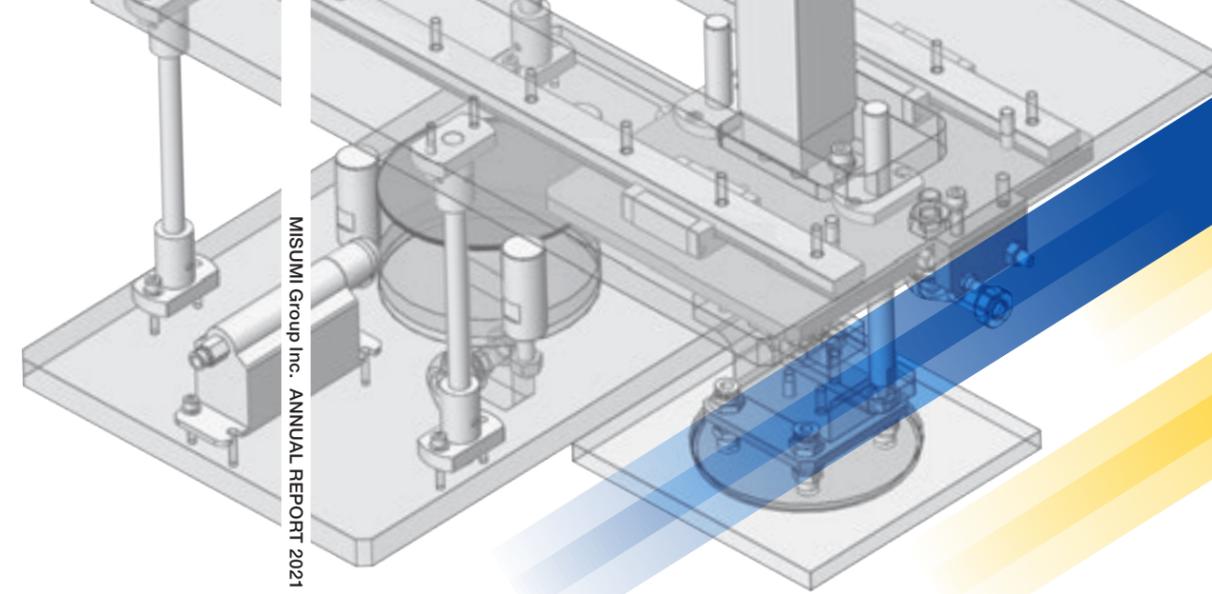
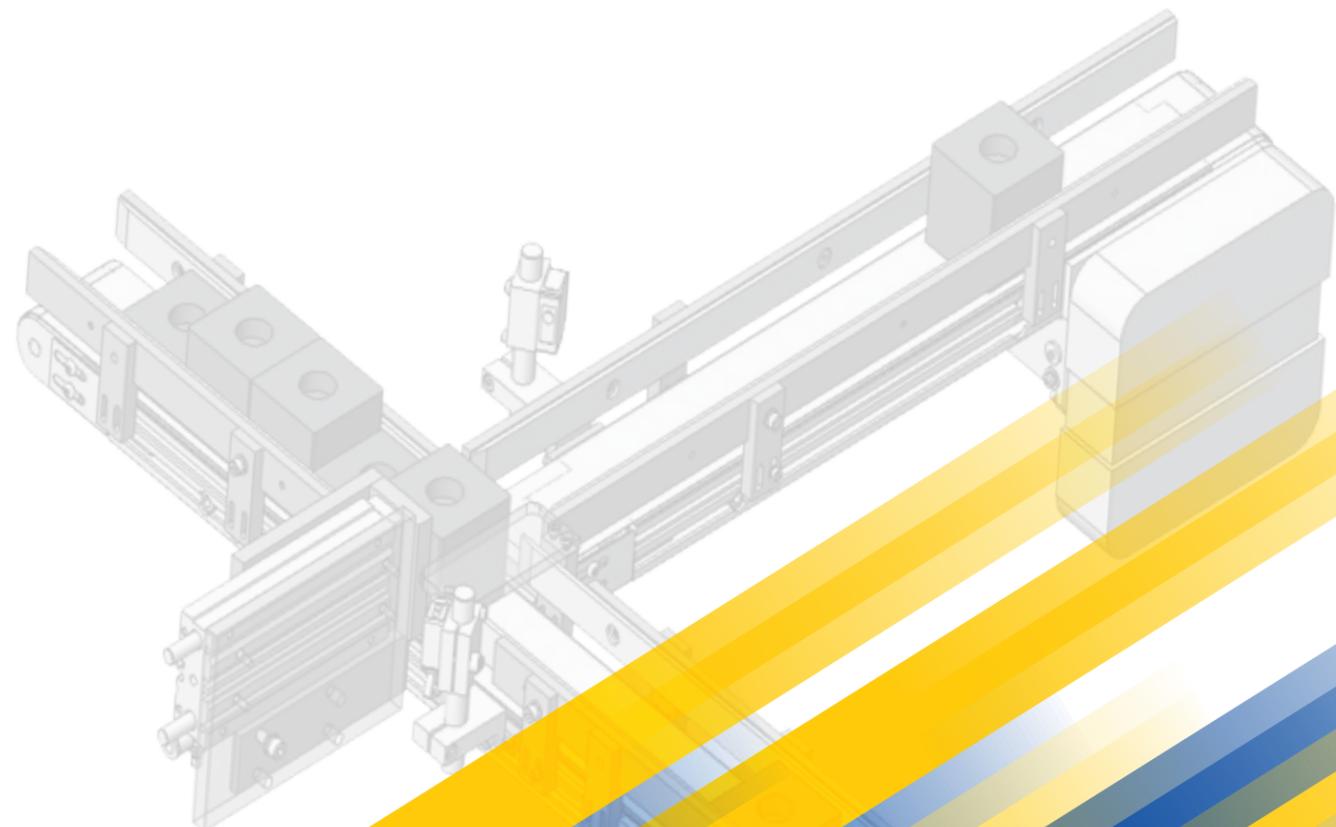
MISUMI Group Inc. ANNUAL REPORT 2021

It's all about TIME



ANNUAL REPORT 2021

MISUMI Group Inc.



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Forward-looking statements:

This annual report contains forward-looking statements regarding MISUMI Group's business performance estimates and business environment forecasts. All forward-looking statements are based on judgments derived from information available to MISUMI Group at the time of publication, and these forecasts include uncertainties. Certain risks and uncertainties could cause MISUMI's actual results to differ materially from any projections presented in this report. Please be advised that our actual business performance and the future business environment may differ from the forecasts indicated in this document.

Coexistence of “responding to changes in the current environment” and “preparing for sustainable growth”

Competitive advantages that allow us to offer reliable and quick delivery in the global market

MISUMI Group has developed a unique business model as both a “manufacturing business” with functions for manufacturing and selling components for factory automation equipment required for industrial automation as well as die sets and automation-related auxiliary materials, and a “distribution business” that sells a wide range of products from automation-related auxiliary materials to consumables, including products from third-party manufacturers.

At industrial automation sites, the start-up or operation of automation lines may be delayed if even one machine component is unavailable, thereby significantly impacting business plans. Global demand for industrial automation is further accelerating, yet there are very few suppliers at present that can offer reliable and quick delivery through a global network for a wide-ranging product lineup of third-party brand products in addition to make-to-order processed components that meet designated dimensions at micron level.

We eliminate inefficiencies in customers' processes for procuring components used in automation facilities and equipment and ensure delivery dates by providing our reliable and quick delivery for customer orders. In other words, we provide our customers with time-based value propositions, which we believe to be our foremost mission. In order to accomplish this social mission globally, we aim to be a company with competitive advantages not found in other companies, in terms of the business model, organization, business strategies and operations, by pursuing a time-based strategy.



Kosuke Nishimoto

Representative Director and Chairman

Ryusei Ono

Representative Director and President

Net sales was flat year on year, but profit increase was secured by profitability improvement measures

The global economy during FY2020 was impacted by the spread of COVID-19 infection throughout the entire fiscal year; notwithstanding, the economy in China recovered quickly primarily in the manufacturing industry, and business conditions in other overseas regions also improved from the latter half of the fiscal year with capital investment demand on a recovery trend. In Japan, although there were signs of recovery in some industries such as semiconductors at the end of the fiscal year, demand did not recover in full scale.

Under this environment, MISUMI Group is leveraging its unique business model, which encompasses both manufacturing and distribution businesses, and by advancing the business foundation that supports these businesses globally, we are contributing to industrial automation worldwide by responding to customer's reliable quick delivery needs. Amidst the continued impact of COVID-19, we continued to steadily provide products meeting customers' reliable and quick delivery needs, by fully utilizing the strong business foundations built to date in IT, logistics, and production; as well as leveraging the global network. Although demand of overseas regions recovered gradually throughout the year, consolidated net sales were ¥310,719 million, a decrease of 0.8% year-on-year due to the impact of sluggish business conditions in the first half.

By segment, net sales in the Factory Automation Business were ¥102,244 million (2.9% increase year-on-year), reflecting the shift to a recovery trend in all regions in the latter half of the fiscal year in addition to China's strong performance throughout the year. In the Die Components Business, although the automobile-related business showed a gradual recovery in the second half, it could not compensate for the shortfall in the first half, and net sales came to ¥66,871 million (7.7% decrease year-on-year). In the VONA Business, despite the impact of sluggish

capital investment in Japan, overseas sales were favorable on the whole, owing to reliable quick deliveries being bolstered as well as the cultivation of new customers. Net sales were ¥141,602 million (0.1% increase year-on-year).

In terms of profits, significant increase was secured due to the effects of thorough profitability improvement measures, such as fundamentally eliminating inefficient operations, while carefully selecting and continuing upfront investment essential for sustainable growth.

Consequently, operating income was ¥27,199 million (15.1% increase year-on-year), ordinary income was ¥27,189 million (17.0% increase year-on-year), and net income attributable to owners of parent was ¥17,138 million (3.8% increase year-on-year).

Profitability improvement initiatives in FY2020

- 1 Fundamental elimination of inefficient operations**
 - Utilization of automation and IT
 - Reduction of office and warehousing space
- 2 A more stringent evaluation of the future potential of each business**
 - Die components business in North America
 - Software related
- 3 Termination of low-profit products and services**
 - Products that do not meet MISUMI customer demand and characteristics
 - meviy die and mold service
- 4 Price revision**
 - Optimization of price-setting taking competitiveness in the market into account

Record high earnings forecast for FY2021

Record highs are forecast for both sales and profit in FY2021, with net sales at ¥354.0 billion, operating income at ¥45.5 billion, and net income attributable to owners of parent at ¥33.0 billion.^{*1}

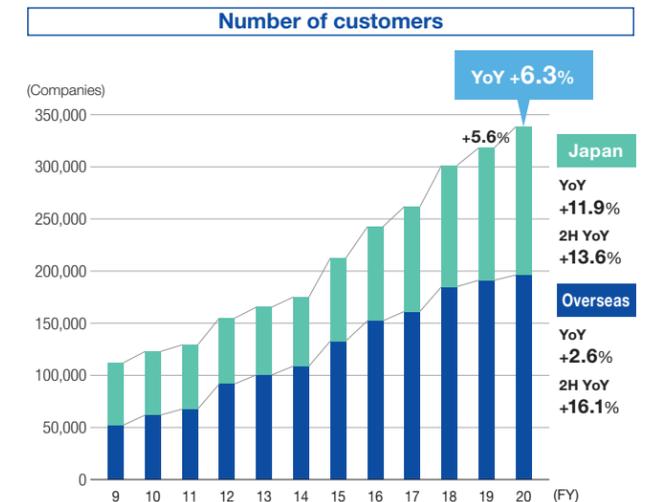
As for dividends, the dividend payout ratio is currently set at 25%. For FY2021, we are anticipating an annual dividend of

¥29.04 per share.^{*2} This will be an increase of ¥13.95 (+52.0%) year on year and is expected to reach a record high as with performance.

^{*1} The consolidated earnings forecast was revised on January 28, 2022 (net sales at ¥366.0 billion yen, operating income at ¥52.0 billion yen, net income attributable to owners of parent at ¥37.0 billion)
^{*2} The year-end dividend forecast was revised on January 28, 2022 (full-year dividend: ¥32.56)

Continued to strengthen and expand the global customer base

By working to enhance our global reliable and quick delivery and to build an e-commerce model optimized for customer needs, MISUMI Group has established a competitive advantage and expanded its customer base worldwide, despite the severe business environment. The number of customers increased 11.9% year on year in Japan due to initiatives to maintain reliable and quick deliveries in each region, in addition to the recovery of business conditions in the second half. The number of overseas customers increased 2.6% year on year, driven by China in the second half, although COVID-19 hampered growth in the first half.



Aiming for sustainable growth by further refining our global reliable and quick delivery

It is expected that the global and Japanese economies will continue to face uncertain business environments in FY2021 caused by the impact of the prolonged spread of COVID-19 infection and the US-China conflict. In the industrial sector, demand for automation is expected to increase globally. To meet these customer needs, we will continue to advance our IT, logistics, and manufacturing business foundations and further

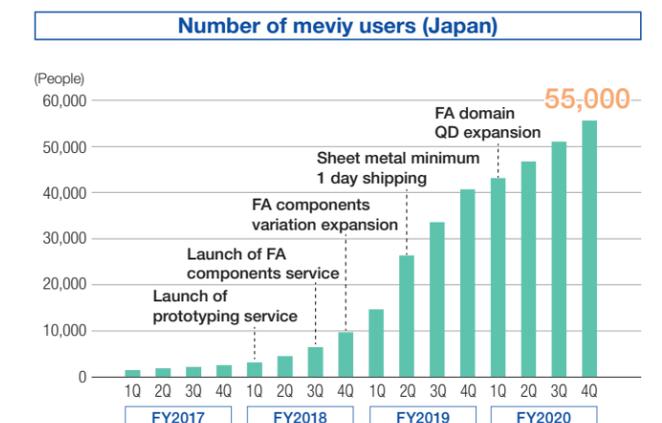
refine our "global reliable and quick delivery". In addition, we will accelerate the shift of resources to businesses with higher growth potential and profitability, and strive to innovate the business models in anticipation of transitions occurring in the post-corona market structure, as well as changes in the competitive environment.

Principal initiatives for FY2021 are as below.

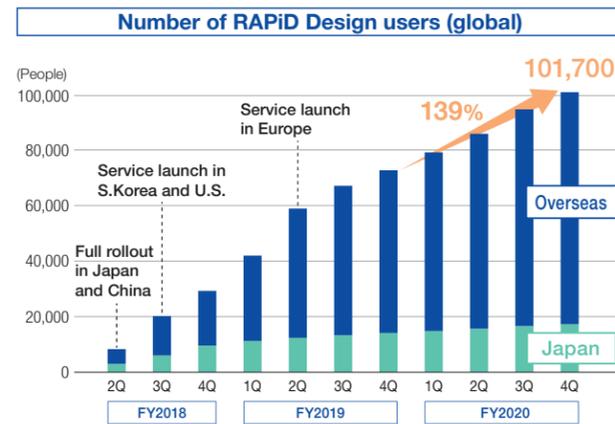
Manufacturing Business

Expand business globally to meet the demand for digital manufacturing

We will accelerate business expansion in meviy service, which enables instant quotations, and shipment as early as one day, by simply uploading product design data in 3D CAD. Until now, we have operated this service in Japan, and the number of users exceeded 55,000 in FY2020. This was enabled by developing an unconventional customer base through the expansion of products and services. We will build on these business achievements in Japan, with plans to also start a global rollout.



In addition, RAPiD Design, a tool for facilitating equipment design, stores around 4.5 million items of 3D CAD data on mechanical components for factory automation. Its worldwide users have exceeded 100,000, and it is making a steady contribution to generating new sales overseas, particularly in China. Furthermore, in FY2020 we started handling the CAD data of other manufacturers in addition to the MISUMI brand. Customers can obtain data on components from multiple manufacturers all at once, enabling them to greatly improve their design processes. Going forward, we will aim for further growth by accelerating overseas rollout while working to improve customer convenience.



Distribution Business

Thorough selection and concentration, focusing on the products and services unique to MISUMI

In the distribution business, we are augmenting a range of competitive private-brand products in China, and will continue to expand going forward. We will strengthen the competitiveness of the products, focusing on a product lineup unique to MISUMI.

We will promote the development of product lineup and service provision cater to the demand and characteristics of industrial automation customers.

Business Foundation

Further developed global reliable and quick delivery through continuous innovation

As for our business foundation, we will continue to renew our core system and implement automation systems into our logistics sites. We will fundamentally renovate the core system, which forms the heart of the MISUMI business model, and introduce the updated system globally from the end of this fiscal year through FY2023. Meanwhile, we will bolster our efforts to undertake agile and efficient service development with a 3-fold increase for development speed of new functions at 1/3 of the development cost. In the logistics sites, we will target further enhancement of productivity by expanding the automation and renewal of operations that were already introduced in central Japan and Europe in FY2020 to sites in the U.S., east Japan and China.



Warehouse after automation implementation

Leveraging the effects of the profitability improvement measures in FY2020, MISUMI Group will shift to assertive management for future growth. Focusing on the growing demand for automation beyond the manufacturing industry, the Company will strengthen the capabilities to respond to customer needs for industrial automation in various fields and expand business domains through continued evolution of our business model. We appreciate your ongoing support going forward.

Kosuke Nishimoto

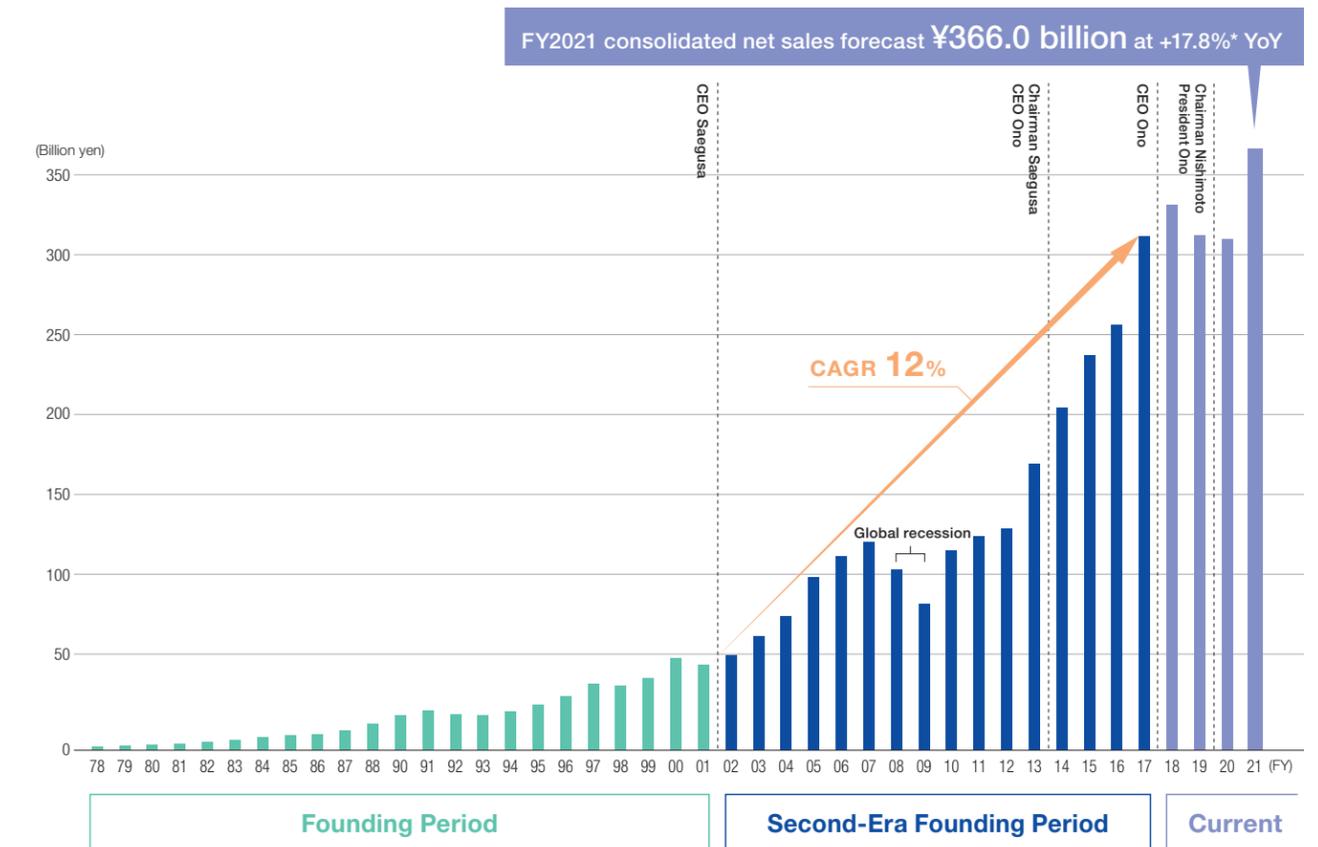
Representative Director and Chairman

Ryusei Ono

Representative Director and President

Growth of MISUMI Group

Note: FY1989 has been omitted due to a change in the fiscal year end.



* The consolidated earnings forecast was revised on January 28, 2022

Under the leadership of then CEO Tadashi Saegusa (currently, Chairman Emeritus and Second-Era Founder), the MISUMI Group underwent a major transformation starting in 2002 through a series of reforms known as the “second-era founding period.”

The management foundation built during this period has become the cornerstone of the MISUMI Group’s recent growth. In the next section, we will look back on the philosophy and important measures implemented during this series of reforms in the second-era founding period.

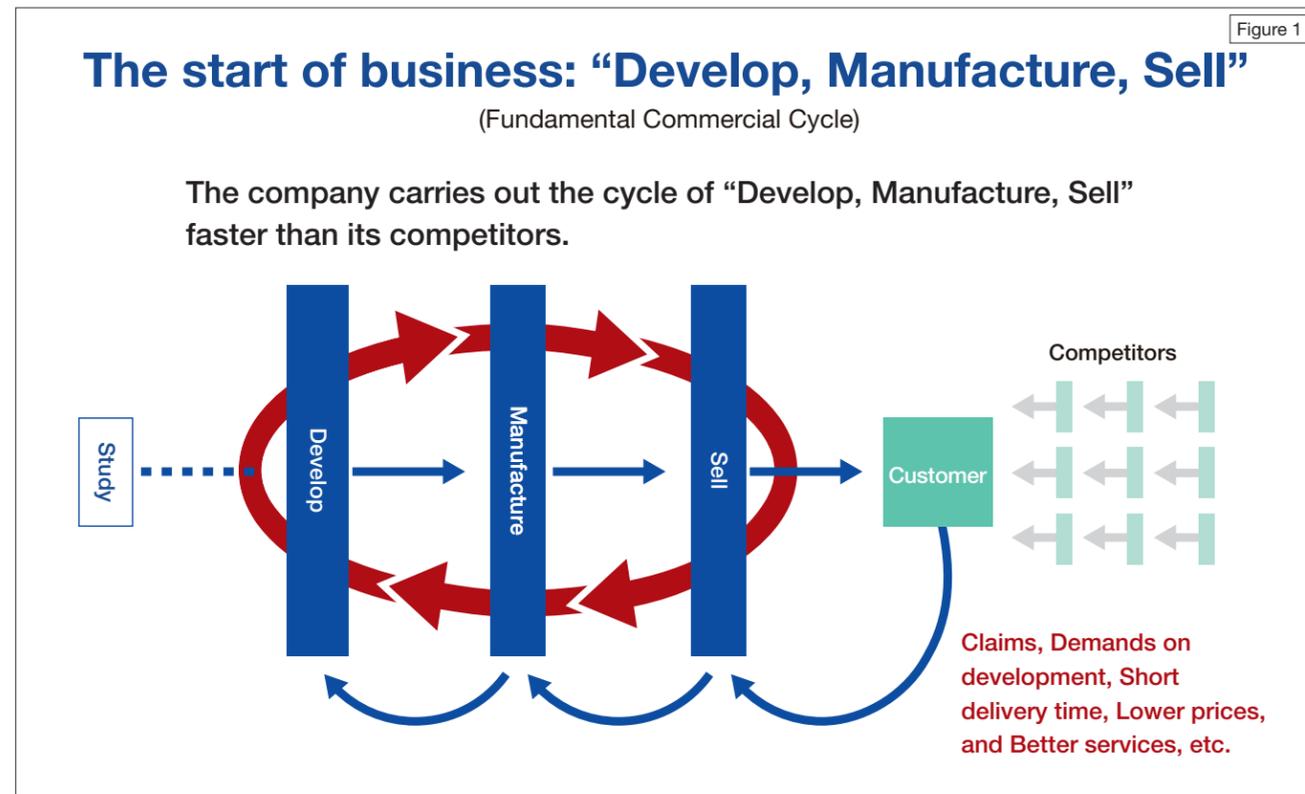
Management Challenges of the Second-Era Founding Period

Constantly Evolving Time-based Strategy

Tadashi Saegusa took the reins as CEO of MISUMI back in 2002. Using his more than three decades of experience in top management positions and his experience in corporate turnaround in his previous job, Saegusa harnessed systemized real world management frameworks gleaned from his professional experience to tackle the management challenges posed by MISUMI's corporate transformation.

The Power of the Frameworks

To fundamentally transform MISUMI, Saegusa selected two important frameworks from his lineup with the determination to address the worldwide "megatrends of business innovation" by holistically transform MISUMI's entire business process as the Western approach of featuring re-engineering and supply chain reforms. The first framework forming the basis of these efforts to address megatrends of business innovation is found in Figure 1 below. It is known as the framework of "develop, manufacture, and sell."



All companies, not only MISUMI, have their own particular business operation workflow, which is used to deliver products and services to customers.

Furthermore, companies also use the cycle of providing customer needs to each department in order to be more customer-centric. Quickly reflecting these needs in the next product and service and delivering them according to a basic cycle results in customer satisfaction.

The most important takeaway from the framework of "develop, manufacture and sell" is the recognition that implementing this cycle quicker than peers will earn the support of customers over peers, and falling behind in this implementation will mean lost opportunities.

While the above simplifies this complex process, this philosophy represents the very essence of our time-based strategy at the heart of our efforts to rebuild MISUMI's strengths.

(The second important framework is explained on page 10.)

Strategy Map for Corporate Transformation

At the time, Saegusa thoroughly analyzed the basic cycle of MISUMI's business operations. He quickly recognized the need to fundamentally innovate the company's functions and processes to address the megatrends of business innovation.

Saegusa developed Figure 2 below after carefully considering how best to transform MISUMI into a strategic company with strong ambition to remain a unique company internationally.

As illustrated, he created a strategy map with "back-end reforms" at right, "front-end reforms" at left, "growth acceleration" at top and "increasing quality and efficiency" at bottom, based around the major underlying assumption of reforms of "top strategic view and hands-on approach" at the center. This provided the direction for the company's necessary reforms and implementation procedures.

This is where Saegusa implemented the reform chain referred to as a bold "corporate transformation" in order to transform MISUMI into a completely different entity.

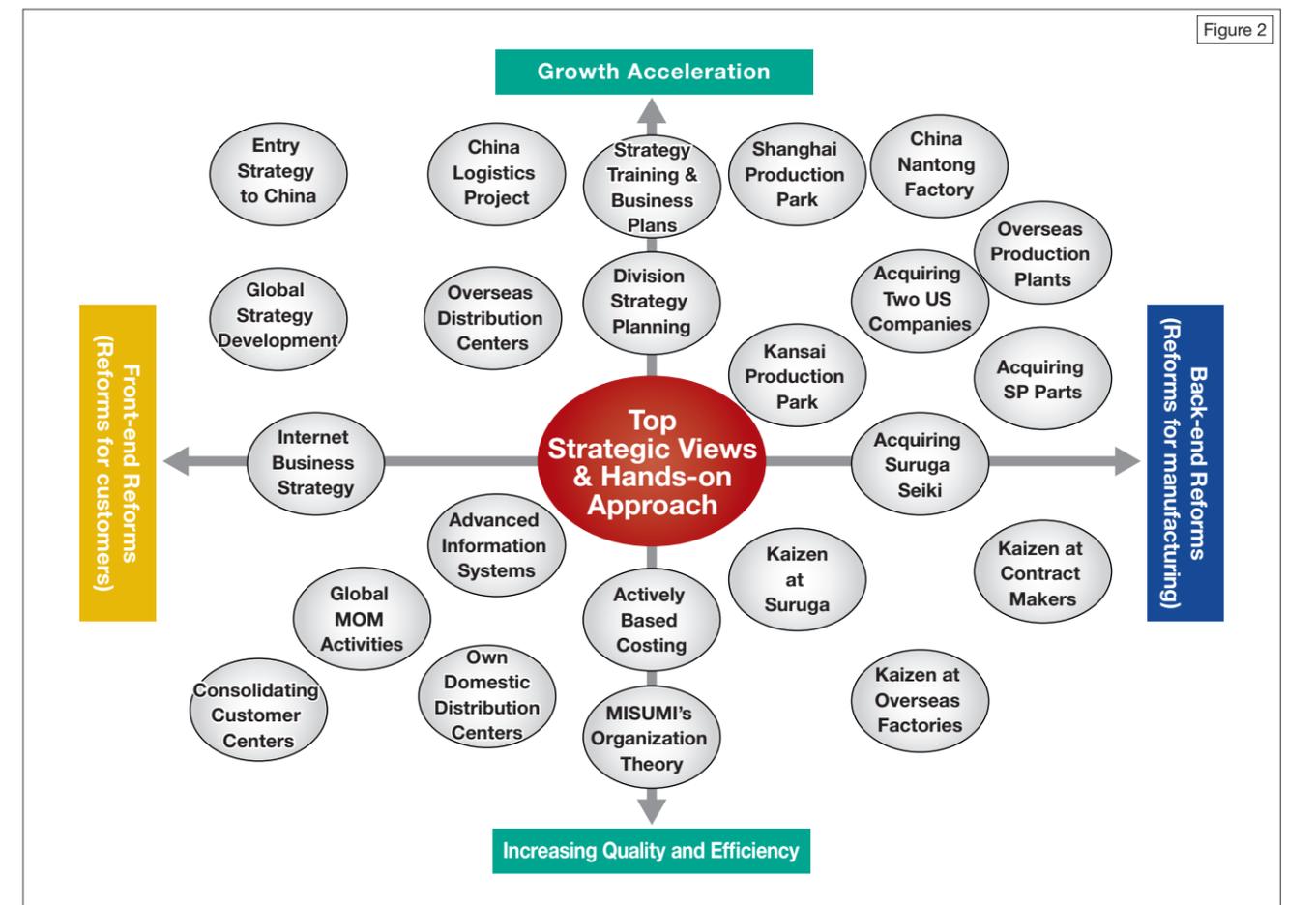
Each of the items found in this strategy map was vital to creating MISUMI's strength today. Lacking just one would have meant that MISUMI would not be where we are today.

Using this chain of reforms, it was possible to do business quicker than the company's previous basic cycle, paving the way for MISUMI's strengths today.

On the other hand, not all of the reform processes went smoothly; among them, some projects came to an impasse or nearly failed. Saegusa's management prowess and powerful leadership paved the way for success by overcoming many trials and tribulations.

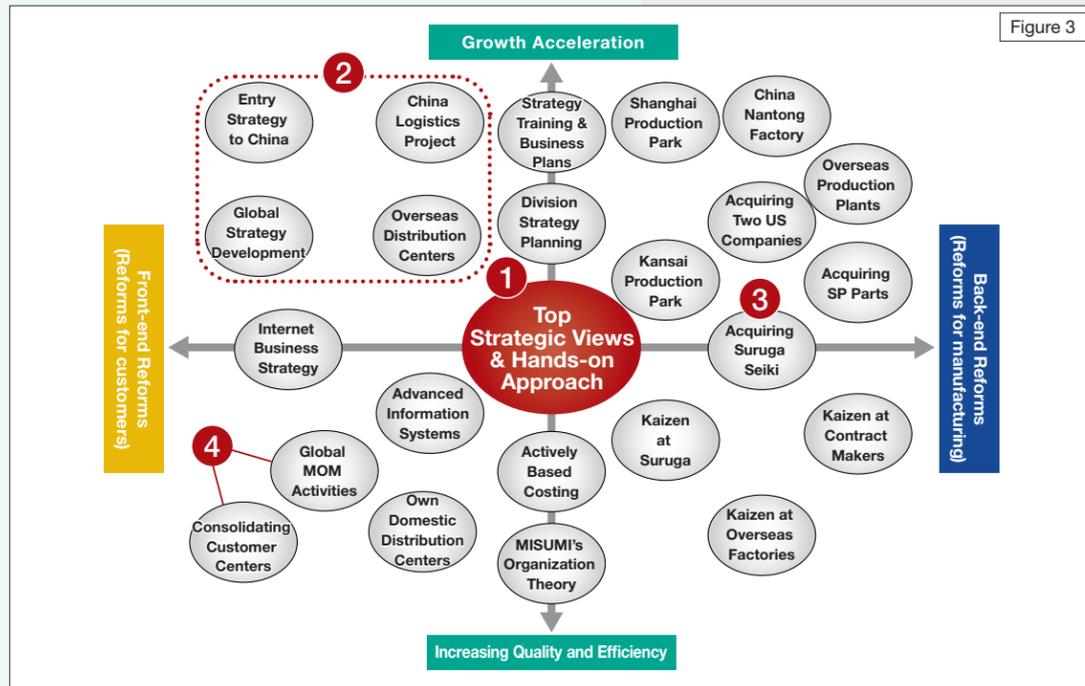
This chain of reforms implemented against the backdrop of these challenges is what made it possible for MISUMI to become stronger and achieve substantial growth.

The important measures will be introduced on subsequent pages.



Management Challenges of the Second-Era Founding Period

Chain of Reforms on the Second-Era Founding Period



Each reform at top center in the strategy map found in Figure 3 above created a chain of reforms where reforms linked with other reforms to enhance value and usher in the next set of reforms. This resulted in the continual evolution of MISUMI as a whole under the total time-based strategy.

This process of continuously pursuing this time-based strategy paved the way for MISUMI's mission statement of "It's All About Time."



Chairman Emeritus
Second-Era Founder
Tadashi Saegusa

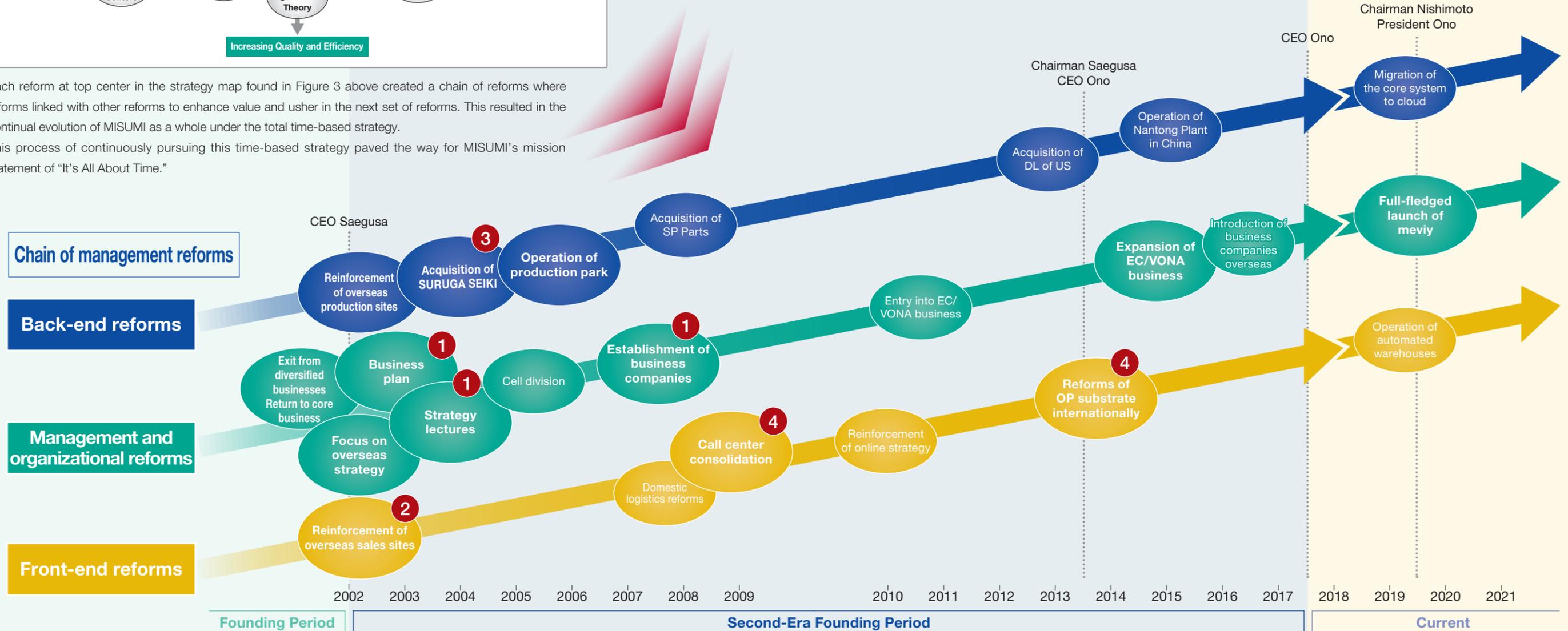
In 2002, Tadashi Saegusa took over as CEO of MISUMI Group Inc. with the hope of leading one last company in his career and fostering human resources for management.

In order to turn the MISUMI Group into a world leader, Saegusa launched a chain of reforms. Although his efforts were met with many difficulties, MISUMI realized significant growth by overcoming these challenges.

Saegusa stated that the reason for the MISUMI Group to have such success was that it strived to become more strategically oriented in every way, under the philosophy and thorough implementation of "focusing on human resource development first, which will be followed by business results."

In order to permeate the philosophy of strategic orientation, MISUMI implemented a variety of measures for fostering human resources, which gave rise to what is known as the company's second-era founding.

The current management team is working toward the long-term growth of the MISUMI Group, aiming for a third-era founding that goes beyond the second.



Management Challenges of the Second-Era Founding Period

Important Measures behind the Corporate Transformation

(1) Everything starts with organizational and human resource reforms

To make MISUMI a strong company from its very core, Saegusa decided to steep the entire company in “strategy” at the same time as quickening the pace of “develop, manufacture and sell.”

Further details can be found in the second important framework discussed on page 6.

The Second Important Framework

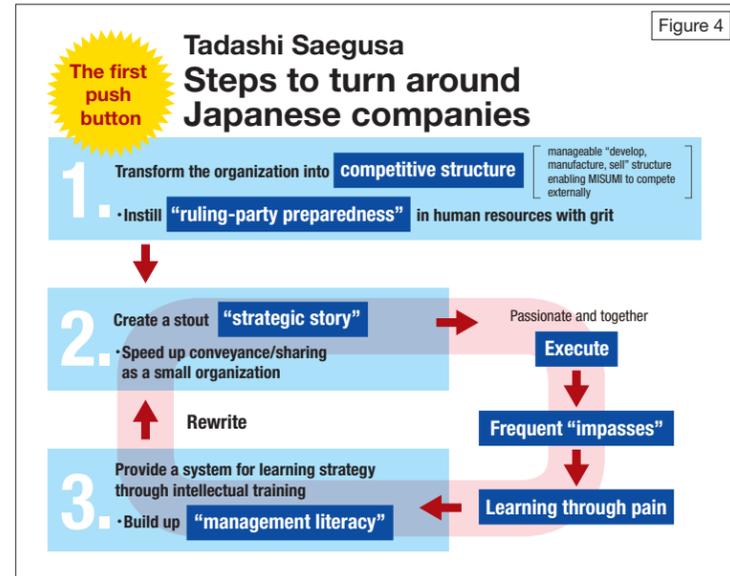


Figure 4 at left presents the theory behind the process of turning around Japanese companies left behind by international business trends that Saegusa developed through his more than 30 years of management experience. This process begins with transformation of the organization into competitive structure as per 1. and designing the organization so as to provide management leader with a full set of organization with manageable “develop, manufacture, and sell” functions.

The starting point (reform push button) is creating a situation to speed up business by greatly reducing organizational disconnects and adjustments.

In the case of MISUMI, this began with the business department system and cell division of the organization to maintain the small organizational size with one-stop functions for “develop, manufacture and sell” wherever possible, which in turn made it possible for individual organization heads to create a condition for “competing externally.”

Meaning of Strategy Lectures

After transforming the organization into a competitive structure, the next step is to raise the bar of “management literacy” as per 3. in Figure 4. Essentially, organizational heads with heightened management capabilities are required to elevate their thinking skills in terms of strategy in order to correctly carry out organizational management entrusted to them.

In order to raise the bar of management literacy among MISUMI’s executive management team which lacked strategic thinking at the time, Saegusa took the initiative to launch and conduct so-called “Strategy Lecture” program targeting employees.

Saegusa himself headed up this program, personally conveying to employees the frameworks that he had learned through his own management experience.



74th Strategy Lecture held on March 24, 2015 (Day 94th)

On the day of the lecture, he would spend the entire day, from morning until evening, speaking passionately about the cornerstones of strategy. He also ran the lecture in an organized manner giving out homework before and after in order to increase its effectiveness.

He used PowerPoint presentations encompassing more than 600 slides to directly convey to participants his vivid, first-hand experiences in management and the theoretical philosophy behind management thinking. This empowered employees to think about strategy theoretically and acquire the required traits, establishing a rather unique human resources development curriculum rarely seen in the world.

This Strategy Lecture program continues today since launching in 2002. To date, the Strategy Lecture has been held more than 140 days.

The Strategy Lecture continues to function as an important program vital to the formation of strategic thinking among MISUMI’s employees.

Implementation Using Business Plans

After transforming the organization into competitive structure as per 1. and building up management literacy as per 3. in Figure 4 at left, the next step is to create a stout strategy story.

The previous step of the corporate turnaround is step 1, which creates an environment that makes it possible to speed up the basic business cycle of “develop, manufacture, and sell” using a smaller organization than before the reforms with greater discretion and authority. In step 3, management is able to enhance its literacy.

Next, with these as the foundation, employees develop and execute their own business plans while tackling their own challenges using a bottom-up approach.

MISUMI has introduced a system where the head of each organization carefully crafts the business plan for their own organization, and then this plan is firmed up theoretically based on deliberations with senior management. Once approved through these deliberations, the business plan is left to the discretion of each organization head who is permitted to carry out their own activities within this discretion.

Next is the implementation stage when each organization head works toward achieving their plan. However, things do not always go according to plan, and through ongoing planning and execution, organization heads can revise their direction, which provides them with the opportunity to build management experience.

This mechanism is an extremely unique approach to management that blends together organizational theory, strategic theory and passion; so that today part of the cornerstone of this approach is made available externally through public lectures.

Through this two-pronged approach of strong organization and built-up management literacy, employees are able to repeat the process of developing and implementing strategies according to their own passion, which improves management capabilities and makes the company stronger.

Saegusa positioned the Strategy Lecture (desk-top learning) program and business planning (real world implementation) as the company’s core management system, working over the years to improve and evolve his approach continuously.

Decentralized Management Using Business Companies

A major initiative within this process was the business company structure indicated in Figure 5 at right introduced in FY2007.

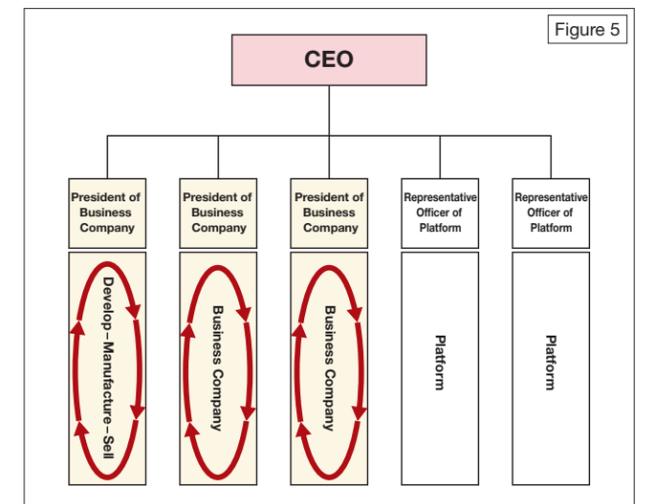
Saegusa became strongly aware of the need for decentralization at MISUMI where a high rate of growth had continued since 2002. After carefully examining several options, he decided to introduce a business company system unique to MISUMI.

This organizational system restructured the size of the company’s organizations into business companies to speed up the basic cycle of business, assign organizational heads with the role and authority to “develop, manufacture, and sell,” and enable highly self-led activities with a strong sense of doing business as an independent business company.

The heads of these entities were given the title of president (representative officer for platform organizations) to broadly delegate authority and promote independent management.

This provided each business company with a competitive size and authority to complement the built-up management literacy, resulting in an organizational format where presidents of these business companies can develop and implement their own business plans.

Initially, there were three business companies and two platforms, but today this number has increased to ten business companies and six platforms.



Management Challenges of the Second-Era Founding Period

Important Measures behind the Corporate Transformation

(2) Strengthen and expand internationally competitive business foundation

Since 2002, MISUMI has rapidly increased its overseas sales, logistics, and manufacturing bases to accelerate its overseas strategy. The number of overseas locations has grown from seven during the founding period to 84 during the second-era founding period as a result of proactive expansion. Today, this number stands at 88 locations.

During this time, the ratio of overseas sales has increased from as little as 9% during the founding period to 47% during the second-era founding period, and today, this ratio has reached 50%.

MISUMI's global growth would not have been possible without this active expansion during the second-era founding period.

Source of MISUMI's Business Strengths

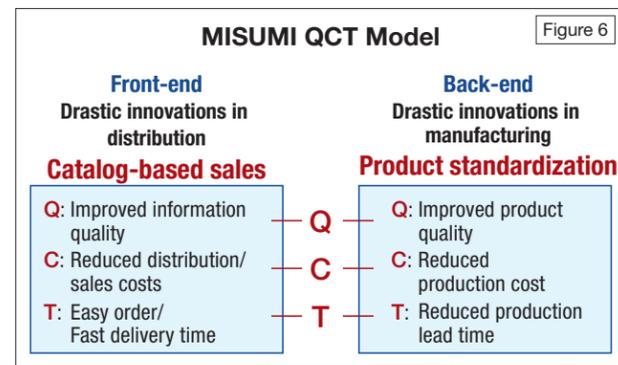


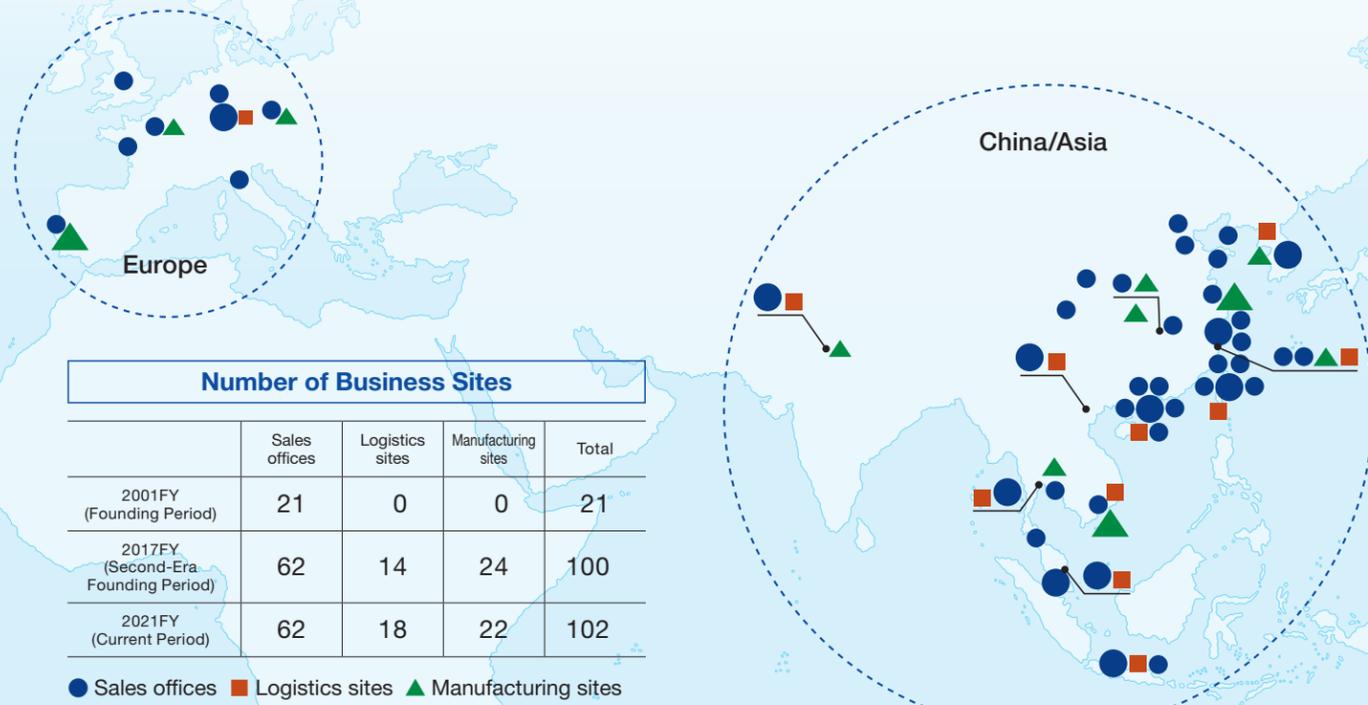
Figure 6 at left illustrates the MISUMI QCT Model, which Saegusa developed based on MISUMI's strengths when he took over as CEO. In this model, customers of MISUMI are defined as the frontend (FE) and partner manufacturers are defined as the backend (BE). The model identifies the mechanism of QCT (high quality, cost and quick delivery time) for customers.

A strong business should have innovation in either their FE or BE, and if innovation is occurring in both FE and BE, then a company will be even more competitive.

MISUMI's past success with simultaneously achieving innovation in both FE through catalog sales (today this includes e-commerce) and

BE through product standardization is the source of MISUMI's strength. This framework informs our employees about the new rules of success.

This framework has also been frequently referenced during the course of measures to strengthen business and operations.



Global Expansion of MISUMI's QCT Model

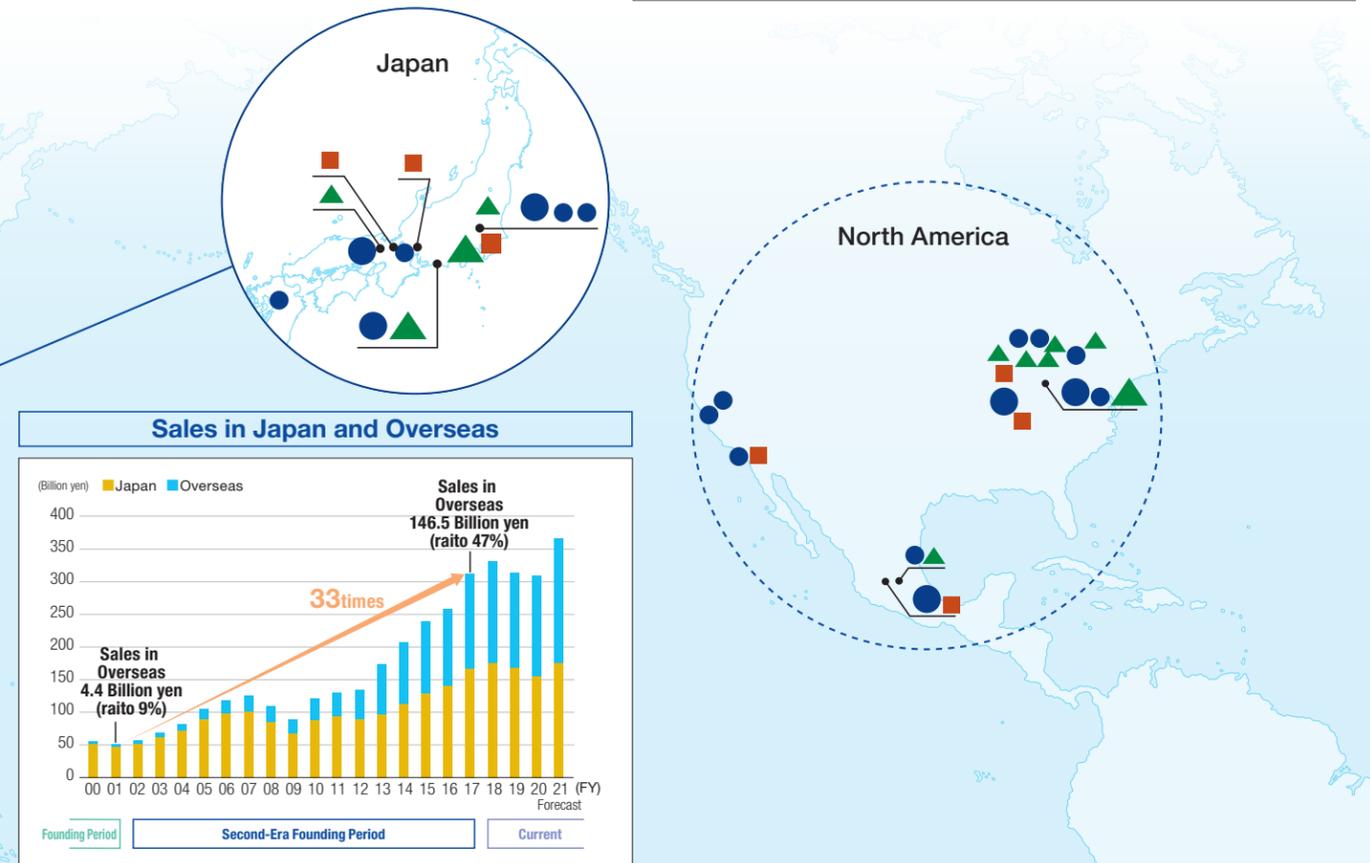
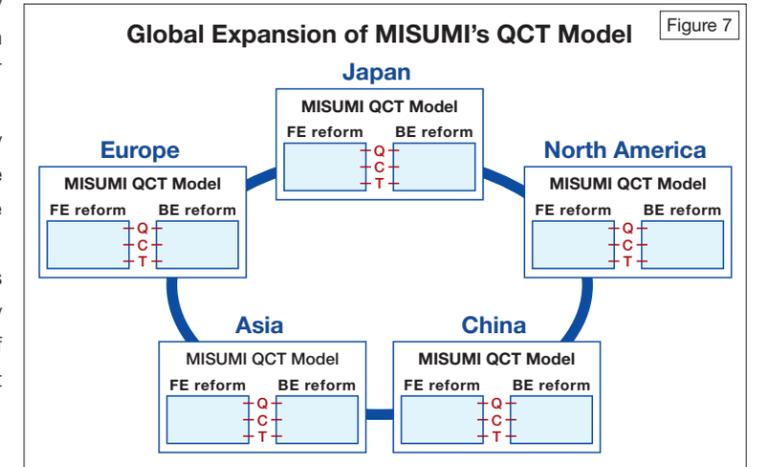
With the MISUMI QCT Model presented, Saegusa began to inspect overseas business as part of his strategy to expand internationally. In 2002, MISUMI's overseas development was still in its infancy. Even though sales organizations were present locally, their operations remained very small; for example, taking orders and answering inquiries only.

With product delivery reliant upon exports from Japan, MISUMI was content with having an overseas business model that was of a completely different caliber than the QCT model which achieved success in Japan.

In order to rapidly turn the situation around, Saegusa implemented a major policy that requires all conditions of MISUMI's QCT Model to be met as a whole in foreign countries where the company operates as part of the overseas strategy. This was addition to announcing the philosophy of "Global Expansion of QCT Model" as shown in Figure 7 at right.

Since then, MISUMI has worked to expand into each country with streamlined sales, logistics, and manufacturing, while developing a MISUMI QCT Model for each country to drive their respective business growth.

The strengthened overseas operational base based on this philosophy of expanding the MISUMI QCT Model globally has enabled the worldwide provision of MISUMI's value of reliably quick delivery, which has now become an important management asset of the Group.



Management Challenges of the Second-Era Founding Period

Important Measures behind the Corporate Transformation

(3) Production reforms for reliably and quick delivery globally

At the time when Saegusa took the reins as CEO, MISUMI was a fabless trading company without production functions, contrasting with the company's form today.

For this reason, while Saegusa was able to instill the concept of "develop, manufacture, and sell" at the core of MISUMI's management, the company lacked its own functions for the "manufacture" step.

To remedy this situation, Saegusa embarked on production reforms based on long-term and global perspectives.

MISUMI's Biggest Product Strength: MTO

MISUMI's product catalogs contain standard specifications for special order precision machine parts. Customers are able to order parts without providing drawings simply by selecting the dimensions and specifications from the standards table.

Part sizes can be selected in microns and when including variations, MISUMI offers an astounding total of 80 sextillion part configurations.

MISUMI's biggest strength is found in the series of processes enabling reliable quick delivery where an ordered product is immediately machined at the factory according to the correct dimensions. This process is referred to as Make to Order (MTO).

MTO reduces lead time for customers in terms of drawing preparation and quotations, but this requires production factories to deliver every order with reliable quick delivery. As such, efficient production is found difficult.

In the past, MISUMI did not own and operate a single factory and instead relied on partner factories for all of its production needs. This required us to request partner factories to reinforce their production functions.

Saegusa found that this lack of a "manufacture" function could be the single greatest constraint holding back MISUMI's business growth globally. He decided to take bold action.

First Business Reforms with SURUGA SEIKI Acquisition

The bold action to speed up the basic business cycle and reinforce the "manufacture" function of "develop, manufacture, and sell" was the acquisition of SURUGA SEIKI, one of the company's largest partner manufacturers.

The acquisition of SURUGA SEIKI was a major management decision that not only reinforced the production system and accelerated the overseas expansion of MISUMI, which until then had no production functions, it closed the curtain on the company's 40 years of history as a trading company and transformed MISUMI into a manufacturer.

By refining the "manufacture" function it had lacked before, MISUMI was able to undergo a total process transformation of "develop, manufacture, and sell" otherwise impossible as a trading company, which unlocked greater growth.

Difficulty of Production Reforms

Around the time of the SURUGA SEIKI acquisition, MISUMI had been working on fundamental production improvement activities targeting its main partner manufacturers.

The effects in achieving MISUMI's total process reforms would be limited if only reinforcing production targeting SURUGA SEIKI's products. This is because MISUMI needed to reinforce production of countless products including products made by other partner manufacturers.

Therefore, Saegusa introduced all-inclusive production improvement activities encompassing MISUMI's main partner manufacturers. Initially, efforts did not go according to plan, amid unfamiliarity in improvement activities on the MISUMI side and resistance from partner manufacturers.

Procedure for Ordering Components from MISUMI Catalogs

1 Select component type
(Shape, material, surface treatment)

2 Select designated dimensions

Model number generated

3 Order

TYPE	D	L	F-T	B-S	P-Q selection	SC	Z 1
SFAU	6	25~596	2&FSPx5	(For P&S) BSF-2	3 4 5	SC+4 1&L SC&D	8
	8	25~796					
	?	?		(For P=8/10) B-F-3			
	50	25~1,496	2&T&Qx5		16 20 24 30		20

TYPE
D
L
F
B
P
T
S
Q
SC

SFAU
8
396
F23
B21
P5
T28
S25
Q6
SC46

Production Reforms Starting from Lead Time Reduction

To remedy this situation, MISUMI made the bold decision to purchase industrial land in Kansai to open its own production park housed with partner manufacturers. This greatly sped up the pace of improvement activities at partner manufacturers.

At the same time, at SURUGA SEIKI, improvement activities first took place on a test line after narrowing down where to make production improvements. In turn, the results were shared directly with partner manufacturers.

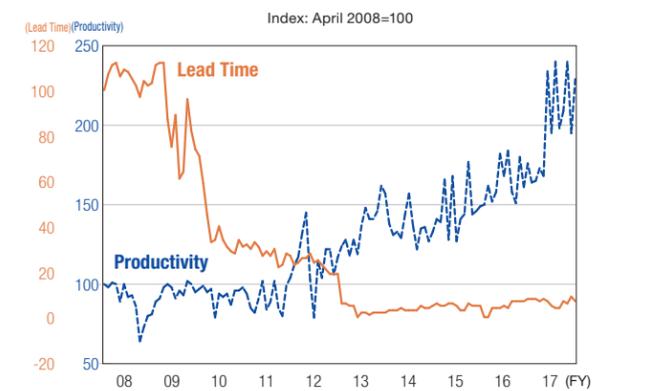
Through these initiatives, MISUMI began to make progress with production improvement activities which had been slow to develop until then. Efforts focused on shortening production lead time, a most critical issue for MISUMI and its requirement for reliable quick delivery, helped to spur on the improvement activities.

Saegusa, who was aware of the correlation between shortened lead time and lower costs based on his abundant management experience, directed focus be given to activities for shortening production lead time.

Based on this clear policy, diligent efforts were made to improve production and shorten lead time using the test line at SURUGA SEIKI, with the results leading to cost reduction. MISUMI also proactively shared initiatives and know-how with partner manufacturers, leading to the reinforcement of production across all of MISUMI's production floors.

Continuous improvement activities were sustained thereafter, resulting in the development of the MISUMI Production System (MPS) perfectly matched with the company's business characteristics, further reinforcing reliable quick delivery production.

Trends of Lead Time and Productivity for a Certain Product



Five-Pole Global Production Structure



* Dayton Lamina Corporation

Today, MPS, which was developed using trial and error on the test line in Japan, has been rolled out not only in Japan, but overseas as well, evolving into a five-pole global production structure.

Not only is production carried out at the factory closest to customers and products are supplied with reliable quick delivery, MPS also enables immediate switching of production factory in the case of a contingency. This greatly raises the bar of supply guarantees provided to customers.

The SURUGA SEIKI acquisition and production innovations involving partner manufacturers during the second-era founding period led to the total innovation of MISUMI's business and greatly contributed to the company's strengths today.

Management Challenges of the Second-Era Founding Period

Important Measures behind the Corporate Transformation

(4) Operational foundation reforms in a race against time

While MISUMI worked to reform production with the aim of total innovation, Saegusa decided to fundamentally transform call center operations, which had been operated mainly by outsourced companies or temporary employees, as with production, under the “asset-free sales” policy of the former president (founder).

From there, MISUMI drastically transformed its call centers, which serve as the largest contact point with customers, in terms of both quality (Q) and low cost (C).

Tribulations of Call Center Reform

While the call centers were operated separately at 13 locations throughout Japan at the time, operations were severely inefficient coupled with various issues due to the excessive outsourcing strategy.

The head office was also extremely indifferent to the call centers operated mainly by outside companies and temporary employees. There was in fact a disconnect in the basic cycle of “develop, manufacture, and sell” forming the fundamental of competitiveness between the head office and call centers.

Upon sensing the probability that MISUMI would gradually lose out to competition if this situation persisted, Saegusa embarked on reforms with the determination to solve the problem during his time as CEO.

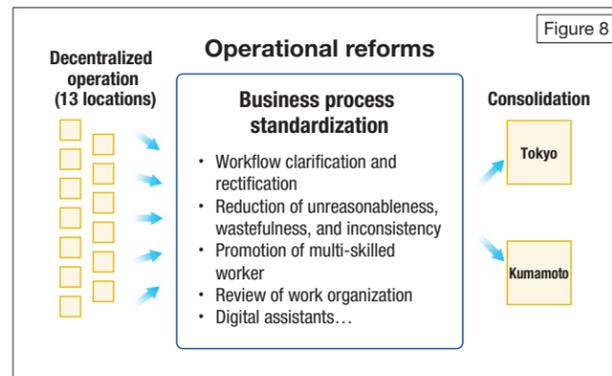
At the time, MISUMI implemented the policy to consolidate the 13 locations throughout Japan into two. However, the initial transfer was one of confusion due to the redundant business operations at each location caused by the lack of sufficient standardization.

Restart of Reforms

To address this confusion, MISUMI implemented thorough operational reforms at the same time as consolidation (see Figure 8), with “business process standardization” promoted in advance, forming the premise of consolidation.

In the operational reforms, MISUMI incorporated various methods inspired by the Toyota Production System in customer contact operations that are not at the factory. This drastically reformed the conventional way of doing business.

As a result of business process standardization, the progress in call center reform that had once failed improved largely, which enabled the steady consolidation of customer center operations into two locations.

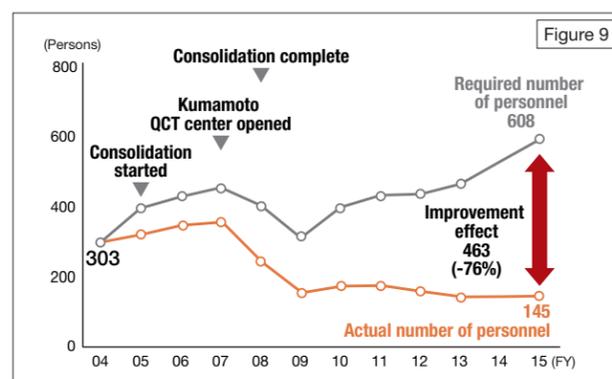


Outcomes of Reforms

Even though the road to customer center reform saw major failures and setbacks, an uncompromising spirit and efforts have resulted in positive results in the end.

As illustrated in Figure 9, the required number of personnel of 608, under the assumption that the previous structure continued, was reduced to 145 (76% reduction), generating positive effects from the personnel reduction of 463.

The operational know-how accumulated over many years of trial and error is now one of the intellectual properties of MISUMI that must be protected and a key supporting factor of MISUMI’s competitive advantage.



Global Expansion of MISUMI’s Operations

As MISUMI continues to grow overseas, there was a growing need to transplant the operational model developed in Japan to a more global stage.

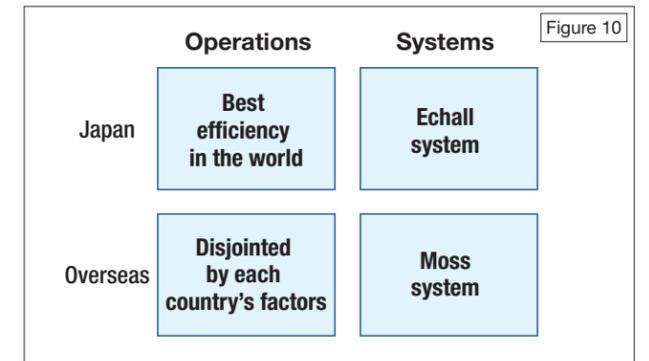
Based on his recognition of the need to bring the knowledge of good business quality (Q) and low cost (C) built up through various improvements and reforms undertaken in Japan to an international stage, Saegusa launched the MISUMI Operation Model (MOM) and rapidly implemented the total process of “develop, manufacture, and sell” in aiming to not only enhance local competitiveness in each country but also to elevate MISUMI’s global competitiveness.

At the time, as shown in Figure 10 at right, reform activities were launched in Japan ahead of the rest of the world. While business quality and operational costs in Japan were solid compared to overseas, these aspects differed by each country as a result of their different business practices and scale.

This elicited déjà vu of MISUMI’s customer center operations which had been spread across 13 locations in Japan.

The same held true for MISUMI’s core systems underpinning its operations, as systems varied between Japan and overseas.

The difficulty in addressing the disjointed work and different systems was assumed to be extremely high even among the many reforms implemented to date.



Major Concepts Breaking Through Difficulties

Given the preexisting conditions of different operations and systems, MISUMI’s global operation model reform was faced with a major challenge. Saegusa formed a unit to integrally promote the knowledge gained through the various innovations undertaken previously by combining customer centers, logistics and system departments, while setting out two clear policies.

The first policy was to make the most efficient model from Japan a global standard, while individually handling tasks unique to each country where the global standard did not apply.

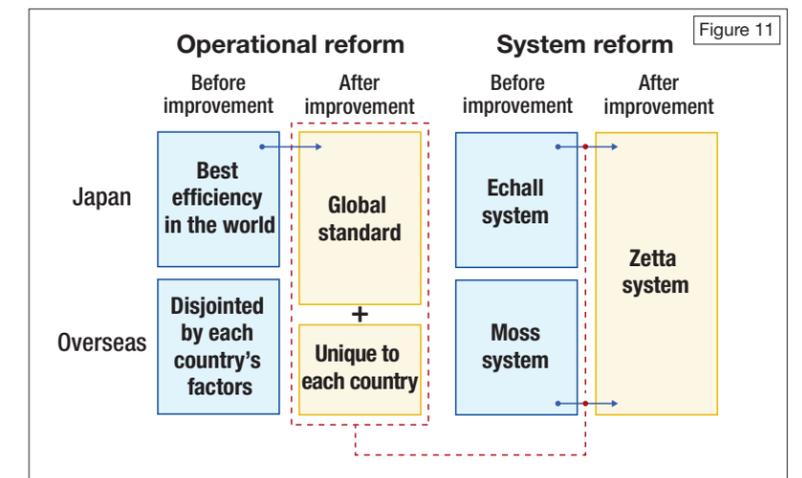
The second policy was to launch a renewed system to satisfy both functions of global business standards and country-specific requirements.

With a solid structure and clear policy, MISUMI’s operation were expanded globally at an accelerated speed, while the total operation was becoming stronger with each country brought online.

Without this concept, the efforts to reform operations globally would have been extremely difficult.

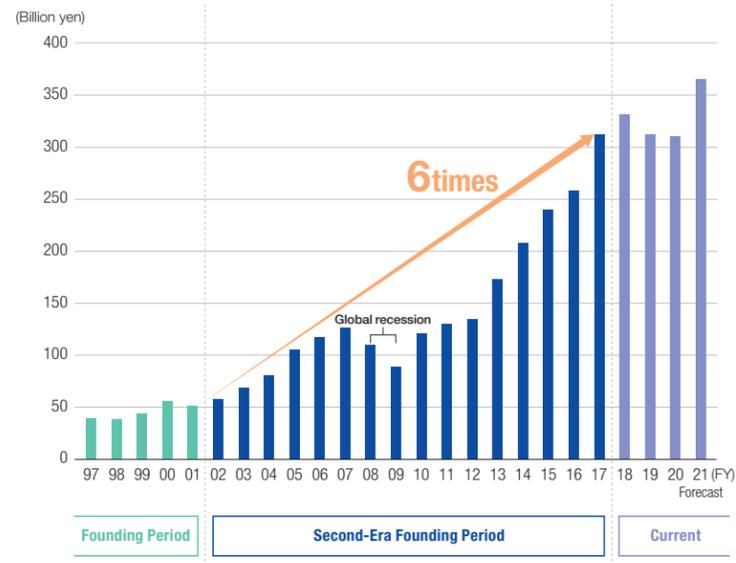
Under its solid structure, the project was developed over the span of four years spending a total of 10 billion yen. The global operation model was reformed by combining the the first floor, which is common to the global market, with the second floor, which is unique to each country.

The global rollout of the MISUMI Operation Model was a global reform made possible for the first time by the chain of reforms during the second-era founding period. It continues to function as a business foundation that supports MISUMI’s current global growth.



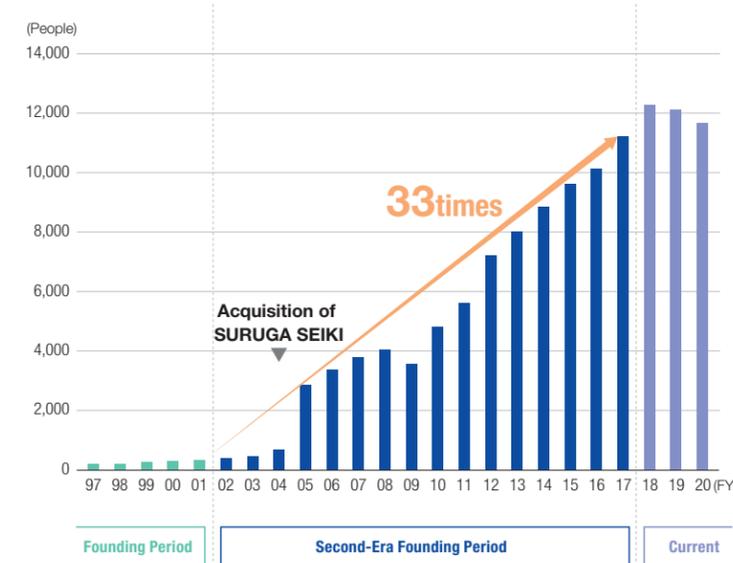
Growth Trajectory during the Second-Era Founding Period

Consolidated Net Sales



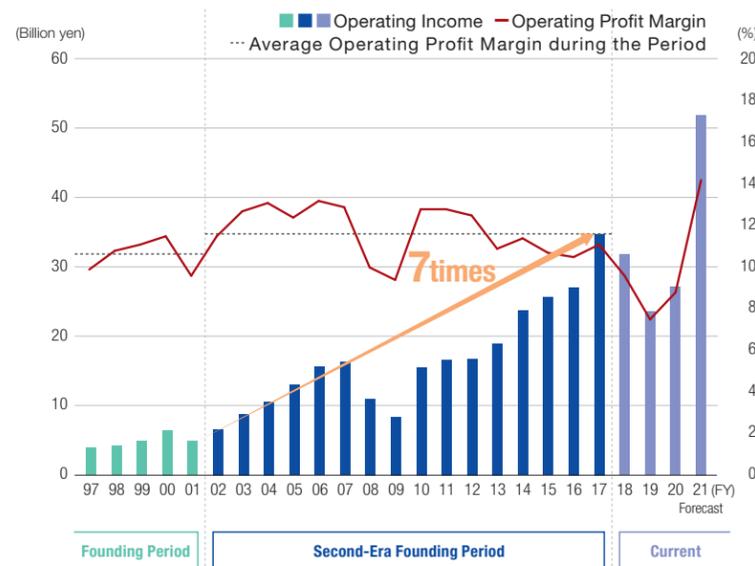
The MISUMI Group was transformed into a completely different entity through the chain of reforms initiated by Saegusa. In addition to high sales growth, MISUMI's business structure that was once relied upon domestic operations has evolved into a global operation where overseas sales account for 50% of total net sales following the company's global expansion. MISUMI's net sales reached the 50-billion-yen mark 40 years after its founding and continued to grow, with the exception of the Global Financial Crisis. Net sales have grown six-fold to 300 billion yen during the 16 years of the second-era founding period.

Number of Employees



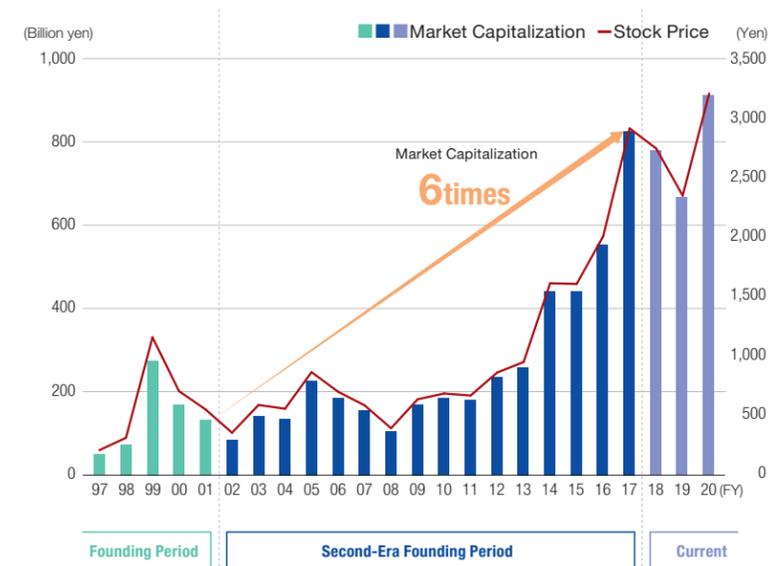
MISUMI's workforce has changed significantly in order to accelerate its fundamental commercial cycle of "develop, manufacture, and sell." With the transformation into a manufacturer following the acquisition of SURUGA SEIKI in 2004, the Group's workforce grew suddenly with most positions being production personnel overseas. MISUMI is also expanding organizations that support business growth. The Group's current workforce has grown significantly, increasing around 33 times compared to the founding period. This workforce is supporting MISUMI's business globally.

Operating Income



Operating income, too, grew with the Group's growth. The cost management structure adopted by Saegusa to more accurately evaluate strategy contributed to MISUMI's strong profit structure. While many companies have struggled to introduce the Activity Based Costing (ABC), MISUMI made it available for each employee to utilize. This move has not only empowered employees to visualize profit management by product and customer, but also facilitates a structure of planning and executing individual profit improvement measures. As a result, the Group has achieved a well-balanced growth between sales and profit.

Stock Price and Market Capitalization



Following its growth, the Group's reputation in the stock market has also greatly improved, resulting in significant growth in stock price, increasing approximately five times through the second-era founding period. The chain of reforms that transformed MISUMI into a brand new organization were well received by the stock market. As a result, corporate value has continued to increase. MISUMI's corporate value has grown its market capitalization has increased about six-fold, from 150 billion yen at the time of founding to 900 billion yen today.

Succession to Today

The time-based strategy which fundamentally evolved during the second-era founding period has been passed down to today's management team, which continues to refine MISUMI's sustained growth. Even today, under the banner of digital model shift, we are working to evolve the MISUMI model to create new time-based value in order to address the worldwide megatrends behind business innovation.

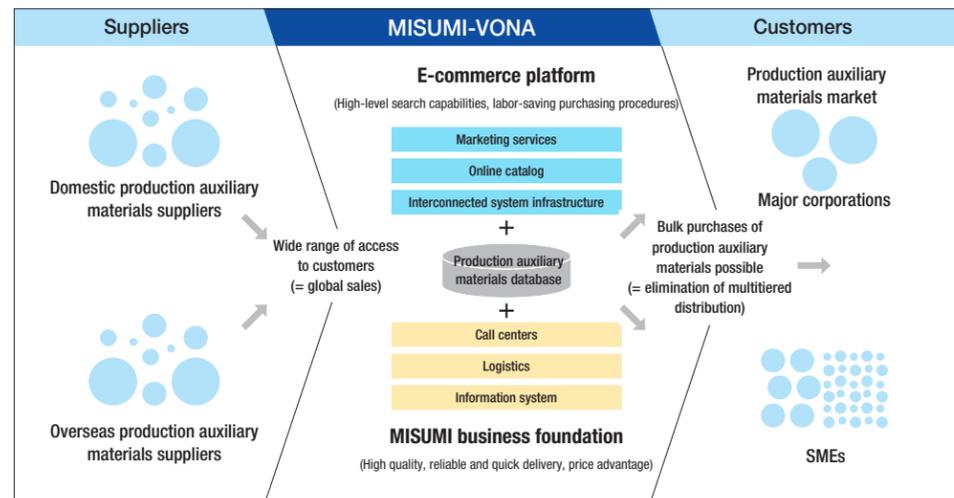


Kosuke Nishimoto
Representative Director and Chairman

Ryusei Ono
Representative Director and President

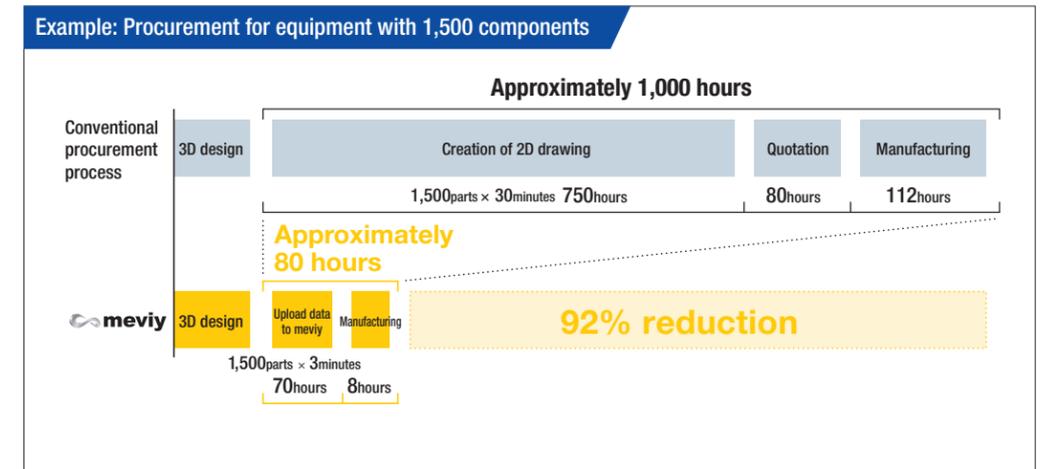
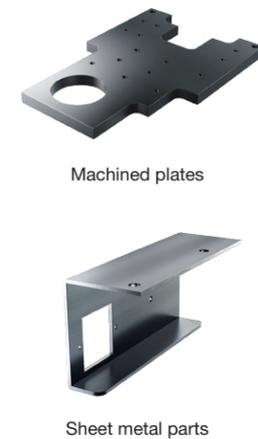
Distribution Innovation by VONA through the Second Round of Business Reforms

With the launch of the VONA Business in 2010, we ushered in our second round of business line reforms creating an e-commerce platform, which followed the first round of reforms into a manufacturer after the acquisition of SURUGA SEIKI in 2004. This VONA Business is a globally-connected e-commerce platform that meets the customer needs of wanting to procure various products used on the frontline of manufacturing and factory automation efficiently in one stop and the needs of manufacturers of factory automation related indirect materials wanting to expand sales channels outside of their existing sales networks as suppliers. In addition to MISUMI brand products, the VONA Business carries third-party brands manufacturing secondary material and consumables such as tools and gloves. Today, we do business with 3,000 manufacturers and carry a huge lineup of more than 30 million products, with the e-commerce website available in 16 countries and localized into 12 languages. Going forward, to achieve the commitment found in the brand name VONA (Variation & One-stop by New Alliance), we will seek to further increase the brands carried and expand the product lineup, as well as aim to expand the business globally through the continuous evolution of our e-commerce website.



Procurement Reforms Driven by meviy

Meviy is the name of our machine part procurement service that uses AI in shape confirmation and pricing calculations to deliver instant quotations and shipment in as little as one day simply by having customers upload their 3D-CAD design data. 3D-CAD is being used more and more in the design of factory automation equipment, yet many inefficiencies remain in the parts procurement process, including reliance on manual work in preparation of drawings, requests for estimates, delivery confirmation, and negotiations. MISUMI is resolving these issues with the "meviy" service, representing a digital revolution in parts procurement. This service enables no-hassle procurement simply using data even for complex parts difficult to feature in catalogs. The meviy service delivers instant quotations and ordering simply by uploading 3D part design data, with shipment in as little as one day, representing a new business that would not have been possible without the chain of reforms during the second-era founding period. Through meviy, we hope to develop a platform where machine parts can be procured easily from anywhere in the world to deliver greater "time-based value" to our customers.



Operational Innovations at Warehouses

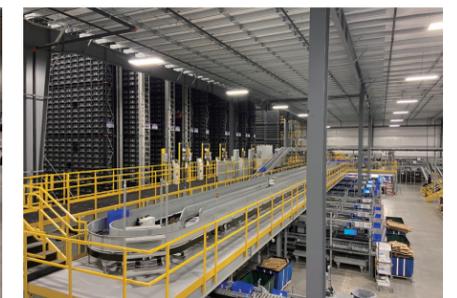
Our logistics foundation standing at the heart of the MISUMI model is undergoing a major evolution from the shift to a digital business model. In 2017, we introduced cutting edge automated operations with the opening of the Central Japan Distribution Center in Aichi Prefecture, building a model for global expansion in the process. We have rolled out this model, which boosts productivity by more than 50% compared to conventional operations, in Europe and the United States, and next, we plan to do so in China and at the East Japan Distribution Center in Kanagawa Prefecture. Demand for reliable quick delivery is growing around the world. This requires sustained evolution in logistics operations to keep pace more so than before.



Central Japan (Aichi)



Europe (Germany)



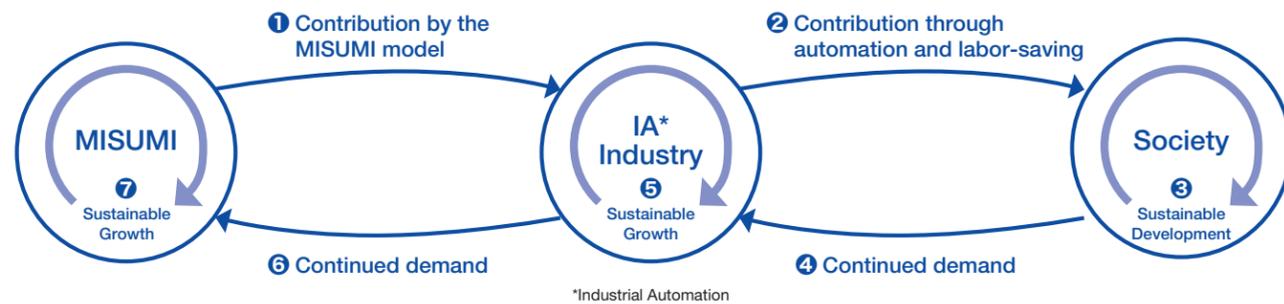
U.S.A (Ohio)

Basic Policy of Sustainability

MISUMI Group has developed a unique business model which encompasses businesses like "FA" and "Die components" with business like "VONA" which distributes a wide range of products from production auxiliary materials to consumables.

Our business is focused on the industrial automation industry. We contribute to eliminating inefficiencies in this industry by helping customers and suppliers eliminate waste of all kinds. In addition, the industrial automation industry has realized automation and labor-saving of various economic activities and is indispensable in contributing to the sustainable development of society. The sustainable development of society creates demand in the industrial sector, creating new opportunities for MISUMI.

By contributing to the establishment of this cycle, the MISUMI Group aims to support the sustainable development of society and industry and achieve sustainable growth for the company itself.



Our approach to sustainability

We contribute to the development of the industrial automation industry by eliminating inefficiencies in total supply chain and entire business processes from the perspective of "time". We have built a supply chain that serves more than 300,000 customers globally. We provide "time value" that reduces various wastes and man-hours in the industrial world by realizing "reliable and quick delivery". To continuously improve the value of time, we are constantly evolving and developing our business models, including businesses, products, and services. At the same time, we are working to strengthen our business infrastructure, including production, logistics, and IT, and the establishment of human resources infrastructure to support these business models.

Initiatives to support the sustainable growth of the industrial automation industry

The parts of automation equipment and devices are unique. Creating drawings, quotations, processing, and procuring parts are complicated and require extended delivery times, resulting in highly inefficient work. By standardizing the parts to be manufactured to order for automation equipment and devices, we eliminate the need to create drawings and significantly reduce the time spent on inefficient work for our customers. In addition, by realizing reliable, quick delivery on a global scale, even for a single part, we can reduce unnecessary inventory and eliminate production and operation opportunity losses. Furthermore, by providing digital services linked to 3D CAD, we have reduced the amount of waste and man-hours involved in the procurement process by approximately 90%, reducing energy consumption. We have also contributed to promoting the effective use of resources by eliminating paper drawings.

We will continue to contribute to the sustainable development of society through "time innovation" in the industrial automation industry.

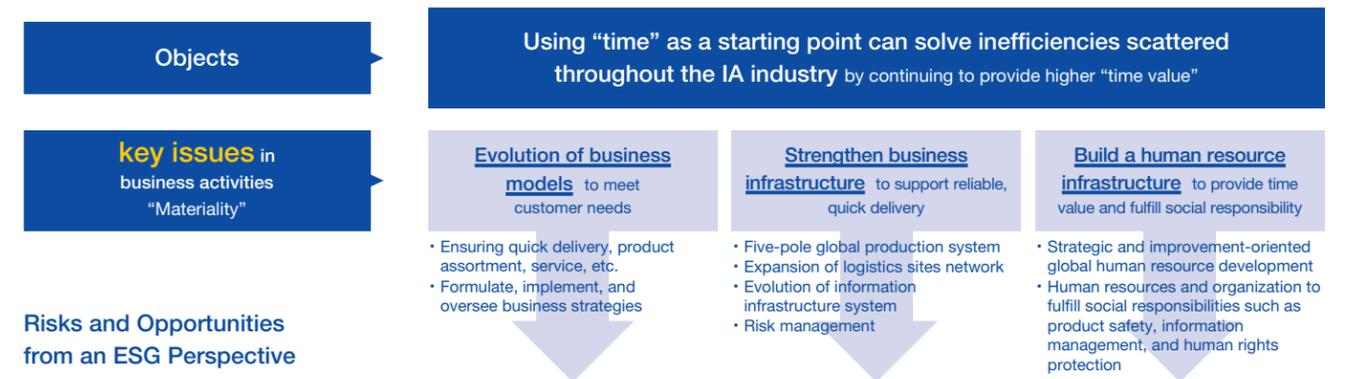
Contributing to the Sustainable Development of Society

Our business development provides added value that reduces resource input and consumption in the industrial automation industry. By fundamentally eliminating all kinds of "waste" for our customers and suppliers, we contribute to accelerating the transition from conventional mass production, mass consumption, and mass disposal to a circular economy.

In addition, we are actively adapting to ESG promotion, which is a social demand, and we strive to prevent global warming and other climate changes through our business activities. In addition to our own company, we respect the diversity of cultures, histories, human rights, and human resources in the countries where our customers and suppliers are involved. We will continue to contribute to developing a sustainable society in cooperation with our stakeholders.

Our Key Issues in Sustainability

- In determining the key issues, we identify the most important issues for the sustainable growth of our business activities. We set out the issues for our business as well as the issues for fulfilling our social responsibilities for each issue.
- In addition, risks and opportunities associated with key issues are extracted from the many issues from an ESG perspective.
- Based on the process described above, the key issues decided through discussions at the Board of Directors meeting.



Risks and Opportunities from an ESG Perspective

ESG Category	Key Issues	Risks	Opportunities
Environment	Climate change Resource depletion Air pollution, etc.	Risk: Impact on IA industrial activities and execution of MISUMI's business strategy	Opportunity: Increasing demand for automation Labor productivity reform and efficiency demands
		Risk: Impact on MISUMI's supply chain (Threat to the continuity of reliable, quick delivery)	
Society	Product quality and safety A decline in the working population Human rights protection Data security	Risk: Restrictions on supplier transactions, product assortment	Opportunity: Diversification of automated equipment components due to globalization and blocking
		Risk: Increased production costs, product assortment	Opportunity: Interest in products and services to solve social issues Importance of human capital such as specific knowledge
		Risk: Under-utilization of human resources Supplier human rights protection	
Governance	Corporate governance Ethical behavior Stakeholder engagement	Risk: Execution and oversight of MISUMI's business strategy	Opportunity: Increased need for BCP measures
		Risk: Technology threats to information assets	

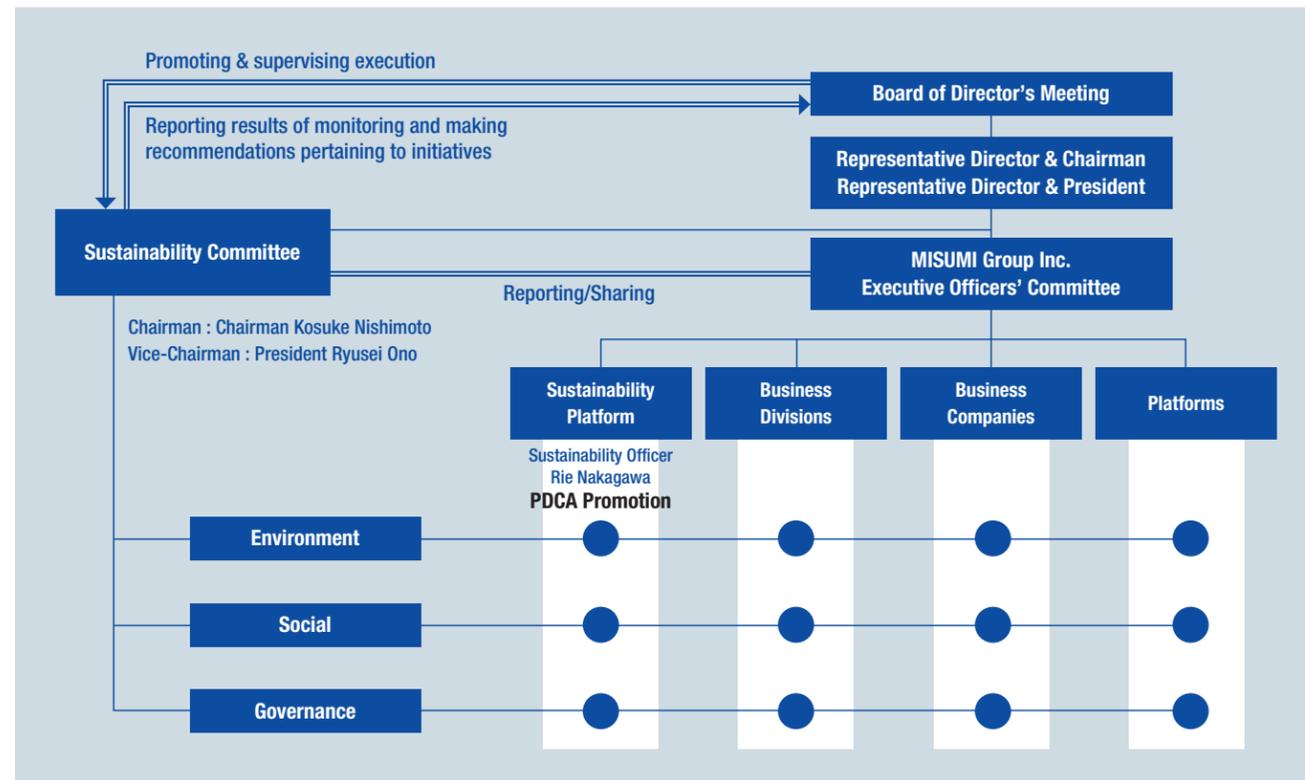
Establishment of the Sustainability Committee

MISUMI Group Inc. has resolved at the Board of Directors meeting to establish a “Sustainability Committee” from October 1, 2021, chaired by the Representative Director and Chairman, the Representative Director and President as Vice-Chairman, to further strengthen its sustainability initiatives.

This Committee formulates the basic sustainability policy of the Company, verifies the management plan and management policy, reports and makes recommendations regarding initiatives that address social issues to the Board of Directors.

To promote ESG management horizontally across the entire Group, the Sustainability Committee, under the supervision of the Board of Directors, appointed officer in charge of sustainability promotion, cooperates with Business Divisions, Business Companies, and Platforms which are the Group’s executive organizations to monitor ESG-related goal setting, progress, and evaluations, etc. and continue to develop sustainability initiatives.

Sustainability Management System



Supporting the Task Force on Climate-related Financial Disclosure (TCFD) Recommendations

MISUMI Group Inc. declared its support for the TCFD recommendations established by the Financial Stability Board, and its participation in the “TCFD Consortium” organized by companies that support TCFD recommendations.



Environmental Initiatives

MISUMI Group's Basic Environmental Policy

Our business development provides added value that reduces resource input and consumption in the industrial automation industry. By fundamentally eliminating all forms of “waste” for our customers and suppliers, we contribute to accelerating the transition from conventional mass production, mass consumption, and mass disposal to a circular economy.

We will work to prevent global warming and other climate change measures through our business activities, manage and implement environmental measures in the total supply chain, including suppliers, and promote environmental management that includes product quality and safety.

MISUMI Group Inc. and its operating companies' environmental efforts are based on the following policies.

1. Reduce social/environmental impact and prevent pollution in business activities
2. Comply with environmental laws, regulations, and other requirements
3. Regularly review environmental goals and continuously improve on them

*Our activities comply with ISO 14001: 2015

Environmental Promotion Structure

Efforts to address environmental issues focus on environmental policy formulation, GHG emissions, toxic substances, water resources, waste, and environmentally conscious products. The Sustainability Committee cooperates with Business Divisions, Business Companies, and Platforms, which are the Group’s executive organizations, to monitor progress and evaluations and develop sustainability initiatives.

Climate Change Initiatives (Align with TCFD, Greenhouse Gas (GHG) Emissions)

Approach to Climate Change Initiatives

In September 2021, we declared its support for the TCFD recommendations. In the same month, we announced our participation in the TCFD Consortium, an organization of companies that support TCFD recommendations. As part of our initiatives to address climate change, we have begun to develop strategies conducting analyses based on 1.5/2°C scenarios and 4°C scenarios focusing on our high-impact manufacturing business, identifying transition risks, physical risks, and opportunities for each scenario and evaluate impact upon our business.

Going forward, we will establish a risk management process for identifying, assessing, and reducing the risks of climate change, quantify the assessment of risks and opportunities, and develop a mechanism for evaluating progress, which will be disclosed sequentially.

We will continue to enhance information disclosure related to climate change in line with the TCFD framework and contribute to the development of a sustainable society by taking measures responding to climate change, such as global warming through our business activities.

Governance

The Board of Directors regularly discusses the Company’s measures to address climate change. In October 2021, the Sustainability Committee was established, chaired by the Representative Director and Chairman, the Representative Director and President as Vice-Chairman. The committee formulates the basic sustainability policy of the Company, verifies the management plans and policies, promotes initiatives to address social issues, and reports and makes recommendations to the Board of Directors. Under the supervision of the Board of Directors, the Sustainability Committee will set targets, monitor, evaluate progress, and continue to work on measures to address climate change in cooperation with the Group’s executive organizations, such as Business Divisions, Business Companies, and Platforms.

Energy consumption and greenhouse gas (GHG) emissions of MISUMI Group

Input		Unit	FY2019	FY2020
Energy consumption	Grid-connected Electric Power	MWh	118,697	113,397
	Gasoline	kℓ	986	819
	Diesel	kℓ	203	151
	Kerosene	kℓ	9	13
	LPG	t	68	62
	LNG	t	2,036	1,781
	City gas	Thousand m ³	819	587
Output		Unit	FY2019	FY2020
CO ₂ emissions	Scope1	Thousand t-CO ₂	10	9
	Scope2	Thousand t-CO ₂	65	62
Total		Thousand t-CO₂	76	70

*1 Scope1 emissions: Unit calorific value and emission factors are based on the Law Concerning the Promotion of the Measures to Cope with Global Warming (Japan).

These Japanese values/factors also apply to sites outside Japan.

*2 Scope2 emissions: Location-based figures. Emission factors for electricity are based on country-specific factors from "IEA Emission Factors" (IEA)

*3 Calculated GHGs: CO₂ emissions from energy use (Other GHGs (6.5 gases) are out of scope)

*4 Boundary: MISUMI Group Inc. and subsidiaries (36 companies inside/outside Japan). 37 companies in total.

Initiatives in Procurement of Products / Parts

We are expanding green procurement initiatives and offer environmentally friendly products (finished products, semi-finished products, parts, raw materials, auxiliary materials, packaging and wrapping materials) in order to meet the various environmental demands of customers.

Advancing Green Procurement Activities

MISUMI and Suruga Production Platform has formulated Green Procurement Guidelines to observe the legal restrictions and other requirements concerning environmental chemical substances, playing a part in the building of a recycling based society. We are advancing green procurement activities on these basis. With the cooperation and understanding of all our cooperative manufacturers/ suppliers, we are continuously expanding our efforts and aiming to eliminate the use of environmental chemical substances in our products.

Survey of Environmental Chemical Substances Content

Controls over environmental chemical substances are tightening each year under the Restriction of Hazardous Substances (RoHS) Directive in Europe and similar directives in China, as well as Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) Directive in Europe. MISUMI Group recognizes that management of environmental chemical substances is an important factor in a customer's product selection. As such, MISUMI Group has been testing product content based on RoHS and REACH and discloses RoHS Directive compliance in its catalogs and on its website.



Single Axis Unit (FA Businesses)

RoHS Compliance

MISUMI Group puts "RoHS compliant product" mark on its catalogs to guarantee that it is a compliant product. To guarantee that the product is compatible, we carry out self-inspection of products and periodic supplier surveys based on strict internal control standards.



Expanding Lineup of Environmentally Conscious Products

Concern about reducing environmental load is increasing globally, and MISUMI Group is also experiencing stronger customer interest in environmentally conscious products. One example of our response to such customer needs is our non-halogen-type cable (electric wiring). Non-halogen-type cable does not produce harmful halogen gases when the cable is incinerated upon disposal, and its use is expected to grow in the future. We currently carry not only MISUMI brand products, but also third-party brands, and our selection continues to expand. MISUMI Group will continue to build its product lineup as the use of environmentally conscious products becomes more popular.



Non-halogen-type cable (electrical wiring)

Environmental ISO Activities in SURUGA Production Platform

Initiatives for Environmental Activities

As a global company, SURUGA Production Platform is firmly aware of its social responsibilities and has agreed to comply with environment-related laws and regulations, and other requirements.

We promote a sustainable society through environmental activities under the slogan "Coexistence of Technology and Ecology". Therefore, we established the following "Environmental Policy" and strive in our business activities to achieve these goals.

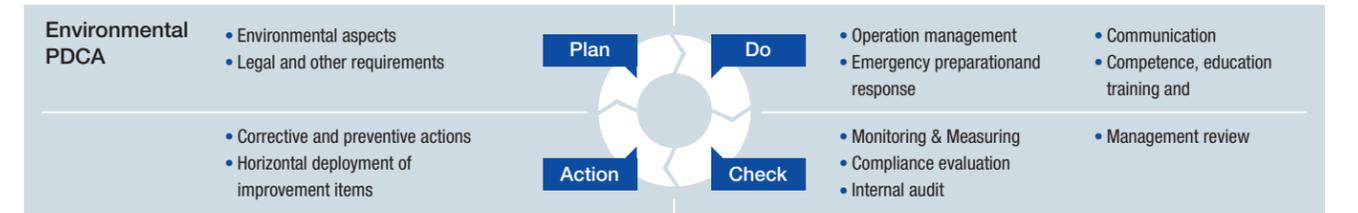
Environmental policy

1. Compliance with domestic and international environment-related laws and regulations and other requirements
2. Reduction of CO₂ emissions in production activities
3. Initiatives to control waste generation and recycling
4. Product development and production activities with low environmental impact
5. Prevention of environmental pollution
 - 1) Leakage of oils and harmful substances
 - 2) Leakage of noise from the site boundary

Environmental management



*Production sites within the dotted box is expected to receive certification



Initiatives for environmental activities

Reduction of waste emissions

In order to promote recycling, waste is properly separated and the company-wide recycling rate is maintained at over 80%. We are also working on introducing new equipment and making process improvements in order to reduce the loss from defects that occur during the manufacturing process.



Promoting paperless by introducing mobile tablets

We are striving towards a paperless work environment through digitizing data for package pick-up and manufacturing instructions as well as introducing mobile tablets. We've achieved waste reduction and business improvement by making it paperless through reducing the number of documents and halving the number of records; other effects are to be expected in the future.



Compliance with the RoHS Directive / Green Procurement

In order to comply with the RoHS Directive and green procurement, we examine restrictions and banned substances of materials and parts for each business segment and promote substitutions accordingly. For example, precision positioning stages are being adapted by replacing brass components with low-cadmium materials. We are planning to sell compliant products one after another, along with special order products. In addition, in terms of our corporate activities, we recognize that global environmental preservation is of the utmost importance for earth and will act with sincerity to protect and improve the global environment.



Social Initiatives

Procurement of Materials



Procurement Effort by SURUGA Production Platform

At the Procurement Division of SURUGA Production Platform, we have purchased and secured a wide range of components, materials, parts, and equipment for our products that we provide in our Factory Automation, Die & Mold (Press and mold manufacturing), and Optical & Scientific Technology (OST) manufacturing businesses. We will tirelessly seek to procure all the materials and parts, based on our fundamental policy of "Seeking Optimal Procurement."

Procurement Policy

Transparent Open-Door Policy

In order to ensure procurement of components, materials, parts, and equipment, we have sought appropriate suppliers worldwide fairly and equitably.

In our selection of suppliers, we take into consideration the comprehensive corporate competence, including the organizational ability to make continuous improvement efforts, and the level of technology; along with quality (performance), costs (value), and delivery (scheduled date/ time).

Mutual Trust and Mutual Advancement

We are eager to promote mutual advancement as well as to build a solid relationship of trust through close communication with our suppliers.

Environmental Consideration

By promoting environment-friendly development, design, and manufacturing activities, we will contribute to our society through encouraging 'green' procurement to reduce environmental impact.

Regulatory Compliance and Maintaining Confidentiality

We promise to comply with laws and regulations related to procurement and take full measures to keep the information we collect confidential.

Respect for Human Rights

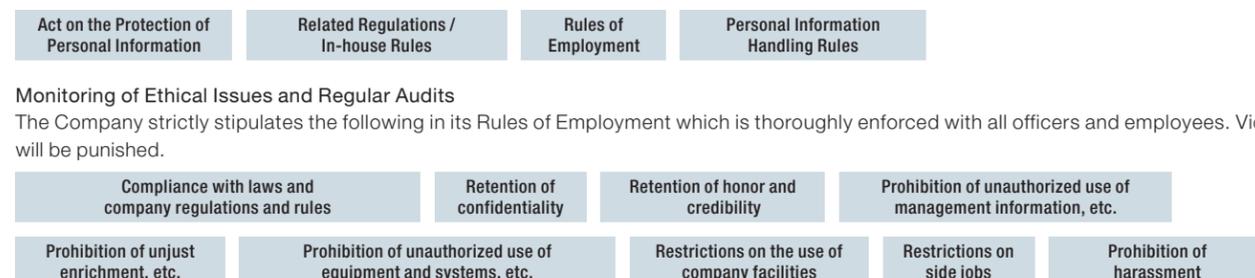
- MISUMI Group companies respect the human rights of executives and employees to the maximum extent possible, realizing and cultivating a safe and friendly work environment.
- Executives and employees will take the initiative to cooperate in realizing and cultivating a safe and friendly work environment.
- We will not discriminate against, harass, or violate the human rights of any of our stakeholders, including executives and employees, for any reason, including race, nationality, gender, religion, creed, birth, age, or physical disability.

Providing a Safe and Friendly Work Environment

Try to provide safe and rewarding work environment to all the executives and employees, both in Japan and overseas, in compliance with the relevant or equivalent laws pertaining to health and safety.

Prevention of Divulgence of Personal Information

Personal Information obtained through the course of business activities will ONLY be used for the purposes of the business activities. Information disclosure will not take place to any third party without the prior consent of the individual, by thorough management.



Monitoring of Ethical Issues and Regular Audits

The Company strictly stipulates the following in its Rules of Employment which is thoroughly enforced with all officers and employees. Violators will be punished.

In addition to providing guidance and education to subordinates through the reporting line, the company is also focusing on discovering violations through the whistleblowing system. Responding to cases of work rule violations, decisions will be made at the "Human Resources Compliance Meeting" in which the Chairman and President participate, and results will be disclosed internally.

In addition, we also manage in-house information through security patrols.

Diversity and Inclusion

MISUMI Group recruits, trains, and promotes human resources at each of its global locations, emphasizing diversity in terms of background, skills, gender, and nationality, as well as equal opportunities.

For example, as of November 2021, MISUMI Group Inc. and MISUMI Corporation in Japan have achieved a diverse employee composition with 56% male and 44% female employees, 17% new graduates and 83% mid-career hires, 13% female managers, and employees from 20 countries.

MISUMI Group has been promoting diversity, especially in female empowerment, and the ratio of male to female employees globally is 65%:35%, and the percentage of female managers is currently 23%.

Globally, we encourage and implement remote work, adopting flexible working hours, and promoting women to management positions, further strengthening diversity, especially in expanding opportunities for women to play an active role.

Harassment Prevention Policy

Since 2017, MISUMI Group Inc. as a whole has declared "No Harassment" and ensured that all Group companies are thoroughly aware of it. It stipulates that employees are strictly prohibited from workplace harassment under the guise that harassment is unacceptable and will be subject to punishment.

In addition, "Human Resources Compliance Training" (for managers and employees), including prevention of harassment, is periodically conducted for all employees.

For more information regarding whistle-blowing system, including harassment, please refer to Whistle-blowing system.

[Training content]

In 2019, all employees were given the following training at the same time. It is also being expanded globally.

- Responsibilities of management leaders
- Definition of harassment
- The actual situation at MISUMI
- Harassment precautions
- Process when harassment occurs

Rules have been established for reporting cases within the Company. In FY2020, 169 newly joined employees have taken online education.

Compensation and Benefits

Salary System

The salary system of MISUMI Group Inc. and MISUMI Corporation is on an annual basis, which is determined by the weight of responsibility and performance of employees. In addition, we have a performance bonus system designed to motivate employees towards business growth achievement based on the growth company-wide and the growth of division to which the employee belongs.

implemented a retirement allowance system based on local labor legislation and social environment, and also has introduced a Defined Contribution Pension Plan that allows receipt of pension payments to guarantee their lives after retirement and working to design and operate the system to be attractive to employees.

As specific examples, MISUMI Group Inc. and MISUMI Corporation offer the following plans to full-time employees.

1. In-house funded cash payment retirement benefit plan
 - Eligible after 3 years of service
 - Calculated by multiplying the ratio determined for each position's tenure by total tenure and annual salary
2. Defined contribution pension plan

Pension and Retirement Benefit Plan

To reward employees for their long-term contributions, MISUMI has introduced a retirement benefit plan for full-time employees and a Defined Contribution Pension Plan to help employees build assets for their retirement. Each group company has

Stock Options for Executives

MISUMI Group Inc. and MISUMI Corporation grant stock options as a form of stock-based compensation to executives in charge of management to motivate the improvement of their performance and retain them. The top management decides the number of shares to be granted based on the previous year's performance, future performance expectations over the mid- to long- term, and the degree of contribution to the company.

Incentive System for Stock Ownership

By becoming a shareholder, the hope is for employees to pursue work with the same perspective as shareholders, further heightening their ownership of the company. At the same time, the company provides incentives and support to employees for acquiring their own shares as part of the company's benefit. Full-time employees of MISUMI Group Inc. and MISUMI Co., Ltd., are eligible for this program, the details of which are as follows.

1. Support program for acquisition of share unit (with repayment exemption clause)
 - Employees who are not shareholders can use the system only once
2. Cumulative stock investment incentive system
 - Employees can purchase shares of MISUMI Group Inc. at a fixed monthly price (employees who are already shareholders may also purchase shares)
 - Company provides incentive payments

Labor-Management Agreement

There are no labor unions at MISUMI Group Inc., MISUMI Co., Ltd., and group companies in Japan. For cases requiring a labor-management agreement, it is concluded between the company and the person who represents the majority of the employees.

Human Resource Development

MISUMI Group considers the development of management leaders to be an important management issue in addition to business growth. Employees with leadership qualities, such as logic and passion, will gain experience in the field and refine themselves. We are convinced that this process will nurture management leaders.

MISUMI Group has established a variety of training programs for employee development. At the same time, we are actively recruiting outside personnel who have experienced many difficult situations to form a strong management team.

The main training programs are as follows.

Benefits

MISUMI has enhanced its benefits programs to support employees who continue to take on challenges with a positive attitude, so they can feel refreshed and enjoy a change of pace.

In-House Massage Facility

Once a month, one can receive a 40-minute massage + 10-minute consultation for 500 yen. Many employees use it, and such comments have been received- "in-house massages are great as it enables one to get treatment in-between work-related tasks", "massage relieves fatigue making one feel that they can go the extra mile".



Recreational Facility

Contract is in place with a recreational facility provider called Laforet Club. It owns and manages hotels in 13 locations, as well as partnering with approximately 70 hotels nationwide. In addition to corporate membership pricing, corporate subsidies are also provided. Many employees use it when traveling with their family and colleagues, with feedback such as "reasonable pricing" and "delicious food", as characterized by the fact that there are many repeaters.



● MISUMI Strategy School

The top management itself serves as the head of the school, which provides training in the perspectives and strategic thinking skills necessary for management leaders.

● Management Forum

Management forums are held periodically where participants can interact with senior management at lectures on strategy and high-level discussions on actual management experiences.

● Presentation of results

Presentation of results show the contribution to the innovation of MISUMI's business model, with qualifying rounds held in each global region and a global final. In addition, case studies are shared globally and play a significant role as a learning opportunity.

● Management training

Training to recognize the role of managers and to acquire the thinking and skills necessary for organizational management.

● Logical thinking training

Training to acquire logical thinking skills as a basis for solving business problems.

● Supporting self-development training

The company will pay a portion of the course fees for employees who attend and complete external training programs to improve their business abilities and skills.

● In-house English conversation class

Native English speaker provides in-house English conversation classes.

Health and Safety

Health and Safety Committee Meetings

In accordance with laws and regulations, the Health and Safety Committee meets monthly, and the minutes are available within the company. In addition to sharing information on health and safety issues in daily work and the results of annual stress checks, the committee members discuss topics such as infection prevention measures in the workplace and at home in the event of the spread of COVID-19 under the guidance of industrial physicians. Also, health maintenance during remote work is discussed; by bringing the results back to the workplace, we strive to maintain and improve a healthy and sustainable work environment.

Ensuring Employee Health and Safety in Emergencies

In the event of a sudden natural disaster, such as a typhoon or earthquake, we have a safety confirmation system in place to confirm the safety of our employees. At the same time, confirm physical damage to offices, warehouses, and other facilities, so that we can quickly determine whether or not to continue operations.

In response to the spread of COVID-19, we set up a task

force at the Headquarter in February 2020. In addition, by utilizing the same safety confirmation system used in a disaster, we have established a system to monitor the physical condition of employees (including temporary employees) at all global sites on a daily basis since that same month and reports the results to BCP managers at the Headquarter and the Human Resource department.

Moreover, we have established a system shifting to remote work (including temporary employees and outsourced workers) to the extent possible in each country. We distribute masks to employees and their family members according to the spread of infection in each country, share best practices of infection prevention measures among all global sites, provide online health consultation to Japanese employees stationed overseas, and support the purchase of daily necessities; working to ensure health and safety and business continuity globally. In addition, we are committed to providing health and safety measures that include families of our employees, our business partners, neighboring companies, and residents, such as being among the first in Japan to provide inoculation services at workplaces with the COVID-19 vaccine and encourage vaccination.

Sponsoring of the Biped Robot Battle Tournament (aka "ROBO-ONE")



MISUMI Group has been sponsoring "ROBO-ONE", since FY2016 as the main sponsor, organized by the Biped Robot Association, in order to support the passion of people involved in manufacturing, such as engineering students and corporate engineers.

ROBO-ONE (organized by the Biped Robot Association) is a biped robot battle tournament that has been held since 2002.

The objective of the tournament is to improve manufacturing technologies and popularizing biped robots. Wide range of people from students to professional engineers are entering the tournament.

The robots throw punches and employs throwing techniques to defeat their opponents. Each contestant competes in a three-minute round to determine the strongest biped robot. The first contestant to score three knockdowns wins the match.

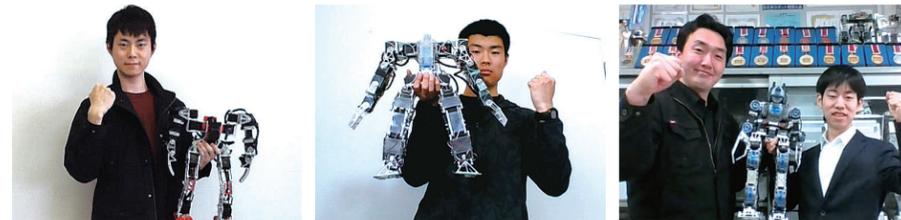
"MISUMI presents 38th ROBO-ONE" was held as a remote tournament for the first time between February 27-28, 2021 (broadcasted via Twitch*). Unlike the conventional tournament format where robots battled against each other, special rules were set in place unique to this remote competition, scoring points according to the difficulty of the attack; outcome determined by the number of points earned.

* Live streaming broadcast platform provided by Amazon.com

From all around the world including Japan, a total of 85 robots (ROBO-ONE: 36, Light: 49) participated and heated matches ensued.

At the tournament, 'MISUMI Award' is presented to robots

38th ROBO-ONE MISUMI Awards Winners



Robot name: NEXUS

Team name:
Hiroshima Institute of Technology
Hit-Robotics

Robot name: Escudo

Team name:
Shibaura Institute of Technology
SRDC

Robot name: Silver Cat

Team name:
Osaka College of Technology
Robot Research Club

that captivated spectators with their prominent design and dynamic movements.

In MISUMI Presents the 38th ROBO-ONE, the following three teams were selected for MISUMI Awards.

Manufacturing Support for Student Groups

In the "MISUMI Student Manufacturing Support" initiative, open invitation applications are accepted from a wide range of student groups that take on challenges in manufacturing at universities, technical colleges, etc. providing MISUMI products free of charge.

Support to more than 2,000 student groups have been provided since the program began in FY2008.

From FY2018, we are also supporting the activities of

"SAKURA Tempesta", a junior and senior high school team participating in the international "FIRST® Robotics Competition (FRC)". This team not only managed to acquire the right to participate in a world championship for three consecutive years but is also active on the principle of providing many junior and senior high school students, especially women, with the opportunity to learn to engineer and jointly conveying the appeal of manufacturing.

Partial Introduction of Groups Supported in FY2020

MISUMI Student Manufacturing Support (FY2020: 130 groups in total)

Team name:
Osaka Prefecture University
SSSRC



Comment from a student

Students play a central role in developing spacecraft such as micro-artificial satellites, empty can-sized simulated satellites, and micro-rockets. Many of MISUMI's products are of high quality that meets JAXA's requirements, and with this support, we received screw parts used for actual satellites and tools such as screwdrivers. In the future, I'd like to continue to utilize MISUMI's products and develop activities to spread the appeal of spacecraft development through manufacturing such as artificial satellites and rocket development.

Activities to Convey the Appeal of Manufacturing

Summer vacation manufacturing class

In August 2019, "MISUMI x SAKURA Tempesta Summer Vacation Manufacturing Class" for junior and senior high school students was held in order to foster manufacturing human resources. Participants endeavored in assembling machines and games using MISUMI's full-fledged components. After the event, many students said that they became "interested in engineering" and experienced the enjoyment of manufacturing.



Summer Vacation Manufacturing Class



Junior/Highschool team
SAKURA Tempesta



Corporate Governance

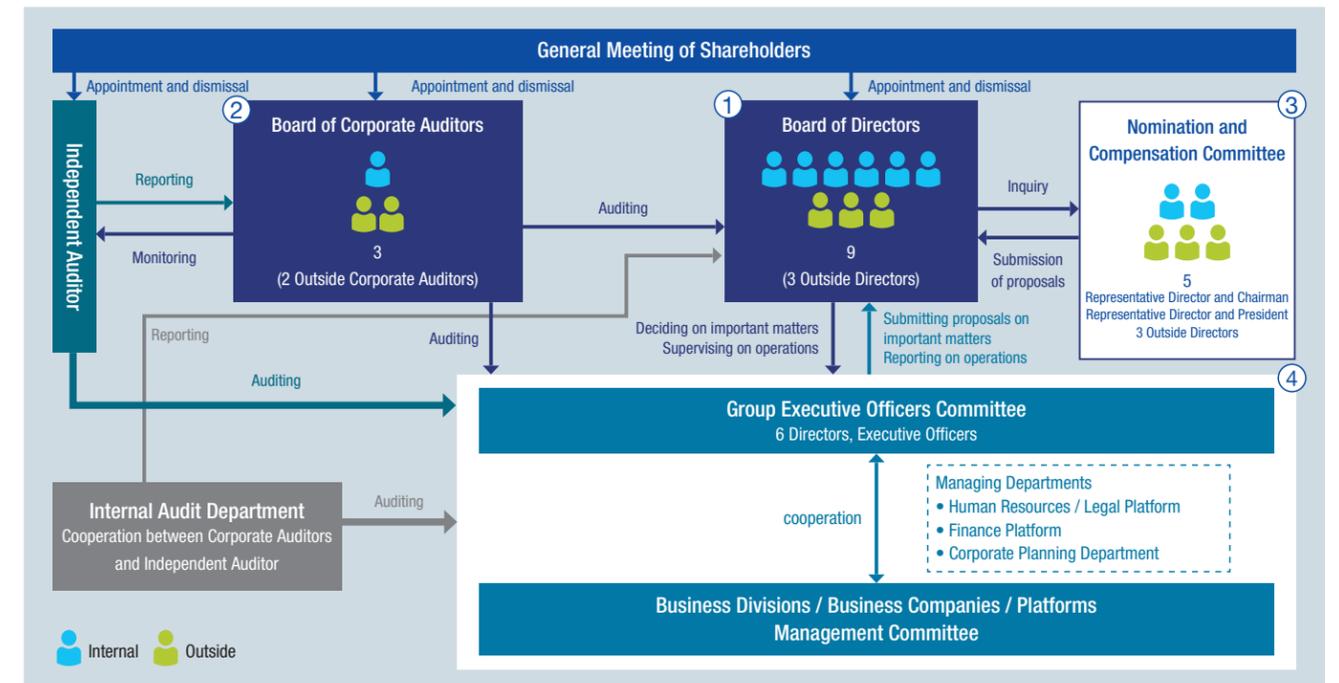
In 2015, MISUMI Group enacted and disclosed the MISUMI Group Corporate Governance Basic Policy with the aim of contributing to the Group's continuous growth and medium- to long-term enhancement of its corporate value.

MISUMI Group Corporate Governance Basic Policy https://www.misumi.co.jp/english/company/governance_compliance/corporate_governance.html

Said policy states that each principle provided in the Corporate Governance Code that became applicable at the Tokyo Stock Exchange as of June 2015 will be implemented.

Corporate Governance System

MISUMI Group directs and audits its business practices through its Board of Directors, Group Executive Officers' Committee and Audit Committee.



Overview of the Corporate Governance System

Organizational format	Company with a Board of Corporate Auditors	Number of Corporate Auditors [of which, Outside Corporate Auditors]	3 [2]
Number of Directors [of which, Outside Directors]	9 [3]	Adoption of corporate officer system	Yes
Term of office of Directors	1 year	Existence of voluntary committees	Yes (Nomination and Compensation Committee)
Number of Outside Directors designated as independent executives	3	Compensation system for Directors and other officers	(1) Basic compensation (2) Performance-linked compensation (bonuses) (3) Stock options

(1) Board of Directors

The Board of Directors determine the strategic direction of MISUMI Group and decide upon important business executional matters. Concurrently, they are responsible for supervising and instructing Corporate Officers and Representative Corporate Officers in charge of the Business Divisions, Business Companies and Platforms, as well as for putting in place suitable internal control systems.

The Board of Directors also regularly reviews MISUMI Group's operation pertaining to the Internal Control System and Code of Conduct, as well as the Internal Reporting System, making evaluations and changes as required.

The Board of Directors comprises nine Directors, including three Outside Directors. As a rule, they hold regular meetings once a month, as well as Extraordinary Board Meetings as deemed necessary, during which they make important decisions regarding management and business and supervise operational execution.

Composition of the Board of Directors

Name	Position	Corporate management	Business strategy	Global experience (Overseas business management, Management of regional subsidiaries, etc.)	DX / IT	Manufacturing /Operations (Logistics, Customer service etc.)	Organizational/ Human resource strategy	Finance/ Accounting	Legal/ Governance/ Risk management
Kosuke Nishimoto	Representative Director	○	○				○	○	○
Ryusei Ono	Representative Director	○	○	○	○	○			
Ichiro Otokozawa	Director	○		○			○	○	○
Toshinari Sato	Director	○		○	○	○			○
Tomoki Kanatani	Director		○	○	○	○			
Shigetaka Shimizu	Director		○	○	○	○			
Yoichi Nakano	Outside Director	○		○			○	○	
Arata Shimizu	Outside Director	○	○		○	○			
Tomoharu Suseki	Outside Director	○		○		○			○
Hiroshi Miyamoto	Corporate Auditor					○			○
Juichi Nozue	Outside Corporate Auditor			○					○
Nanako Aono	Outside Corporate Auditor	○						○	

(2) Board of Corporate Auditors

The Board of Corporate Auditors comprises three Corporate Auditors including two Outside Corporate Auditors. The Corporate Auditors audit Directors' execution of their duties and closely cooperate with the Independent Auditor and the Internal Audit Department to improve the effectiveness and efficiency of the auditing process.

(3) Nomination and Compensation Committee

To strengthen the supervisory function of the Board of Directors and increase the transparency of the decision-making process, the Company has established a Nomination and Compensation Committee in which the majority comprises independent Outside Directors. It serves as an advisory body, making deliberations and submission of proposals to the Board of Directors on evaluation/remuneration matters and election/dismissal of Directors, including Representative Directors, and succession planning of Representative Directors.

The Nomination and Compensation Committee objectively discusses, considers regarding important matters, such as nomination and compensation, from the different perspectives including diversity and skills.

Members of Nomination / Compensation Committee

Representative Director and Chairman	Kosuke Nishimoto (Chairperson)
Representative Director and President	Ryusei Ono
Outside Director	Yoichi Nakano
Outside Director	Arata Shimizu
Outside Director	Tomoharu Suseki

(4) Group Executive Officers' Committee / Business Divisions, Business Companies and Platforms Management Committee

The Group Executive Officers' Committee is composed of six full-time Directors (excluding Outside Directors of the Board) from MISUMI Group Inc., and Representative Corporate Officers from Business Divisions, Business Companies, and Platforms. As a rule, they hold regular meetings once a month to reinforce both supervision and execution.

"Business Divisions" and "Business Companies" oversee MISUMI Group's business side, and "Platforms" were established for

business support and service functions. Authority and responsibility have been delegated to these entities. In so doing, MISUMI Group has attempted to realize integrated management of manufacturing and sales with SURUGA Production Platform, thereby expediting the decision-making process.

To clarify the decision-making process, Business Company Management Committee and other meetings take place within MISUMI Group's respective Business Divisions, Business Companies, and Platforms.

Outside Directors and Outside Corporate Auditors

Functions and Roles of Outside Directors and Outside Corporate Auditors in Corporate Governance

MISUMI Group Inc.'s Board of Directors has the function of supervising management, decision-making and operational execution by the Executive Directors and Corporate Officers. The Board of Directors comprises nine Directors, three of whom are Outside Directors, and of the three Corporate Auditors, two are Outside Corporate Auditors. With respect to corporate governance, MISUMI Group Inc. believes that the function of management monitoring by an external and neutral party with an objective viewpoint is important, and has determined that the current system of supervision and checking of management by Outside Directors and independent auditing by Outside Corporate Auditors allows for sufficient monitoring from the outside.

Standards or Policies Related to Autonomy from MISUMI Group Inc. in the Appointment of an Outside Director or Outside Corporate Auditor

MISUMI Group's standards for appointment of an Outside Director or Outside Corporate Auditor are the same as those of an independent executive as stipulated by the Tokyo Stock

Exchange rules.

MISUMI Group's reasons for the appointment of respective Outside Directors and Outside Corporate Auditors and their record of attendance at Board of Directors' meetings in FY2020 are as indicated in the table below. We determine that these individuals can carry out the role of supervising and checking MISUMI Group's management as well as the role of auditing fairly and objectively from an independent standpoint on the basis of their expert knowledge and experience.

Supervision or Auditing by Outside Directors and Outside Corporate Auditors

Outside Directors participate in the monthly Board of Directors' meetings and primarily ask questions and provide advice regarding proposals and deliberations from an objective standpoint independent from the management team that is engaged in operational execution.

Outside Corporate Auditors attend the monthly Board of Directors' meetings and the Board of Corporate Auditors meetings and ask questions and provide advice regarding proposals and deliberations from the standpoint of having expert knowledge and experience.

Outside Directors

Outside Director	Reason for Appointment	Number of Board of Directors' Meetings Attended in the Fiscal Year Ended March 2021
Yoichi Nakano	Extensive experience in various industries on a global basis, namely, finance, consulting and executive search, and possessing ample experience and broad knowledge of management personnel development	14 out of 14
Arata Shimizu	Ample experience and broad knowledge through his extensive career in strategic consulting and business management	11 out of 11
Tomoharu Suseki*	Has held management positions of various global companies primarily in electronics field for many years and has extensive experience and broad knowledge in business management	—

* Appointed by resolution of the General Meeting of Shareholders held on June 17, 2021

Outside Corporate Auditors

Outside Corporate Auditor	Reason for Appointment	Number of Board of Directors' Meetings Attended in the Fiscal Year Ended March 2021	Number of Board of Corporate Auditors Meetings Attended in the Fiscal Year Ended March 2021
Juichi Nozue	Expertise and experience in legal affairs as a lawyer and ample experience as Outside Director and Outside Corporate Auditor of MISUMI Group Inc. and other companies	14 out of 14	19 out of 19
Nanako Aono	A considerable degree of knowledge concerning financial accounting as a certified public accountant, and extensive insight cultivated through her career as a business manager and Corporate Auditor	14 out of 14	19 out of 19

Basic Policy on the Internal Control System

MISUMI Group Inc.'s Board of Directors agreed on "Basic Policy on the Internal Control System" at the Board of Directors' meeting held on May 14, 2015, on the basis of the Companies Act Article 362, Paragraph 4(6) and the Ordinance for Enforcement of the Companies Act Article 100, Paragraph 1 and 3. The decisions are as follows.

Systems for the retention and management of information concerning the execution of Directors' duties	<ul style="list-style-type: none"> Minutes for meetings of the Board of Directors, the Group Officers' Committee and other important meetings will be compiled and retained appropriately, as stipulated by laws, regulations and rules.
Rules and other systems pertaining to management of risks that could cause losses to the Company or its subsidiaries	<ul style="list-style-type: none"> Various regulations, internal rules, manuals, and risk management systems will be formulated to address risks faced by MISUMI Group Inc. and its subsidiaries (hereinafter referred to collectively as the "MISUMI Group"), including risks relating to regulatory compliance, the environment, information, export controls and natural disasters. Task forces will be established to take timely action and report to the Board of Directors in the event of unforeseen contingencies affecting the MISUMI Group.
Systems to ensure the efficient execution of duties by Directors of the Company and its subsidiaries	<ul style="list-style-type: none"> Management plans will be subject to final approval by the Board of Directors, and progress on such plans will be monitored at monthly meetings of the Group Officers' Committee. Important issues identified through the monitoring of progress on management plans, or through other processes, will be discussed at meetings of the Board of Directors or the Group Officers' Committee, etc. At its monthly meetings, the Board of Directors will hear reports, monitor business results, and provide advice and guidance on important matters.
Systems to ensure that the duties of Directors and employees of the Company and its subsidiaries are performed in accordance with laws, regulations and the Articles of Incorporation	<ul style="list-style-type: none"> Directors and employees of the MISUMI Group will ensure observance of the MISUMI Group Code of Conduct and compliance with laws, regulations, and the Company's Articles of Incorporation. Systems has been established to ensure that duties are carried out appropriately in accordance with the occupational authority rules and other decision-making rules of the MISUMI Group. An internal reporting ("whistleblowing") system has been established for the entire MISUMI Group to ensure the early discovery of actual or suspected violations of laws, regulations and/or internal rules. Steps will be taken to guarantee that whistleblowers will not be disadvantaged.
Systems for ensuring that the business operations of the Company and the subsidiaries that make up the Group are conducted appropriately, including systems for reporting to the Company on the execution of duties by the subsidiaries' directors, etc.	<ul style="list-style-type: none"> MISUMI Group Inc. will require each subsidiary to submit a monthly report concerning its business execution and operations. MISUMI Group Inc will ensure the appropriateness of the business operations of each subsidiary by obtaining business reports and monitoring progress on management plans at Group Officers' Committee meetings. The business operations of each subsidiary will be audited regularly by the Internal Audit Department. Provisions will be included in the MISUMI Group Code of Conduct requiring the repudiation of relationships with antisocial forces, and resolute opposition to such forces by the entire MISUMI Group.
Matters pertaining to employees who assist the Company's Corporate Auditors	<ul style="list-style-type: none"> Corporate Auditors will be free to appoint audit assistants and will be involved in transfers and evaluations, etc., of audit assistants. When assisting the Corporate Auditors in the performance of their activities, audit assistants will act in accordance with instructions from the Corporate Auditors.
Systems for reporting to the Company's Corporate Auditors	<ul style="list-style-type: none"> The Corporate Auditors will attend important meetings, including meetings of the Board of Directors and the Group Officers' Committee. Directors and employees will inform the Corporate Auditors immediately of any situation that could have a serious impact on the MISUMI Group, or of the risk that such a situation might arise. Officers and employees of the MISUMI Group will provide accurate reports about the execution of their duties at the request of the Corporate Auditors. The Corporate Auditors will meet regularly with the independent auditor and the Internal Audit Department to share opinions and information. Corporate Auditors will seek reports from the independent auditor whenever necessary. The unit in charge of the internal reporting ("whistleblowing") system will report on a regular basis to the Corporate Auditors about the status of internal reporting within the MISUMI Group. A guarantee will be provided to the effect that no officer or employee of the MISUMI Group who reports to the Corporate Auditors will be disadvantaged as a result of that action.
Matters pertaining to policies concerning the treatment of costs resulting from the execution of duties by Corporate Auditors of the Company	<ul style="list-style-type: none"> A fixed budget will be provided each year for costs, etc., incurred in the execution of duties by the Corporate Auditors. Any other essential costs incurred by the Corporate Auditors in the execution of their duties will be either paid in advance or settled promptly on request from the Corporate Auditors.

Ethics and Compliance

Code of Conduct

MISUMI Group Inc. and its subsidiary and affiliates, ("MISUMI Group") has established the "MISUMI Group Code of Conduct" as a set of MISUMI Group's fundamental policies and rules that is a model of the processes, activities and conducts of the directors, executives, officers and employees of MISUMI Group, (the "Employees") in terms of compliance with the laws, regulations, and the internal rules, the corporate mission and business ethics.

Code of Conduct

<https://www.misumi.co.jp/english/esg/governance/compliance.html>

Employee Training on Ethical Standard

MISUMI Group has established the training program for compliance and business ethics, (the "Training Program") and provided the training sessions regularly, mostly once a year. Post-training tests are also conducted to ensure the comprehension of each training and to promote employees understanding of the contents.

Bribery and Anti-Corruption Policy

In the Code of Conduct, MISUMI Group prohibits the Employees from bribing government or administrative officials, and from committing illegal financial transaction with business partners.

Protection on Personal Information and Customer Information

MISUMI Group complies with the laws and regulations related the protection of personal information and handles personal information and customer information appropriately.

Information Security

MISUMI Group has recognized importance of the information security as to roll out business globally. To protect the information assets from various threat, MISUMI Group has established Basic Policies for Information Security and improved information security.

Basic Policy on Information Security

<https://www.misumi.co.jp/english/ir/policy/security.html>

Internal Whistle-Blowing System of MISUMI Group

Whistle Blowing System and Whistleblower Protection

MISUMI Group has established Whistle Blowing System called "MISUMI Compliance Helpline," in which the Employees can report or consult illegal or inappropriate and questionable matters and incidents.

In addition to Misumi Compliance Helpline, HR department has established a consultation desk where the Employees can consult harassment and any other inappropriate behavior in workplace. Those who have reported or consulted to this consultation desk are also guaranteed with anonymity and no disadvantages.

Whistle Blowing System "MISUMI Compliance Helpline"

<https://www.misumi.co.jp/english/esg/governance/whistleblower.html>

Oversight for Ethics Compliance and Legal Issues

Corporate Officer responsible for the legal and compliance issues reports the legal, compliance and business ethics activities to the Board of Directors of MISUMI Group Inc., twice a year. The Board of Directors discusses the reports, supervises and instructs the measures to be corrected or strengthened.

Furthermore, Legal Department makes reports on important legal and compliance cases every month.

Regular Audits of Ethical Standards

The Board of Directors of MISUMI Group Inc. adopted a resolution on the Basic Policy on systems to ensure that MISUMI Group's business operations are conducted in compliance with laws, regulations and the articles of incorporation, and other systems to ensure that MISUMI Group's business operations are conducted in an appropriate manner (the "Internal Control System").

Internal Control System

https://www.misumi.co.jp/english/esg/governance/internal_control.html

Board of Corporate Auditors reviews administration of the Internal Control System every year. In the FY2020, it is confirmed that the Internal Control System has been implemented appropriately, and that there have been no significant problems.

Internal Audit Department sets approximately 10 sites or organizations for the audit target every year and conduct audit to find out whether such sites or organizations are executed or operated appropriately complying with laws, regulations, and internal rules.

Additionally, since 2019, Legal Department has conducted action called "Legal Risk Review Rounds" to locate legal risks and potential violation of law in the early stage and resolve the issues with the targeting organization.

Whistle Blowing System and Whistleblower Protection

When a report is made to MISUMI Compliance Helpline, local helpline desk, or HR's consultation desk, HR Department and Legal Department investigate the facts and background with the utmost consideration on anonymity and protection of the whistleblowers.

For important cases, HR Compliance Committee including Representative Director of MISUMI Group Inc. decides whether to penalize an employee who is responsible for inappropriate behavior, and/or what penalty should be given based on the investigation. After deciding the penalty, the department which the penalized person belonged to and the fact of the penalty are disclosed internally to secure the transparency of process, however, individual name is not disclosed.

Top Management

Directors



Kosuke Nishimoto
Representative Director and Chairman



Ryusei Ono
Representative Director and President



Ichiro Otokozawa
Executive Director



Toshinari Sato
CIO and Executive Director



Tomoki Kanatani
Executive Director



Shigetaka Shimizu
Executive Director



Yoichi Nakano
Outside Director



Arata Shimizu
Outside Director



Tomoharu Suseki
Outside Director

Executive Officers

Kosuke Nishimoto
Representative Director and Chairman

Ryusei Ono
Representative Director and President

Ichiro Otokozawa
Executive Director and Chief Executive in charge of Europe and Americas Business

Toshinari Sato
CIO and Executive Director and Representative Corporate Officer, Digital Transformation System Platform

Tomoki Kanatani
Executive Director and Representative Corporate Officer, President, China Business Company

Shigetaka Shimizu
Executive Director and Representative Corporate Officer, President, Industrial Machinery Business Company

Mitsunobu Yoshida
Senior Corporate Officer and Representative Corporate Officer, President, Industrial Digital Manufacturing Company

Takako Sasaki
Senior Corporate Officer and Representative Corporate Officer, Human Resources & Legal Platform

Corporate Officers

Takaaki Wada
Senior Corporate Officer and Representative Corporate Officer, President, Die and Mold Business Company

Koichi Tsunematsu
Senior Corporate Officer and Representative Corporate Officer, President, Europe Business Company

Toru Arakawa
Representative Corporate Officer, President, VONA MRO Business Company

Hideka Shoji
Representative Corporate Officer, President, VONA Electronics Business Company

Nobuyoshi Kobayashi
Representative Corporate Officer, President, Asia Business Company

Ryuji Ohora
Representative Corporate Officer, President, Americas Business Company

Michiaki Okamoto
Representative Corporate Officer, Logistics Platform

Takumi Toya
Representative Corporate Officer, Production Platform

Kazumi Hagihira
Corporate Officer

Corporate Auditors

Hiroshi Miyamoto
Corporate Auditor

Juichi Nozue
Outside Corporate Auditor

Nanako Aono
Outside Corporate Auditor

Chairman Emeritus



Tadashi Saegusa
Second-Era Founder

Advisor

Hiroshi Taguchi
Special Advisor and Founder

Ten-Year Summary of Financial Data (Consolidated)

MISUMI Group Inc. and consolidated subsidiaries Years ended March 31, 2012 – 2021

(Million yen)

Years ended March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Net sales	130,213	134,844	173,904	208,562	240,139	259,015	312,969	331,936	313,337	310,719	
Factory Automation (FA) Business ^{5,6}	80,724	84,299	98,843								
Die Components Business ^{5,6}	27,686	37,020	56,310								
Electronics Business ^{5,6}	12,401	12,381	13,801								
Other Business ^{5,6}	6,415	6,747	7,654								
Adjustments ^{5,6}	2,987	(5,603)	(2,704)								
FA Business ⁶			82,377	99,094	109,654	84,669	105,184	109,230	99,403	102,244	
Die Components Business ⁶			56,309	64,737	69,732	69,797	76,523	76,443	72,413	66,871	
VONA Business ⁶			37,921	48,249	60,474	104,548	131,262	146,262	141,519	141,602	
Adjustments ⁶			(2,703)	(3,517)	280	–	–	–	–	–	
Operating income	16,646	16,809	18,989	23,759	25,691	27,127	34,848	31,874	23,640	27,199	
Earnings before amortization	16,646	17,109	21,093	25,999	28,229	29,421	36,465	32,490	24,247	27,789	
Income before income taxes (and minority interests)	17,022	15,890	18,964	22,943	25,004	26,071	34,516	31,815	22,781	23,496	
Net income attributable to owners of parent	9,414	9,881	11,679	14,291	16,907	18,387	25,601	24,034	16,504	17,138	
As of March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Total assets ⁹	115,721	136,303	163,202	184,784	194,186	212,041	243,492	252,393	264,684	288,921	
Total equity	90,824	103,014	115,966	132,138	141,463	154,530	185,203	203,520	209,514	231,147	
Interest-bearing debt ⁸	1,000	1,000	900	–	–	–	–	–	–	–	
CAPEX, depreciation and amortization as of and for the years ended March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Capital expenditures (CAPEX)	4,231	3,451	6,901	8,487	9,126	7,219	15,421	21,414	18,018	14,016	
Depreciation and amortization	3,521	3,560	6,051	7,024	7,821	7,439	8,105	8,758	11,339 ¹⁰	13,101 ¹⁰	
Capital expenditures (CAPEX) Depreciation and amortization	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Return on equity ³	(%)	10.8	10.2	10.7	11.5	12.4	12.4	15.1	12.4	8.0	7.8
Return on assets ³	(%)	15.2	12.6	12.7	13.2	13.2	12.8	15.2	12.8	8.8	8.5
Current ratio	(%)	408.4	349.5	397.5	429.2	445.8	430.3	362.1	444.4	434.6	478.9
Interest coverage ratio ⁴	(times)	1,150.6	2,095.6	1,691.2	1,470.3	5,179.8	4,972.6	21,868.1	8,853.9	360.1	541.8
Per share data as of and for the years ended March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Earnings per share ²	(yen)	35.05	36.76	42.94	52.28	61.65	66.94	91.01	84.80	58.18	60.36
Cash dividends per share ²	(yen)	7.73	9.15	10.72	13.05	15.42	16.71	22.60	21.20	14.55	15.09
Equity per share ²	(yen)	339.04	379.98	425.06	482.17	515.39	560.79	653.71	717.56	737.99	813.57
Cash flow per share ²	(yen)	29.06	42.63	56.76	41.26	60.89	70.80	85.86	46.00	99.40	128.44
Stock valuations as of and for the years ended March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Price/Earnings ratio (PER)	(times)	19.1	23.5	22.2	30.9	26.1	30.1	32.1	32.5	40.5	53.3
Price/Cash flow ratio (PCFR)	(times)	23.1	20.3	16.8	39.2	26.5	28.4	34.0	59.8	23.7	25.0
Price/Book value ratio (PBR)	(times)	2.0	2.3	2.2	3.4	3.1	3.6	4.5	3.8	3.2	4.0
Number of customers (companies) for the years ended March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
In Japan (machine-related only) ⁷	61,648	63,007	64,955	66,230	79,571	90,223	100,598	116,238	126,975	142,144	
Overseas	67,608	91,817	100,481	108,849	133,053	152,374	161,400	185,120	191,201	196,188	
Total number of customer companies	129,256	154,824	165,436	175,079	212,624	242,597	261,998	301,358	318,176	338,332	
Number of employees as of March 31:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Number of employees	(persons)	5,615	7,238	8,038	8,876	9,628	10,167	11,241	12,300	12,138	11,682

Notes: 1. Amounts are rounded down to the nearest million yen.

2. After adjustment for stock split dated July 1, 2015.

3. ROE was calculated on the basis of net income attributable to owners of parent for the relevant period, and ROA was calculated on the basis of income before income taxes (and minority interests) for the relevant period.

4. Interest coverage ratio = Net cash provided by operating activities ÷ Interest payment

5. Figures for fiscal years prior to the year ended March 31, 2014 (FY2013) have been revised retroactively in accordance with changes in disclosure standards by segment.

6. Segments were changed in April 2014.

7. Stock for Diversified Businesses was transferred, so this former segment has been excluded from the report.

8. The convertible bonds with stock acquisition rights issued in October 2013 are not included in interest-bearing debt because they are interest-free.

9. The figure for the year ended March 31, 2018 (FY2017) has been revised retroactively in accordance with Partial Amendments to Accounting Standard for Tax Effect Accounting.

10. Excludes depreciation of right-of-use assets due to the application of IFRS 16 "Leases." The actual amount for the fiscal year ended March 31, 2021 was ¥1,861 million.

Financial Analysis

Net Sales

(Billion yen)

¥310.7 billion

0.8% decrease
year on year ▼



Operating Income

(Billion yen)

¥27.1 billion

15.1% increase
year on year ▲



Net Income Attributable to Owners of Parent

(Billion yen)

¥17.1 billion

3.8% increase
year on year ▲



Return on Equity (ROE)

(%)

7.8%



Total Assets and Equity

(Billion yen)

Total assets

¥288.9 billion

Equity

¥233.5 billion

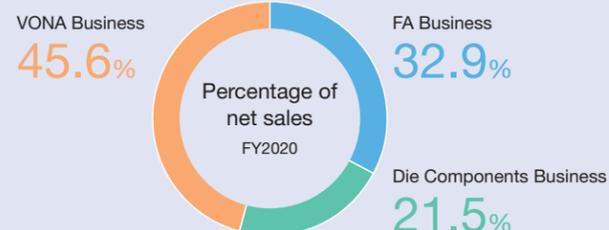
■ Total assets
■ Equity



Overseas Sales



Net Sales by Segment



Business and Other Risks

Material risks that may significantly impact the business and financial situation of MISUMI Group are as follows. Please note that forward-looking statements provided are based on evaluations made by MISUMI Group at the end of FY2020.

Impact of market trends in specific industries on earnings

In the FA Business and Die and Mold Business, MISUMI Group manufactures and sells components for factory automation equipment required for industrial automation as well as die sets, and automation-related auxiliary materials.

The VONA Business supplies components and auxiliary materials for production and automation-related equipment, consumables for maintenance, repair and operations (MRO), and other items, including third-party brands and original MISUMI branded products. MISUMI Group caters to a wide range of customers in the industrial automation sector in general in the VONA Business as well.

Therefore, production and capital investment trends in the industrial automation sector as a whole may impact the business performance of MISUMI Group.

Expansion of overseas business operations

MISUMI Group is actively pursuing business expansion overseas by strengthening the establishment of Regional Business Companies in China, Asia, Europe and the Americas. Political and economic changes in these regions may have a significant impact on local business operations. If business conditions do not progress according to plan, delays in the recovery of expenses and up-front investments may adversely affect the business performance and financial position of MISUMI Group. In addition, given an increase in factors destabilizing overseas business expansion, including persisting U.S.-China trade conflict in FY2020, worsening business performance and revisions to capital expenditures by customers in affected regions may adversely affect the business performance and financial position of MISUMI Group.

Quality control

MISUMI Group manufactures and sells a diverse range of products and goods used in a wide range of fields. As such, in the event of a product defect or regulation violation (including regulations relating to the presence of hazardous substances as well as restrictions on imports and exports), MISUMI Group may potentially experience economic damages and/or losses of credibility, such as through product recalls, product discontinuations or various expenses and fees.

Management of customer information

MISUMI Group handles a considerable amount of customer information as it conducts sales through e-catalogs via the Internet and through paper catalogs. Any information leaks could greatly impair trust in and cause economic losses for MISUMI Group. MISUMI Group Inc. (the "Company") has established

information management rules including the Basic Policy on Information Security and the Information Security Guidelines, and works to ensure that all Group companies are fully aware of them.

Natural disasters and other emergencies

Large earthquakes or other natural disasters or the spread of infectious diseases could disrupt production or product and merchandise logistics. The Company has a system in place to address disasters and other emergencies in accordance with its business continuity plan (BCP). However, unexpected serious damage may adversely affect the business performance and financial position of MISUMI Group.

In addition, in response to the COVID-19 pandemic, the Company gives the highest priority to ensuring the health and safety of its employees while conducting production, logistics and customer support to fulfill its responsibility of supplying to its customers. However, if the situation becomes even more serious or persistent, it may affect the production and operations of the Company and its customers, and may adversely affect the business performance and financial position of MISUMI Group.

Impact due to system and Internet failure

MISUMI Group primarily operates over the Internet to accept product orders through its e-catalogs and to provide services related to 3D-CAD systems. A major malfunction of the Internet or MISUMI Group's core system will impede product orders, production and distribution. This in turn may negatively impact MISUMI Group's business performance and financial position.

Foreign exchange rate fluctuations

MISUMI Group conducts transactions using various currencies and based on a number of terms and conditions. Foreign currency denominated transactions and foreign currency claims/outstanding obligations may be impacted by fluctuations in foreign currency rates. MISUMI Group implements measures such as forward exchange contracts to alleviate foreign exchange rate risk to a certain degree. However, this risk cannot be fully averted.

Human resources

MISUMI Group recognizes the necessity of recruiting, securing and training capable human resources at an appropriate time for its medium-to- long-term growth. However, competition in hiring and retaining excellent personnel is intensifying. Failure to promote talent hiring and retention as planned may adversely affect MISUMI Group's performance and business growth.

Consolidated Balance Sheet

MISUMI Group Inc. and Consolidated Subsidiaries
March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 71,964	¥ 44,440	\$ 650,026
Time deposits (Note 14)	464	7,207	4,191
Receivables:			
Trade notes (Note 14)	12,169	10,176	109,916
Trade accounts (Note 14)	59,519	53,002	537,613
Other	874	750	7,894
Allowance for doubtful receivables	(277)	(243)	(2,503)
Inventories (Note 3 and 4)	55,344	55,179	499,899
Other	3,919	5,884	35,400
Total current assets	203,976	176,395	1,842,436
PROPERTY, PLANT AND EQUIPMENT (Notes 18 and 19):			
Land	3,951	4,250	35,687
Buildings and structures	25,809	22,686	233,119
Machinery and vehicles	35,170	33,343	317,681
Right-of-use assets	6,348	6,856	57,337
Other	10,066	13,286	90,923
Total	81,344	80,421	734,747
Accumulated depreciation and impairment loss	(38,855)	(34,917)	(350,961)
Net property, plant and equipment	42,489	45,504	383,786
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 14)	6	6	56
Investments in unconsolidated subsidiaries and associated companies	180	200	1,629
Software	26,216	25,734	236,794
Deferred tax assets (Note 10)	6,095	5,737	55,053
Other assets	9,959	11,109	89,960
Total investments and other assets	42,456	42,786	383,492
TOTAL	¥288,921	¥264,685	\$2,609,714

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 14)	¥ 19,458	¥ 17,448	\$ 175,759
Accounts payable—other	8,025	9,962	72,485
Lease obligations (Notes 6 and 18)	1,209	1,663	10,918
Income taxes payable (Note 10)	2,776	2,659	25,071
Provision for bonuses (Note 2.n)	3,613	2,494	32,638
Other	7,510	6,366	67,838
Total current liabilities	42,591	40,592	384,709
LONG-TERM LIABILITIES:			
Lease obligations (Notes 6 and 18)	2,875	3,530	25,967
Liability for retirement benefits (Note 7)	6,812	6,008	61,530
Deferred tax liabilities (Note 10)	845	1,353	7,633
Other	2,228	1,572	20,131
Total long-term liabilities	12,760	12,463	115,261
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15)			
EQUITY (Notes 8, 9 and 17):			
Common stock—authorized, 1,020,000,000 shares in 2021 and 1,020,000,000 shares in 2020 issued, 284,244,497 shares in 2021 and 284,028,197 shares in 2020	13,437	13,232	121,367
Capital surplus	23,792	23,586	214,903
Stock acquisition rights	1,788	1,561	16,149
Retained earnings	190,780	177,318	1,723,239
Treasury stock—at cost, 129,760 shares in 2021 and 129,616 shares in 2020	(79)	(78)	(712)
Accumulated other comprehensive income:			
Foreign currency translation adjustments	3,371	(4,455)	30,455
Defined retirement benefit plans	(154)	(89)	(1,391)
Non-controlling interests	635	555	5,734
Total equity	233,570	211,630	2,109,744
TOTAL	¥288,921	¥264,685	\$2,609,714

Consolidated Statement of Income

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2021

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2021	2020	2019	2021
NET SALES (Note 19).....	¥310,719	¥313,337	¥331,936	\$2,806,604
COST OF SALES	175,841	179,752	189,846	1,588,303
Gross profit	134,878	133,585	142,090	1,218,301
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	107,679	109,945	110,215	972,623
Operating income (Note 19)	27,199	23,640	31,875	245,678
OTHER INCOME (EXPENSES):				
Interest and dividend income	306	277	277	2,765
Interest expense	(67)	(78)	(2)	(608)
Exchange loss—net	(257)	(684)	(608)	(2,318)
Loss on sale of non-current assets.....	(393)			(3,546)
Impairment loss (Notes 5 and 19).....	(3,301)	(465)		(29,815)
Other—net.....	9	91	274	77
Other expenses—net	(3,703)	(859)	(59)	(33,445)
INCOME BEFORE INCOME TAXES	23,496	22,781	31,816	212,233
INCOME TAXES (Note 10):				
Current	7,009	6,665	7,642	63,308
Deferred.....	(690)	(416)	76	(6,225)
Total income taxes	6,319	6,249	7,718	57,083
NET INCOME	17,177	16,532	24,098	155,150
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	38	28	64	343
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT ...	¥ 17,139	¥ 16,504	¥ 24,034	\$ 154,807

	Yen			U.S. Dollars (Note 1)
	2021	2020	2019	2021
PER SHARE OF COMMON STOCK (Notes 2.v, 8 and 17):				
Net income	¥60.36	¥58.18	¥84.80	\$0.55
Diluted net income	60.14	57.98	84.48	0.54
Cash dividends applicable to the year	15.09	14.55	21.20	0.14

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2021

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2021	2020	2019	2021
NET INCOME	¥17,177	¥16,532	¥24,098	\$155,150
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):				
Foreign currency translation adjustments	7,858	(5,697)	(105)	70,978
Defined retirement benefit plans	(65)	(13)	7	(592)
Share of other comprehensive income (loss) in associates	0	(6)	(12)	7
Total other comprehensive income (loss).....	7,793	(5,716)	(110)	70,393
COMPREHENSIVE INCOME (Note 16)	¥24,970	¥10,816	¥23,988	\$225,543
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 16):				
Owners of the parent	¥24,900	¥10,825	¥23,961	\$224,913
Non-controlling interests	70	(9)	27	630

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2021

	Thousands	Millions of Yen								Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Non-Controlling Interests	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income		
	Number of Shares of Common Stock Outstanding							Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	
BALANCE, APRIL 1, 2018	283,440	¥12,813	¥23,201	¥ 987	¥530	¥148,059	¥(78)	¥1,291	¥ (83)	¥186,720
Net income attributable to owners of parent...						24,034				24,034
Cash dividends, ¥21.29 per share						(6,032)				(6,032)
Change in scope of consolidation										(34)
Increase in treasury stock (90 shares)							(0)			(0)
Issuance of new shares.....	316	211	211							422
Net change in the year					345	43		(80)	7	315
BALANCE, MARCH 31, 2019	283,756	13,024	23,378	1,332	573	166,061	(78)	1,211	(76)	205,425
Net income attributable to owners of parent...						16,504				16,504
Cash dividends, ¥18.50 per share (Note 8)						(5,247)				(5,247)
Disposal of treasury stock (10 shares)							0			0
Issuance of new shares (Note 9)	272	208	208							416
Net change in the year					229	(18)		(5,666)	(13)	(5,468)
BALANCE, MARCH 31, 2020	284,028	13,232	23,586	1,561	555	177,318	(78)	(4,455)	(89)	211,630
Net income attributable to owners of parent...						17,139				17,139
Cash dividends, ¥12.95 per share (Note 8)						(3,677)				(3,677)
Increase in treasury stock (232 shares)							(1)			(1)
Disposal of treasury stock (88 shares)										1
Issuance of new shares (Note 9)	216	205	205							410
Net change in the year					227	80		7,826	(65)	8,068
BALANCE, MARCH 31, 2021	284,244	¥13,437	¥23,792	¥1,788	¥635	¥190,780	¥(79)	¥3,371	¥(154)	¥233,570

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Stock Acquisition Rights	Non-Controlling Interests	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income		Total Equity	
							Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans		
BALANCE, APRIL 1, 2020	\$119,515	\$213,050	\$14,100	\$5,016	\$1,601,641	\$(706)	\$(40,243)	\$(799)	\$1,911,574	
Net income attributable to owners of parent...					154,807					154,807
Cash dividends, \$0.12 per share (Note 8)					(33,209)					(33,209)
Increase in treasury stock (232 shares)						(7)				(7)
Disposal of treasury stock (88 shares)						1				2
Issuance of new shares (Note 9)	1,852	1,852								3,704
Net change in the year				2,049	718		70,698	(592)	72,873	
BALANCE, MARCH 31, 2021	\$121,367	\$214,903	\$16,149	\$5,734	\$1,723,239	\$(712)	\$30,455	\$(1,391)	\$2,109,744	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

MISUMI Group Inc. and Consolidated Subsidiaries
Year Ended March 31, 2021

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2021	2020	2019	2021
OPERATING ACTIVITIES:				
Income before income taxes	¥ 23,496	¥ 22,781	¥ 31,816	\$ 212,233
Adjustments for:				
Income taxes paid	(7,438)	(7,025)	(9,383)	(67,186)
Income taxes refund	359	50	191	3,244
Depreciation and amortization	14,963	13,071	8,841	135,155
Exchange (gain) loss	68	(75)	(15)	613
Impairment loss	3,301	465		29,815
Changes in assets and liabilities:				
(Increase) decrease in receivables	(5,768)	2,487	(1,529)	(52,097)
(Increase) decrease in inventories	1,861	(5,151)	(10,345)	16,807
Increase (decrease) in payables	1,901	(342)	(1,699)	17,171
Increase (decrease) in other current liabilities	543	1,128	(3,552)	4,903
Other—net	3,206	829	(1,277)	28,965
Total adjustments	12,996	5,437	(18,768)	117,390
Net cash provided by operating activities	36,492	28,218	13,048	329,623
INVESTING ACTIVITIES:				
Purchase of fixed assets	(14,017)	(18,018)	(21,414)	(126,608)
Proceeds from sales of fixed assets	133	51	46	1,197
Refund from time deposits	8,740	9,987	32,920	78,949
Payment into time deposits	(2,148)	(8,291)	(27,940)	(19,401)
Other—net (Note 18)	223	(388)	(567)	2,011
Net cash used in investing activities	(7,069)	(16,659)	(16,955)	(63,852)
FINANCING ACTIVITIES:				
Proceeds from issuance of stock	31	416	51	277
Repayments of lease obligations	(1,882)	(1,597)		(16,994)
Dividends paid	(3,677)	(5,247)	(6,032)	(33,209)
Other—net	(3)	0	(11)	(30)
Net cash used in financing activities	(5,531)	(6,428)	(5,992)	(49,956)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3,632	(2,444)	(61)	32,805
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,524	2,687	(9,960)	248,620
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,440	41,753	51,713	401,406
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 71,964	¥ 44,440	¥ 41,753	\$ 650,026

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MISUMI Group Inc. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 and 2020 consolidated financial statements to conform them to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MISUMI Group Inc. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.71 to \$1, the rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2021 include the accounts of the Company and its 50 (49 as of March 31, 2020) subsidiaries (together, the “Group”).

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

One subsidiary, WUXI PARTS SEIKO PRECISION IND CO., LTD., is not consolidated in 2021 because it would have an immaterial effect on the accompanying consolidated financial statements. Investments in two associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are recorded as goodwill included in investments and other assets and are amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements — In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.”

PITF No. 18 prescribes that (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (“U.S. GAAP”) may tentatively be used for the consolidation process, (3) however, the following five items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) reclassification adjustments if such foreign subsidiaries elect to present any subsequent changes to fair values of equity financial instruments in other comprehensive income.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method — In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) reclassification adjustments if such foreign subsidiaries elect to present any subsequent changes to fair values of equity financial instruments in other comprehensive income.

d. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to an insignificant risk of changes in value. Cash equivalents include time deposits which mature or become due within three months of the date of acquisition.

- e. Inventories** — Merchandise and materials are principally stated at cost determined by the moving-average method (balance sheet amounts are written down on the basis of any decreased profitability). Finished goods and work in progress are principally stated at cost determined by the periodic average method (balance sheet amounts are written down on the basis of any decreased profitability). Supplies are principally stated at cost determined by the periodic average method.
- f. Investment Securities** — Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.
- g. Allowance for Doubtful Accounts** — To provide for credit loss, provisions are made for doubtful accounts based on an estimate of the uncollectible amount calculated using the historical default rate for normal loans or a reasonable estimate based on the financial condition of individual borrowers for doubtful and default loans.
- h. Property, Plant and Equipment** — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment held by domestic consolidated subsidiaries is computed principally by the declining-balance method. However, buildings (except for facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings as well as structures acquired on and after April 1, 2016 are computed by the straight-line method. The straight-line method is applied to property, plant and equipment held by consolidated foreign subsidiaries.
- The range of useful lives is principally as follows:
- | | |
|--------------------------|---------------|
| Buildings and structures | 2 to 45 years |
| Machinery and vehicles | 2 to 20 years |
- i. Right-of-use assets** — The Group has applied IFRS 16 “Leases” from the beginning of the year ended March 31, 2020 to certain foreign consolidated subsidiaries. Expenses such as rental expenses in foreign consolidated subsidiaries are recorded as right-of-use assets in accordance with the said accounting standard. With the application of IFRS 16, assets and liabilities are recorded on the consolidated balance sheet, in principle, for all leases as lessees’ accounting treatment, and the straight-line method is applied over the lease term for the depreciation of capitalized right-of-use assets. Moreover, lease transactions based on IFRS 16 in Note 13. LEASES are categorized as finance lease transactions.
- j. Impairment of Long-Lived Assets** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- k. Other Assets** — Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 to 15 years for intangible assets.
- l. Research and Development Costs** — Research and development costs are charged to income as incurred.
- m. Retirement Plan** — The Company and consolidated subsidiaries have funded/non-funded defined benefit plans and defined contribution plans for payments to terminated employees.
- Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are charged to income as incurred, whereas they are amortized over 10 years for those incurred in certain consolidated subsidiaries.
- In May 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council (the “BAC”) in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.
- (a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments.
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefits to periods and relating to the discount rate and expected future salary increases.
- n. Provision for Bonuses** — The Company and certain consolidated subsidiaries provide provisions for employees’ and directors’ bonuses based on future projections for the current fiscal year.

- o. Asset Retirement Obligations** — In March 2008, the ASBJ issued ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations,” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.
- The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- p. Stock Options** — On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, “Accounting Standard for Share-Based Payment,” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.
- This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.
- q. Leases** — In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 1993.
- The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.
- Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.
- The Company has applied the revised accounting standard effective from the year ended March 31, 2009.
- r. Derivative Financial Instruments** — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign currency forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes. All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.
- s. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- The Company and certain consolidated subsidiaries in Japan have applied a consolidated tax system.
- Regarding items that have been transitioned to a group tax sharing system established under the Act No. 8 of 2020, “Act for Partial Amendment of the Income Tax Act, etc.,” and for which a revision of the non-consolidated taxation system has been carried out pursuant to this transition, the Company and its consolidated subsidiaries in Japan have not applied the provisions in paragraph 44 of ASBJ Guidance No. 28 (February 16, 2018), “Implementation Guidance on Tax Effect Accounting,” in accordance with the treatment prescribed in paragraph 3 of PITF No. 39 (March 31, 2020), “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System.” The amounts of deferred tax assets and deferred tax liabilities for these items are based on taxation law as it was before the amendment.
- t. Foreign Currency Transactions** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.
- u. Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- v. Per Share Information** — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.
- Diluted net income per share reflects the potential dilution that could occur if stock option rights were exercised.
- Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of year.

w. **Accounting Changes and Error Corrections** — In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

- (1) Changes in Accounting Policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
- (2) Changes in Presentation
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
- (3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
- (4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

x. **Business Combinations** — In October 2003, the BAC issued a Statement of Opinion, “Accounting for Business Combinations,” and in December 2005, the ASBJ issued ASBJ Statement No. 7, “Accounting Standard for Business Divestitures” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.”

In December 2008, the ASBJ issued a revised ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows:

- (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed.
- (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset.
- (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

The Company acquired all shares in Connell Industrial Tool Corporation, the holding company that wholly owns Dayton Progress Corporation and Anchor Lamina America, Inc. (“Dayton Lamina”) on November 6, 2012 and accounted for the acquisition by the purchase method of accounting. The related goodwill is systematically amortized over 5 years.

y. **Accounting estimates reflecting the impact of the COVID-19 pandemic** — The impact of the COVID-19 pandemic has had a certain impact on capital investment demand in the manufacturing industry, as well as customers’ operations. It is assumed that the pandemic will continue to affect the business performance of the Group for a certain period of time in the year ending March 31, 2022 in making accounting estimates for the valuation of inventories, impairment accounting for long-lived assets, and the recoverability of deferred tax assets.

As this assumption is significantly affected by various factors such as the timing of when the spread of COVID-19 is contained, results based on actual figures in the future may differ from these assumption and estimates.

z. **Unapplied Accounting Standards**

- (1) Accounting standards for revenue recognition
The ASBJ issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition” in March 2020, and the related guidance, ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition” in March 2021.
 - (a) Overview
This is a comprehensive standard concerning revenue recognition. Revenue is recognized through the following five steps:
Step 1: Identify the contracts with customers.
Step 2: Identify the performance obligations under the contracts.
Step 3: Determine the transaction prices.
Step 4: Allocate the transaction prices to the performance obligations under the contracts.
Step 5: Recognize revenue when or as each performance obligation is satisfied.
 - (b) Date to be applied
The Company plans to adopt the statement and guidance from the beginning of the year ending March 31, 2022.
 - (c) Effect of applying the above standards
Possible effects on the consolidated financial statements are immaterial.
- (2) Leases
U.S. GAAP ASU 2016-02 “Leases (Topic 842)”.
 - (a) Overview
These accounting standards require a lessee to recognize assets and liabilities for all leases in principle.
 - (b) Date to be adopted
The Company plans to adopt the accounting standards from the year ending March 31, 2023.
 - (c) Effect of applying the above standards
Possible effects on the consolidated financial statements are currently under review.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Valuation of merchandise and finished goods

- (1) The amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021 was ¥46,329 million (\$418,473 thousand)
- (2) Information on significant accounting estimates related to identified items
Merchandise and finished goods exceeding a certain quantity, for which a certain period of time has elapsed since being initially recorded in inventory, and which are deemed unsellable in the future, are evaluated in principle, by writing down the carrying amount of the inventories to zero, and recording an unrealized loss in the consolidated statement of income.
Accordingly, if there is an increase in the number of merchandise and finished goods, for which the carrying amount of the inventories is to be written down due to a decrease in sales and other factors, the amount of unrealized loss to be recognized in the consolidated financial statements for the following consolidated fiscal year may be affected.

4. INVENTORIES

Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Merchandise.....	¥42,668	¥46,260	\$385,403
Finished goods.....	3,661	246	33,070
Materials.....	4,772	4,627	43,106
Supplies.....	1,729	1,654	15,617
Work in process.....	2,514	2,392	22,703
Total.....	¥55,344	¥55,179	\$499,899

5. IMPAIRMENT

The Group, in principle, groups its assets based on the business department. For the year ended March 31, 2021, the Group recognized impairment losses of ¥1,132 million (\$10,226 thousand) for the idle assets located in Tokyo and other areas and ¥2,169 million (\$19,589 thousand) for the business assets located in Ohio, U.S.A and other areas. As a result of consideration of future recoverability, the carrying amounts of the relevant assets were written down to the recoverable amounts and the decreased amounts were recorded as impairment losses of ¥1,132 million (\$10,226 thousand) for software, etc., and ¥2,169 million (\$19,589 thousand) for buildings and structures, etc. As there is no possibility for sale or future use of the idle assets, the recoverable amount is deemed zero. The recoverable amount of the business assets is measured based on the value from the continued use and calculated by discounting future cash flows at 12.71%.

For the year ended March 31, 2020, the Group recognized an impairment loss of ¥465 million for the idle assets located in Tokyo. As a result of consideration of future recoverability, the carrying amounts of the relevant assets were written down to the recoverable amounts and the decreased amounts were recorded as an impairment loss of ¥465 million for software. As there is no possibility for sale or future use, the recoverable amount is deemed zero.

For the year ended March 31, 2019, no impairment loss was recognized.

6. LONG-TERM DEBT

Lease obligations at March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Long-term lease obligations (repayment terms vary from 2022 through 2034, at the weighted-average annual percentage interest rate of 1.3%).....	¥4,084	¥5,193	\$36,885
Total	4,084	5,193	36,885
Less current portion.....	1,209	1,663	10,918
Long-term lease obligations, less current portion	¥2,875	¥3,530	\$25,967

The amounts to be repaid each fiscal year for long-term lease obligations as of March 31, 2021 are as follows:

Fiscal year ending March 31	2021	
	Millions of Yen	Thousands of U.S. Dollars
2022.....	¥1,209	\$10,918
2023.....	1,144	10,330
2024.....	457	4,127
2025.....	316	2,856
2026 and after.....	958	8,654
Total	¥4,084	\$36,885

7. RETIREMENT PLANS

The Company and certain consolidated subsidiaries had participated in the Social Welfare Pension Fund of Nippon Sheet Metal Presswork (the "Fund"), which is a multi-employer plan. However, ordinary dissolution of the Fund was resolved at a meeting of the board members of the Fund on August 4, 2014. On September 29, 2016, the dissolution was approved by the Minister for Health, Labour and Welfare and, on February 3, 2021, the Fund was liquidated. No additional expenses arose from the dissolution of the Fund.

a. Defined Benefit Plan

(1) The changes in defined benefit obligations for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year.....	¥8,002	¥7,258	\$72,284
Current service cost.....	1,196	1,226	10,807
Interest cost.....	36	34	326
Actuarial losses.....	211	37	1,904
Benefits paid.....	(450)	(484)	(4,067)
Others.....	86	(69)	771
Balance at end of year.....	¥9,081	¥8,002	\$82,025

(2) The changes in plan assets for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year.....	¥1,994	¥1,832	\$18,015
Expected return on plan assets.....	36	171	325
Actuarial losses.....	(85)	(25)	(764)
Contributions from the employer	306	153	2,760
Benefits paid.....	(39)	(85)	(351)
Others.....	57	(52)	510
Balance at end of year.....	¥2,269	¥1,994	\$20,495

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2021 and 2020 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligations	¥ 3,267	¥ 2,913	\$ 29,512
Plan assets.....	(2,269)	(1,994)	(20,495)
	998	919	9,017
Unfunded defined benefit obligations.....	5,814	5,089	52,513
Net liability for defined benefit obligations.....	¥ 6,812	¥ 6,008	\$ 61,530

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits.....	¥ 6,812	¥ 6,008	\$ 61,530
Net liability for defined benefit obligations	¥ 6,812	¥ 6,008	\$ 61,530

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost.....	¥1,196	¥1,226	\$10,807
Interest cost	36	34	326
Expected return on plan assets	(36)	(171)	(325)
Recognized actuarial losses.....	201	43	1,817
Others	328	(16)	2,960
Net periodic benefit costs.....	¥1,725	¥1,116	\$15,585

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial differences	¥(94)	¥(19)	\$(848)
Total	¥(94)	¥(19)	\$(848)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial differences	¥227	¥133	\$2,048
Total	¥227	¥133	\$2,048

(7) Plan assets as of March 31, 2021 and 2020

(a) Components of plan assets

Plan assets consisted of the following:

	2021	2020
Cash and cash equivalents.....	33%	29%
General accounts	67	71
Total	100%	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the current and expected assets allocation and long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2021 and 2020 were set forth as follows:

	2021	2020
Discount rate	0.39% – 0.50%	0.44% – 0.50%
Expected rate of return on plan assets.....	1.53%	1.56%

Expected salary increase rate is determined using the age-specific salary increase index calculated by designating the day of calculation as the reference date.

b. Defined Contribution Plan

The amounts required to be contributed to the defined contribution plan are ¥362 million (\$3,268 thousand) and ¥240 million for the years ended March 31, 2021 and 2020, respectively.

8. EQUITY

The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting for companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

Matters pertaining to actual dividends paid are as follows:

Dividends Paid

Year ended March 31, 2021

Resolution	Class of shares	Millions of Yen	Thousands of U.S. Dollars	Paid from	Yen	U.S. Dollars	Record date	Effective date
		Total dividends			Dividends per share			
General Meeting of Shareholders on June 16, 2020	Common stock	¥1,999	\$18,053	Retained earnings	¥7.04	\$0.06	March 31, 2020	June 22, 2020
Board of Directors meeting on October 29, 2020	Common stock	¥1,678	\$15,156	Retained earnings	¥5.91	\$0.06	September 30, 2020	December 1, 2020

Year ended March 31, 2020

Resolution	Class of shares	Millions of Yen	Paid from	Yen	Record date	Effective date
		Total dividends		Dividends per share		
General Meeting of Shareholders on June 13, 2019	Common stock	¥3,117	Retained earnings	¥10.99	March 31, 2019	June 19, 2019
Board of Directors meeting on October 28, 2019	Common stock	¥2,130	Retained earnings	¥ 7.51	September 30, 2019	December 3, 2019

Dividends with Record Dates Falling in the Year Ended March 31, 2021, but with Effective Dates Falling in the Year Ended March 31, 2022

Resolution	Class of shares	Millions of Yen	Thousands of U.S. Dollars	Paid from	Yen	U.S. Dollars	Record date	Effective date
		Total dividends			Dividends per share			
General Meeting of Shareholders on June 17, 2021	Common stock	¥2,608	\$23,559	Retained earnings	¥9.18	\$0.08	March 31, 2021	June 23, 2021

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as an earned legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of the earned legal reserve and additional paid-in capital equals 25% of the common stock. The Companies Act also provides that common stock, an earned legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders that is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. STOCK OPTIONS

Information related to the stock options for the year ended March 31, 2021 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option (1)	6 directors	1,440,000 shares	2012.7.3	¥631 (\$5.70)	From August 1, 2014 to July 31, 2021
2012 Stock Option (2)	33 employees of the Group	375,000 shares	2012.7.3	¥631 (\$5.70)	From August 1, 2014 to July 31, 2021
2014 Stock Option (1)	5 directors	39,000 shares	2014.11.7	¥ 1 (\$0.01)	From November 8, 2014 to November 7, 2044
2014 Stock Option (2)	58 employees of the Group	117,300 shares	2014.11.7	¥ 1 (\$0.01)	From November 7, 2017 to November 6, 2024
2016 Stock Option (1)	5 directors	31,400 shares	2016.2.25	¥ 1 (\$0.01)	From February 26, 2016 to February 25, 2046
2016 Stock Option (2)	5 directors	170,500 shares	2016.2.25	¥ 1 (\$0.01)	From February 25, 2019 to February 24, 2026
2016 Stock Option (3)	69 employees of the Group	135,400 shares	2016.2.25	¥ 1 (\$0.01)	From February 25, 2019 to February 24, 2026
2016 Stock Option (4)	5 directors	28,500 shares	2016.10.3	¥ 1 (\$0.01)	From October 4, 2016 to October 3, 2046
2016 Stock Option (5)	5 directors	181,800 shares	2016.10.3	¥ 1 (\$0.01)	From October 3, 2019 to October 2, 2026
2016 Stock Option (6)	84 employees of the Group	180,000 shares	2016.10.3	¥ 1 (\$0.01)	From October 3, 2019 to October 2, 2026
2017 Stock Option (1)	4 directors	16,700 shares	2017.10.6	¥ 1 (\$0.01)	From October 7, 2017 to October 6, 2047
2017 Stock Option (2)	4 directors	98,600 shares	2017.10.6	¥ 1 (\$0.01)	From October 6, 2020 to October 5, 2027
2017 Stock Option (3)	90 employees of the Group	140,400 shares	2017.11.6	¥ 1 (\$0.01)	From November 6, 2020 to November 5, 2027
2018 Stock Option (1)	4 directors	12,100 shares	2018.7.6	¥ 1 (\$0.01)	From July 7, 2018 to July 6, 2048
2018 Stock Option (2)	4 directors	77,500 shares	2018.7.6	¥ 1 (\$0.01)	From July 6, 2021 to July 5, 2028
2018 Stock Option (3)	101 employees of the Group	168,000 shares	2018.11.2	¥ 1 (\$0.01)	From November 2, 2021 to November 1, 2028
2019 Stock Option (1)	5 directors	18,100 shares	2019.7.5	¥ 1 (\$0.01)	From July 6, 2019 to July 5, 2049
2019 Stock Option (2)	4 directors	76,400 shares	2019.7.5	¥ 1 (\$0.01)	From July 5, 2022 to July 4, 2029
2019 Stock Option (3)	108 employees of the Group	175,100 shares	2019.11.1	¥ 1 (\$0.01)	From November 1, 2022 to October 31, 2029
2020 Stock Option (1)	5 directors	21,100 shares	2020.7.10	¥ 1 (\$0.01)	From July 11, 2020 to July 10, 2050
2020 Stock Option (2)	5 directors	108,200 shares	2020.7.10	¥ 1 (\$0.01)	From July 10, 2023 to July 9, 2030
2021 Stock Option (1)	94 employees of the Group	99,500 shares	2021.3.29	¥ 1 (\$0.01)	From March 29, 2024 to March 28, 2031

(Note) The number of shares is adjusted to reflect a three-for-one stock split executed effective July 1, 2015.

Stock option activity is as follows:

	2012 Stock Option (1)	2012 Stock Option (2)	2014 Stock Option (1)	2014 Stock Option (2)	2016 Stock Option (1)	2016 Stock Option (2)	2016 Stock Option (3)	2016 Stock Option (4)	2016 Stock Option (5)	2016 Stock Option (6)	2017 Stock Option (1)
	(Shares)										
For the Year Ended March 31, 2020											
Non-vested:											
March 31, 2019—outstanding...									181,800	132,700	
Granted.....											
Canceled.....											
Vested.....									181,800	132,700	
March 31, 2020—outstanding...											
Vested:											
March 31, 2019—outstanding...	56,700	47,100	21,900	55,200	18,100	38,700	89,900	15,400			11,500
Vested.....									181,800	132,700	
Exercised.....	18,900	9,900		18,600		28,300	28,000		107,900	42,400	
Canceled.....										2,200	
March 31, 2020—outstanding...	37,800	37,200	21,900	36,600	18,100	10,400	61,900	15,400	73,900	88,100	11,500
For the Year Ended March 31, 2021											
Non-vested:											
March 31, 2020—outstanding...											
Granted.....											
Canceled.....											
Vested.....											
March 31, 2021—outstanding...											
Vested:											
March 31, 2020—outstanding...	37,800	37,200	21,900	36,600	18,100	10,400	61,900	15,400	73,900	88,100	11,500
Vested.....											
Exercised.....	37,800	10,500		9,900		10,400	13,300		36,200	19,300	
Canceled.....											
March 31, 2021—outstanding...		26,700	21,900	26,700	18,100		48,600	15,400	37,700	68,800	11,500
	Yen (U.S. Dollars)										
Exercise price.....	¥631 (\$5.70)	¥631 (\$5.70)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)	¥ 1 (\$0.01)
Fair value price at grant date.....	¥141 (\$1.27)	¥141 (\$1.27)	¥1,172 (\$10.59)	¥1,136 (\$10.26)	¥1,483 (\$13.40)	¥1,428 (\$12.90)	¥1,428 (\$12.90)	¥1,876 (\$16.95)	¥1,809 (\$16.34)	¥1,809 (\$16.34)	¥2,786 (\$25.16)

	2017 Stock Option (2)	2017 Stock Option (3)	2018 Stock Option (1)	2018 Stock Option (2)	2018 Stock Option (3)	2019 Stock Option (1)	2019 Stock Option (2)	2019 Stock Option (3)	2020 Stock Option (1)	2020 Stock Option (2)	2021 Stock Option (1)
For the Year Ended March 31, 2020											
Non-vested:											
March 31, 2019—outstanding...	98,600	121,300		77,500	166,300						
Granted.....						18,100	76,400	175,100			
Canceled.....		11,900			15,800			11,500			
Vested.....						18,100					
March 31, 2020—outstanding...	98,600	109,400		77,500	150,500		76,400	163,600			
Vested:											
March 31, 2019—outstanding...			12,100								
Vested.....						18,100					
Exercised											
Canceled.....											
March 31, 2020—outstanding...			12,100			18,100					
For the Year Ended March 31, 2021											
Non-vested:											
March 31, 2020—outstanding...	98,600	109,400		77,500	150,500		76,400	163,600			
Granted.....									21,100	108,200	99,500
Canceled.....					10,400			12,500			
Vested.....	98,600	109,400							21,100		
March 31, 2021—outstanding...				77,500	140,100		76,400	151,100		108,200	99,500
Vested:											
March 31, 2020—outstanding...			12,100			18,100					
Vested.....	98,600	109,400							21,100		
Exercised	43,900	35,000									
Canceled.....		3,300									
March 31, 2021—outstanding...	54,700	71,100	12,100			18,100			21,100		

	Yen (U.S. Dollars)											
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Fair value price at grant date.....	¥2,726	¥3,073	¥3,147	¥3,126	¥2,345	¥2,652	¥2,626	¥2,644	¥2,572	¥2,548	¥3,256	
	(\$24.62)	(\$27.76)	(\$28.43)	(\$28.24)	(\$21.18)	(\$23.95)	(\$23.72)	(\$23.88)	(\$23.23)	(\$23.02)	(\$29.41)	

(Note) The Company executed a three-for-one stock split of its common stock effective July 1, 2015. The number of shares, exercise price and fair value price at grant date are adjusted to reflect the stock split.

The Assumptions Used to Measure Fair Value of Stock Options Granted for the Year Ended March 31, 2021

Resolved on June 25, 2020 (Granted on July 10, 2020)

Estimate method: Black-Scholes option pricing model
Volatility of stock price: 34.74%
Estimated remaining outstanding period: 4.8 years
Estimated dividend: ¥14.56 per share
Risk-free interest rate: (0.11)%

- Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from September 2015 to July 2020.
2. Estimated remaining outstanding period is a weighted average of the standard amount of stock option compensation corresponding to each position of directors, which are specified in the Stock Option Compensation Rule.
3. Estimated dividend is determined based on the actual dividend paid for the last full year.
4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

Resolved on June 25, 2020 (Granted on July 10, 2020)

Estimate method: Black-Scholes option pricing model
Volatility of stock price: 35.07%
Estimated remaining outstanding period: 6.5 years
Estimated dividend: ¥14.56 per share
Risk-free interest rate: (0.11)%

- Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from January 2014 to July 2020.
2. Estimated remaining outstanding period is the period from the start of estimation to the middle date of the exercise period.
3. Estimated dividend is determined based on the actual dividend paid for the last full year.
4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

Resolved on March 12, 2021 (Granted on March 29, 2021)

Estimate method: Black-Scholes option pricing model
Volatility of stock price: 35.01%
Estimated remaining outstanding period: 6.5 years
Estimated dividend: ¥12.96 per share
Risk-free interest rate: (0.06)%

- Notes: 1. Volatility of stock price is calculated based on the actual stock prices marked in the period from September 2014 to March 2021.
2. Estimated remaining outstanding period is the period from the start of estimation to the middle date of the exercise period.
3. Estimated dividend is determined based on the actual dividend paid for the last full year.
4. For the risk-free interest rate, the Company uses the average compound yield of long-term Japanese government bonds with a residual maturity period that approximates the estimated remaining outstanding period.

The Assumptions Used to Measure the Number of Vested Stock Options

The Company uses only actual cancellations due to the difficulty in determining a reasonable assumption for measuring the number of future cancellations.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Devaluation of inventories.....	¥ 1,163	¥ 991	\$ 10,506
Accrued enterprise tax	120	201	1,088
Provision for bonuses.....	745	530	6,727
Unrealized income	517	562	4,671
Liability for retirement benefits	2,170	1,922	19,604
Depreciation.....	588	569	5,308
Tax losses carried forward.....	585	662	5,280
Other—net	2,170	1,814	19,604
Subtotal.....	8,058	7,251	72,788
Valuation allowance on tax losses carried forward*	(341)	(354)	(3,076)
Valuation allowance on total deductible temporary differences	(440)	(287)	(3,982)
Subtotal.....	(781)	(641)	(7,058)
Deferred tax assets.....	7,277	6,610	65,730
Deferred tax liabilities:			
Reserve for advanced depreciation of property, plant and equipment.....	(78)	(80)	(708)
Valuation of intangible assets	(817)	(1,146)	(7,381)
Other—net	(1,132)	(1,000)	(10,221)
Deferred tax liabilities	(2,027)	(2,226)	(18,310)
Net deferred tax assets.....	¥ 5,250	¥ 4,384	\$ 47,420

*Tax losses carried forward and associated deferred tax assets by expiration period:

Millions of Yen							
2021							
	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Tax losses carried forward*1 ...	¥ 109	¥ 146	¥ 25	¥ 34	¥ 4	¥ 267	¥ 585
Valuation allowance	¥(109)	¥(146)	¥ (25)	(16)	¥ (4)	(41)	(341)
Deferred tax assets.....				¥ 18		¥ 226	¥ 244 *2

*1 Tax losses carried forward are multiplied by the normal effective statutory tax rate.

*2 Deferred tax assets of ¥244 million were recorded for the tax losses carried forward (multiplied by the normal effective statutory tax rate) of ¥585 million. Regarding the said tax losses carried forward, a valuation allowance was not recognized for the portion judged as collectible from expected future taxable income.

Millions of Yen							
2020							
	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Tax losses carried forward*1 ...	¥ 81	¥ 116	¥ 85	¥ 33	¥ 22	¥ 325	¥ 662
Valuation allowance	¥ (81)	¥(116)	¥ (85)	¥ (33)	(6)	(33)	(354)
Deferred tax assets.....					¥ 16	¥ 292	¥ 308 *2

*1 Tax losses carried forward are multiplied by the normal effective statutory tax rate.

*2 Deferred tax assets of ¥308 million were recorded for the tax losses carried forward (multiplied by the normal effective statutory tax rate) of ¥662 million. Regarding the said tax losses carried forward, a valuation allowance was not recognized for the portion judged as collectible from expected future taxable income.

Thousands of U.S. Dollars							
2021							
	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
Tax losses carried forward*1 ...	\$ 980	\$ 1,317	\$ 223	\$ 308	\$ 37	\$ 2,415	\$ 5,280
Valuation allowance	\$(980)	\$(1,317)	\$(223)	(145)	\$(37)	(374)	(3,076)
Deferred tax assets.....				\$ 163		\$ 2,041	\$ 2,204 *2

*1 Tax losses carried forward are multiplied by the normal effective statutory tax rate.

*2 Deferred tax assets of \$2,204 thousand were recorded for the tax losses carried forward (multiplied by the normal effective statutory tax rate) of \$5,280 thousand. Regarding the said tax losses carried forward, a valuation allowance was not recognized for the portion judged as collectible from expected future taxable income.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020, is as follows:

	2021	2020
Normal effective statutory tax rate.....	30.6%	30.6%
(Adjustments)		
Directors' bonus expenses not deductible for income tax purposes	0.1	0.1
Entertainment and other expenses not deductible for income tax purposes.....	0.0	0.0
Inhabitants tax on a per capita basis.....	0.2	0.1
Decrease in valuation allowance	0.5	0.7
Difference in applicable tax rates for subsidiaries	(4.5)	(2.6)
Effect of change in statutory tax rate.....		0.2
Tax credit.....	(1.2)	(0.9)
Other — net	1.2	(0.8)
Actual effective tax rate.....	26.9%	27.4%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥966 million (\$8,727 thousand), ¥1,556 million and ¥1,614 million for the years ended March 31, 2021, 2020 and 2019, respectively.

12. COMMITMENT LINE AGREEMENTS

The Group has entered into commitment line agreements with three banks to raise working capital in a stable and flexible manner. Outstanding balances of unused credit line commitment agreements as of March 31, 2021 and 2020 are as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Credit lines	¥15,000	¥15,000	\$135,489
Credit lines used.....			
Credit lines unused	¥15,000	¥15,000	\$135,489

These agreements contain the following financial covenants relating to the financial position and operating results of the Group:

- (1) The amount of net assets at the end of each fiscal year shall not be less than 75% of net assets of the latest financial year.
- (2) The Group shall not record a loss* from ordinary operations for two consecutive years.

The benefit of time may be forfeited for all debts under the contracts, when the Group violates the financial covenant.

*Ordinary income or loss is calculated by subtracting extraordinary income or loss pursuant to Japanese GAAP from income before income taxes.

13. LEASES

The Group leases certain machinery, computer and telecommunication equipment, office space and other assets.

The minimum rental commitments under non-cancelable operating leases at March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥ 3,991	¥ 3,899	\$ 36,046
Due after one year	13,938	17,536	125,902
Total	¥17,929	¥21,435	\$161,948

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group conducts planning and selling in its parts business, which consists of "FA," "Die Components," and "VONA." The capital investment plan for ongoing business is principally financed by the Group's funds. Temporary excess funds are operated by highly rated financial assets and it is our policy not to enter into derivative transactions for speculative purposes. Derivative transactions are only utilized to hedge foreign currency exchange rate fluctuation risk.

(2) Nature and extent of risks arising from financial instruments

Operating receivables such as trade notes and trade accounts are exposed to credit risk. Operating payables such as trade notes and trade accounts are due within one year. The Group operates its business globally and has receivables and payables denominated in foreign currencies that are exposed to foreign currency exchange rate fluctuation risk. The Group utilizes foreign currency forward contracts to hedge foreign currency exchange rate fluctuation risk of the net amount of receivables and payables denominated in foreign currencies.

(3) Risk management for financial instruments

(a) Credit risk (risk of default by counterparties) management

The Group follows sales management rules and the sales management department monitors customers' credit conditions periodically and manages the due date and balance of each customer. The Group keeps track of any adverse financial conditions of customers from an early stage to mitigate risk from bad debts. The Group enters into derivative transactions only with highly rated financial institutions to mitigate credit risk and the Company determined that there is no material credit risk. The maximum credit risk as of March 31, 2021 is represented by financial assets, which are exposed to credit risk on the balance sheet.

(b) Market risk (risk of foreign currency fluctuations and interest) management

Regarding the operating receivables and operating payables denominated in foreign currencies, the Group principally utilizes foreign currency forward contracts to hedge foreign currency fluctuation risk, which are monitored by each currency. Regarding investment securities, the Group regularly reviews the fair value and issuers' financial conditions and readjusts the Group's portfolio on an ongoing basis. For derivative transactions, the Group mainly deals in foreign currency forward contracts at present. The purpose of derivative transactions is limited to hedging actual demand of receivables and payables denominated in foreign currencies. The Group manages derivative risk by mutual supervision and review within the finance department.

(c) Liquidity risk (risk of default in payment at the due dates) management

The finance department prepares and updates its cash management plan periodically based on reports from each department and calculates the necessary amount on hand. The Group manages liquidity risk by maintaining the amount calculated by the finance department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on market prices and the value fluctuates according to the market. The contract amount regarding derivative transactions described in Note 15. DERIVATIVES does not indicate market risk related to derivative transactions.

(a) Fair value of financial instruments

Carrying amounts on the consolidated balance sheet, fair values and the differences between them for financial instruments as of March 31, 2021 and 2020 are as follows:

	Millions of Yen		
	2021		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents.....	¥ 71,964	¥ 71,964	
Time deposits.....	464	464	
Trade notes receivable.....	12,169	12,169	
Trade accounts receivable.....	59,519	59,519	
Trade notes payable and accounts payable.....	(19,458)	(19,458)	
Derivatives, net.....	(74)	(74)	

	Millions of Yen		
	2020		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents.....	¥ 44,440	¥ 44,440	
Time deposits.....	7,207	7,207	
Trade notes receivable.....	10,176	10,176	
Trade accounts receivable.....	53,002	53,002	
Trade notes payable and accounts payable.....	(17,448)	(17,448)	
Derivatives, net.....	(5)	(5)	

	Thousands of U.S. Dollars		
	2021		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents.....	\$ 650,026	\$ 650,026	
Time deposits.....	4,191	4,191	
Trade notes receivable.....	109,916	109,916	
Trade accounts receivable.....	537,613	537,613	
Trade notes payable and accounts payable.....	(175,759)	(175,759)	
Derivatives, net.....	(668)	(668)	

Financial instruments for which fair values cannot be reliably determined are excluded from the table above.

Valuation methods of fair values of financial instruments and information on derivatives are as follows:

Cash and cash equivalents, and time deposits

The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

Trade notes receivable and trade accounts receivable

The carrying values of trade notes receivable and trade accounts receivable approximate fair value because of their short maturities.

Trade notes payable and accounts payable

The carrying values of trade notes payable and trade accounts payable approximate fair value because of their short maturities.

Derivatives

Please refer to Note 15. DERIVATIVES.

(b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2021 and 2020

	Carrying Amount		
	Millions of Yen	2020	Thousands of U.S. Dollars
	2021	2020	2021
Unlisted stocks*.....	¥6	¥6	\$56

*Unlisted stocks are not subject to disclosure of fair value because they do not have market prices and it is considered that their fair values cannot be reliably determined.

(5) Maturity analysis for financial assets subsequent to March 31, 2021 and 2020

	Millions of Yen			
	2021			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents.....	¥ 71,964			
Time deposits.....	464			
Trade notes receivable.....	12,169			
Trade accounts receivable.....	59,519			
Total.....	¥ 144,116			

	Millions of Yen			
	2020			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents.....	¥ 44,440			
Time deposits.....	7,207			
Trade notes receivable.....	10,176			
Trade accounts receivable.....	53,002			
Total.....	¥ 114,825			

	Thousands of U.S. Dollars			
	2021			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents.....	\$ 650,026			
Time deposits.....	4,191			
Trade notes receivable.....	109,916			
Trade accounts receivable.....	537,613			
Total.....	\$1,301,746			

15. DERIVATIVES

Derivative transactions to which hedge accounting is not applied at March 31, 2021 and 2020 are as follows:

	Millions of Yen			
	2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	¥ 1,962		¥ (36)	¥ (36)
Selling	¥ 1,130		¥ (38)	¥ (38)

	Millions of Yen			
	2020			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	¥ 1,694		¥ 4	¥ 4
Selling	¥ 1,022		¥ (9)	¥ (9)

	Thousands of U.S. Dollars			
	2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain /Loss
Foreign currency forward contracts:				
Buying	\$17,721		\$(324)	\$(324)
Selling	\$10,209		\$(344)	\$(344)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

16. COMPREHENSIVE INCOME (LOSS)

Reclassifications and income from tax effects attributable to other comprehensive income (loss) for the years ended March 31, 2021, 2020 and 2019 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2021	2020	2019	2021
Foreign currency translation adjustments:				
Adjustments arising during the year.....	¥7,858	¥(5,697)	¥(105)	\$70,978
Reclassification adjustments to profit or loss				
Amount before income tax effect	7,858	(5,697)	(105)	70,978
Income tax effect.....				
Total	7,858	(5,697)	(105)	70,978
Defined retirement benefit plans:				
Adjustments arising during the year.....	(133)	(46)	(12)	(1,201)
Reclassification adjustments to profit and loss	39	27	23	353
Amount before income tax effect.....	(94)	(19)	11	(848)
Income tax effect.....	29	6	(4)	256
Total	(65)	(13)	7	(592)
Share of other comprehensive income (loss) in associates				
Adjustments arising during the year.....	0	(6)	(12)	7
Total other comprehensive income (loss).....	¥7,793	¥(5,716)	¥(110)	\$70,393

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS"), for the years ended March 31, 2021, 2020 and 2019 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Year ended March 31, 2021				
Basic EPS—				
Net income available to common shareholders	¥17,139	283,944	¥60.36	\$0.55
Effect of dilutive securities—				
Stock options		1,024		
Diluted EPS—				
Net income for computation.....	¥17,139	284,968	¥60.14	\$0.54
Year ended March 31, 2020				
Basic EPS—				
Net income available to common shareholders	¥16,504	283,701	¥58.18	
Effect of dilutive securities—				
Stock options		951		
Diluted EPS—				
Net income for computation.....	¥16,504	284,652	¥57.98	
Year ended March 31, 2019				
Basic EPS—				
Net income available to common shareholders	¥24,034	283,426	¥84.80	
Effect of dilutive securities—				
Stock options		1,086		
Diluted EPS—				
Net income for computation.....	¥24,034	284,512	¥84.48	

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2021 and 2020, the difference between exchange receipts and payments from loans to foreign subsidiaries of ¥(301) million (\$2,722) thousand and ¥(96) million, respectively, are included in "Other—net" of INVESTING ACTIVITIES.

For the years ended March 31, 2021 and 2020, the amounts of assets and obligations for lease transactions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Right-of-use assets	¥ 6,348	¥ 6,856	\$ 57,337
Accumulated depreciation of right-of-use assets	(2,714)	(1,709)	(24,513)
Lease obligations.....	¥ 4,084	¥ 5,193	\$ 36,885

19. SEGMENT INFORMATION

(1) Description of reportable segments

Reportable segments are parts of the Group whose financial data can be obtained separately. The Board of Directors reviews the financial data periodically to evaluate earnings and determine how to allocate business resources.

The Group consists of MISUMI Group Inc., 50 consolidated subsidiaries, one non-consolidated subsidiary and two associates, and conducts business in the following three areas: "FA Business," "Die Components Business" and "VONA Business."

"FA Business" develops and provides standard components that help streamline production and save labor costs in a production system such as factory automation as well as auto locating modules for high-precision production equipment. Various optics research and experimental equipment and components for production equipment, which change due to digitalization of electronic devices, are also developed and offered.

"Die Components Business" serves the automotive, electronics, and electrical machinery industries by developing and supplying standardized die components for metal presses and plastic injection molding applications and precision die components.

"VONA Business" provides third-party brands alongside original MISUMI-branded products mainly through online sales. It provides indirect materials or MRO (consumables) as well as production equipment.

(2) Method of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of the reportable segments are the same as those described in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Income by reportable segment is based on operating income.

(3) Net sales and Segment profit by reportable segment

	Millions of Yen					
	2021					
	Reportable Segments			Total	Adjustments	Consolidated
FA Business	Die Components Business	VONA Business				
Net sales:						
Sales to customers.....	¥102,245	¥66,871	¥141,603	¥310,719		¥310,719
Total	102,245	66,871	141,603	310,719		310,719
Segment profit.....	16,116	4,931	6,152	27,199		27,199
Segment profit before amortization of goodwill* ...	¥ 16,116	¥ 5,521	¥ 6,152	¥ 27,789		¥ 27,789

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.
(Note) For the Group's internal management, assets (or liabilities) are not allocated to reportable segments. Thus, assets (or liabilities) by reportable segment are not presented.

	Millions of Yen					
	2020					
	Reportable Segments			Total	Adjustments	Consolidated
FA Business	Die Components Business	VONA Business				
Net sales:						
Sales to customers.....	¥ 99,403	¥72,414	¥141,520	¥313,337		¥313,337
Total	99,403	72,414	141,520	313,337		313,337
Segment profit.....	12,578	5,010	6,052	23,640		23,640
Segment profit before amortization of goodwill* ...	¥ 12,578	¥ 5,617	¥ 6,052	¥ 24,247		¥ 24,247

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.
(Note) For the Group's internal management, assets (or liabilities) are not allocated to reportable segments. Thus, assets (or liabilities) by reportable segment are not presented.

	Millions of Yen					
	2019					
	Reportable Segments			Total	Adjustments	Consolidated
FA Business	Die Components Business	VONA Business				
Net sales:						
Sales to customers.....	¥109,231	¥76,443	¥146,262	¥331,936		¥331,936
Total	109,231	76,443	146,262	331,936		331,936
Segment profit.....	18,836	6,110	6,929	31,875		31,875
Segment profit before amortization of goodwill* ...	¥ 18,836	¥ 6,725	¥ 6,929	¥ 32,490		¥ 32,490

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.
(Note) For the Group's internal management, assets (or liabilities) are not allocated to reportable segments. Thus, assets (or liabilities) by reportable segment are not presented.

	Thousands of U.S. Dollars					
	2021					
	Reportable Segments			Total	Adjustments	Consolidated
FA Business	Die Components Business	VONA Business				
Net sales:						
Sales to customers.....	\$923,537	\$604,025	\$1,279,042	\$2,806,604		\$2,806,604
Total	923,537	604,025	1,279,042	2,806,604		2,806,604
Segment profit.....	145,567	44,541	55,570	245,678		245,678
Segment profit before amortization of goodwill* ...	\$145,567	\$ 49,868	\$ 55,570	\$ 251,005		\$ 251,005

*Amortization of other intangible assets related to the acquisition of Dayton Lamina Corporation was added back to Segment profit.
(Note) For the Group's internal management, assets (or liabilities) are not allocated to reportable segments. Thus, assets (or liabilities) by reportable segment are not presented.

(4) Information by region

	Millions of Yen						
	2021						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales.....	¥ 154,749	¥ 63,517	¥ 43,126	¥ 27,549	¥ 16,089	¥ 5,689	¥ 310,719

	Millions of Yen						
	2020						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales.....	¥ 168,331	¥ 50,407	¥ 44,872	¥ 28,002	¥ 16,000	¥ 5,725	¥ 313,337

	Thousands of U.S. Dollars						
	2021						
	Japan	China	Asia	America	Europe	Others	Total
Net Sales.....	\$1,397,786	\$573,725	\$389,541	\$248,836	\$145,328	\$51,388	\$2,806,604



Independent Auditor's Report

Millions of Yen						
2021						
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment.....	¥ 16,630	¥ 7,317	¥ 6,508	¥ 4,417	¥ 7,617	¥ 42,489

Millions of Yen						
2020						
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment.....	¥ 16,202	¥ 8,019	¥ 7,761	¥ 4,928	¥ 8,594	¥ 45,504

Thousands of U.S. Dollars						
2021						
	Japan	China	Vietnam	America	Others	Total
Property, plant and equipment.....	\$150,215	\$66,093	\$58,783	\$39,896	\$68,799	\$383,786

(5) Impairment losses by reportable segment

For the year ended March 31, 2021, the Company posted impairment losses of ¥792 million (\$7,150 thousand) in the FA Business, of ¥2,415 million (\$21,817 thousand) in the Die Components Business, and ¥6 million (\$52 thousand) in the VONA Business. The impairment loss on companywide assets was ¥88 million (\$796 thousand).

For the year ended March 31, 2020, impairment loss was not allocated to reportable segments.

The amount of impairment loss was ¥465 million for the year ended March 31, 2020.

There are no applicable matters for the year ended March 31, 2019.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of MISUMI Group Inc.:

Opinion

We have audited the consolidated financial statements of MISUMI Group Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of Merchandise and Finished Goods	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As stated in the consolidated balance sheet as of March 31, 2021, MISUMI Group Inc. (the "Company") recorded merchandise and finished goods inventories of 46,329 million yen (16.0% of total assets). Also, the information regarding the significant accounting estimates relating to the valuation of merchandise and finished goods is stated in the notes to the consolidated financial statements ("Significant Accounting Estimates").</p> <p>The Company handles a wide variety of merchandise and finished goods, which include size variations in microns. The core system records receipt and shipments transaction, then calculates the moving average unit price for each merchandise and finished goods. Also, the Company has established an inventory management system to determine the amount of each order, based on predicted future sales demand from historical customer purchase trends, for each merchandise and finished goods. With regard to the valuation of merchandise and finished goods, for merchandise and finished goods exceeding a certain quantity, where a certain period of time has elapsed since being initially recorded in inventory, and which are deemed unsellable in the future, the Company estimates the book value by, in principle, systematically writing down the carrying amount to zero to reflect the decrease in profitability. This estimate considers the life cycle of the merchandise and finished goods, the period starting from when the merchandise and finished goods are initially recorded in inventory, and the recent shipment quantity and other such factors.</p> <p>Valuation of merchandise and finished goods is based on forecasts of sales prices and volumes, after a certain period of time has elapsed and is subject to uncertainty and management judgment. Accordingly, we determined this to be a key audit matter.</p>	<p>We performed the following audit procedures, among others, to test merchandise and finished goods valuations:</p> <ul style="list-style-type: none"> Regarding the reasonableness of the forecasts of future sales prices and volumes, we reviewed the Company's analysis and then interviewed management. Regarding the uncertainty in the forecast of the sales volume for a certain period starting from when the merchandise and finished goods were initially recorded in inventory, we performed inventory turnover period analyses by type of merchandise and finished goods, as well as sales trend analyses by the number of years passed starting from when the merchandise and finished goods were initially recorded in inventory, in order to identify whether the turnover period became significantly long and whether there is any significant downtrend in sales volume. We evaluated the design, implementation and operating effectiveness of internal controls that verify the reasonableness of valuation rules of merchandise and finished goods in the inventory management process. With the assistance of our IT specialists, we evaluated the design, implementation and operating effectiveness of general IT controls relevant to the inventory management system used for the valuation of merchandise and finished goods. With the assistance of our IT specialists, we tested the accuracy and completeness of information generated by the core system and used for the valuation of merchandise and finished goods.

Company Profile and Stock Information

(As of March 31, 2021)

Company Overview

Trade name	MISUMI Group Inc.	Stock listing	First Section of the Tokyo Stock Exchange (Code: 9962)
Established	February 23, 1963	Fiscal year	From April 1 through March 31 of the following calendar year
Headquarters	Iidabashi First Building, 5-1, Koraku 2-chome, Bunkyo-ku, Tokyo 112-8583, Japan	Annual general meeting of shareholders	June
Common stock	13,436 million yen	Description of business	Development of Group management strategies, administration, and all functions related to Group management
		Website	https://www.misumi.co.jp/english/

Stock Information

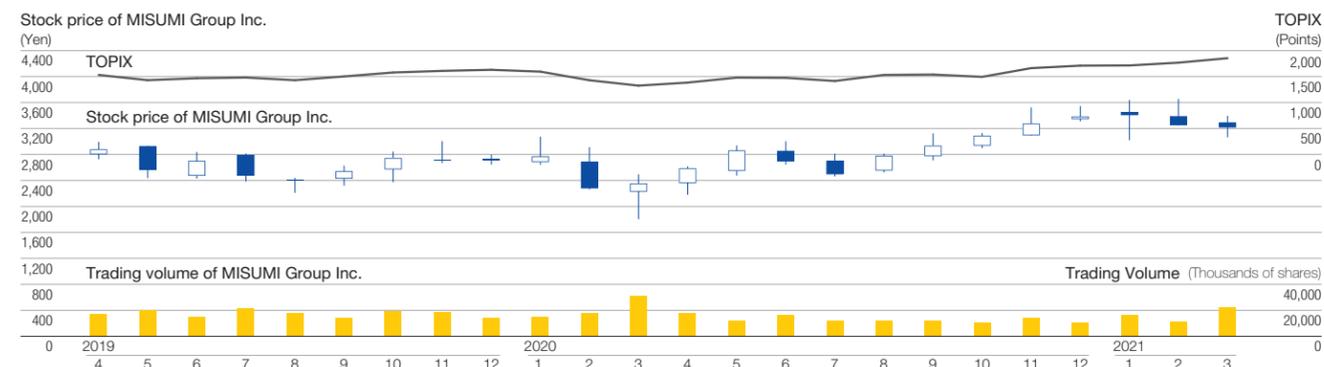
Total number of authorized shares	1,020,000,000 shares
Total number of shares outstanding	284,244,497 shares
Number of shareholders	5,888

Major Shareholders

Name	Number of shares held (thousands)	Percentage of shares outstanding (%)
Custody Bank of Japan, Ltd.	49,153	17.30
The Master Trust Bank of Japan, Ltd.	35,411	12.46
SSBTC CLIENT OMNIBUS ACCOUNT	15,349	5.40
RBC IST 15 PCT LENDING ACCOUNT - CLIENT ACCOUNT	7,305	2.57
Custody Bank of Japan, Ltd. (as trustee for Mizuho Bank Ltd. Retirement Benefit Trusts Account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	6,678	2.35
THE BANK OF NEW YORK MELLON 140051	5,489	1.93
THE BANK OF NEW YORK MELLON 140044	4,491	1.58
STATE STREET BANK WEST CLIENT - TREATY 505234	4,292	1.51
BNYM AS AGT/CLTS 10 PERCENT	4,186	1.47
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	3,673	1.29

Notes: 1. Calculations of percentage of shares outstanding exclude treasury shares.
2. Percentages of shares outstanding are rounded to the second decimal point.

Monthly Stock Price Range/Trading Volume



Please direct any inquiries to: Corporate Relations Department, MISUMI Group Inc. | Tel: +81-3-5805-7037 | E-mail: cc@misumi.co.jp

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 18, 2021