

ASAHI DIAMOND INDUSTRIAL CO., LTD.

Business Report

First Edition: August 28, 2026

Note: This document was prepared by an external specialist based on interviews with Asahi Diamond Industrial Co., Ltd. as reference material to help investors understand the Company's business.

Core Business and Strategic Focus Areas

Asahi Diamond Industrial Co., Ltd. is a leading manufacturer of industrial diamond tools, developing, manufacturing, and marketing high-precision tools for cutting, grinding, and polishing applications across a wide range of industries, including Electronics and Semiconductor, Transportation, Machinery, and Stone and Construction. Within the Electronics and Semiconductor field, the Company has earned strong recognition from major customers through the supply of highly specialized tools tailored to customer production processes. This segment represents the Company's most important business domain.

Historically, the Company has focused on custom-built tools designed to meet the manufacturing conditions of individual customers. Going forward, the Company intends to place greater emphasis on highly sophisticated, high-value-added applications within semiconductor manufacturing processes, where machining precision and production yield have the greatest impact. In semiconductor manufacturing, precision requirements continue to rise each year, and even small improvements in yield can generate significant value for customers. As a result, the Company's opportunities to contribute are expanding.

To support growth opportunities in these markets, the Company is implementing approximately ¥15 billion in capital expenditures during the period from the fiscal year ended March 2024 to the fiscal year ending March 2026. These investments are intended to address increasing precision requirements and strengthen the foundation for next-generation tool development. In addition, the Company is investing in human resource development, internal education programs designed to deepen understanding of customer production processes, and the establishment of specialized teams with expertise in Electronics and Semiconductor applications.

Going forward, the Company intends to deepen its involvement in customer production lines and develop tools capable of solving process-related challenges and improving manufacturing yields. Strengthening technological capabilities in highly sophisticated applications is viewed as an important initiative for enhancing long-term competitiveness and corporate value.

Trends in Key Management Indicators

The Company's Net sales have declined since 2016 as a result of rapid structural changes in the photovoltaic diamond wire market. Chinese manufacturers began mass-producing low-cost products, causing market prices to fall sharply. Unit prices for diamond wire declined to approximately one-tenth of peak levels. As domestic photovoltaic panel manufacturers subsequently withdrew from the market, the Company's photovoltaic-related sales gradually disappeared between 2017 and 2019.

During fiscal years 2020 and 2021, the disappearance of photovoltaic-related earnings and reduced capital investment associated with the COVID-19 pandemic resulted in net losses during certain periods. These developments were primarily attributable to structural changes in specific markets and external economic conditions and occurred during a period of significant change in the supply-demand structure of the relevant businesses.

The Company has maintained a high level of cash and investment securities for many years. Management is evaluating how best to utilize these resources while balancing long-term investments in growth, research and development, human capital enhancement, and shareholder returns.

ASAHI DIAMOND INDUSTRIAL CO., LTD. | BUSINESS REPORT

Statement of Income (Millions of Yen)	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027 Company Forecast Revised on Aug. 7
Net sales	42,024	45,458	41,046	35,304	30,143	37,161	39,320	38,653	41,006	41,983	45,500
Year-on-year change	-7.6	8.2	-9.7	-14.0	-14.6	23.3	5.8	-1.7	6.1	2.4	8.4
Gross profit	10,895	13,423	10,861	8,218	6,401	10,350	10,530	9,998	11,302	11,819	14,530
Gross profit margin	25.9	29.5	26.5	23.3	21.2	27.9	26.8	25.9	27.6	28.2	31.9
Selling, general and administrative expenses	8,250	8,782	8,297	7,923	7,134	7,539	8,024	8,471	8,991	9,415	9,530
Selling, general and administrative expense ratio	19.6	19.3	20.2	22.4	23.7	20.3	20.4	21.9	21.9	22.4	20.9
Operating profit	2,645	4,640	2,563	294	-732	2,811	2,506	1,526	2,311	2,403	5,000
Operating profit margin	6.3	10.2	6.2	0.8	-2.4	7.6	6.4	4.0	5.6	5.7	11.0
Ordinary profit	2,945	5,074	3,108	591	-337	3,650	3,275	2,408	3,070	3,346	5,300
Ordinary profit margin	7.0	11.2	7.6	1.7	-1.1	9.8	8.3	6.2	7.5	8.0	11.6
Profit attributable to owners of parent	2,487	1,614	2,321	-340	-331	3,288	2,765	2,109	2,493	2,009	3,700
Year-on-year change	-25.5	-35.1	43.8	-	-	-	-15.9	-23.7	18.2	-19.4	84.1
Net profit margin	5.9	3.6	5.7	-1.0	-1.1	8.8	7.0	5.5	6.1	4.8	8.1
Per Share Data (Yen)											
Number of shares outstanding at year-end (thousand shares)	55,700	55,700	55,700	55,700	55,700	55,700	53,889	51,889	51,889	48,430	
EPS	44.34	29.00	41.76	-6.13	-5.97	59.23	50.88	40.57	48.36	40.92	76.40
EPS (diluted)	-	-	-	-	-	-	-	-	-	-	-
DPS	16.00	13.00	14.00	10.00	6.00	24.00	26.00	30.00	30.00	30.00	34.00
BPS	1,007.42	1,048.95	1,040.37	1,000.06	1,008.33	1,067.79	1,142.25	1,207.32	1,200.54	1,292.35	
Balance Sheet (Millions of Yen)											
Cash and deposits	14,916	18,202	14,886	14,038	10,649	14,771	16,375	12,780	14,752	16,077	
Notes and accounts receivable - trade	10,846	12,782	11,255	9,325	9,148	10,642	10,059	10,387	10,038	10,757	
Inventories	6,234	6,693	6,621	5,978	6,298	6,744	7,220	8,185	8,759	9,367	
Total current assets	33,160	38,585	35,012	32,762	27,161	33,361	34,301	32,601	34,456	36,841	
Total property, plant and equipment	23,133	19,919	21,576	23,644	26,535	25,434	25,061	26,655	28,845	26,443	
Total intangible assets	123	107	143	195	228	240	190	351	408	1,057	
Total investments and other assets	14,265	16,065	16,315	13,405	14,219	13,205	14,623	14,292	12,640	14,861	
Total non-current assets	37,521	36,092	38,035	37,245	40,982	38,880	39,876	41,299	41,895	42,362	
Total assets	70,682	74,678	73,047	70,007	68,144	72,241	74,177	73,901	76,351	79,203	
Notes and accounts payable - trade	1,632	1,865	1,563	1,317	1,293	1,489	1,477	1,424	1,658	1,733	
Short-term interest-bearing debt	461	490	488	533	540	210	179	544	234	44	
Total current liabilities	4,964	6,421	5,515	4,479	4,299	5,081	5,255	6,185	6,640	6,712	
Long-term interest-bearing debt	29	16	0	0	0	0	0	0	2,000	4,500	
Total non-current liabilities	8,429	8,548	8,504	8,694	6,547	6,290	6,039	3,722	6,131	8,357	
Total liabilities	13,394	14,969	14,019	13,174	10,847	11,372	11,295	9,908	12,772	15,070	
Shareholders' equity	56,110	58,421	57,743	55,512	55,970	59,292	61,173	62,241	61,652	62,208	
Total net assets	57,288	59,708	59,028	56,833	57,297	60,869	62,882	63,993	63,579	64,133	
Statement of Cash Flows (Millions of Yen)											
Cash flows from operating activities	6,205	6,439	4,449	4,805	-90	5,948	4,979	2,839	5,765	5,412	
Cash flows from investing activities	-1,194	-2,393	-5,144	-4,990	-4,289	-356	-1,260	-3,505	-3,820	-2,120	
Cash flows from financing activities	-2,631	-939	-914	-732	-604	-1,077	-3,145	-3,121	-212	-1,883	
Financial Indicators											
Return on equity (ROE)	4.4	2.8	4.0	-0.6	-0.6	5.7	4.6	3.4	4.0	3.2	

Segment Structure

The Company operates as a single-segment manufacturer of diamond tools, including CBN tools and grinding wheels. Net sales are categorized by application market as Electronics and Semiconductor, Transportation, Machinery, Stone and Construction, and Others. Geographically, Net sales are disclosed by Japan, Taiwan, China, Other Asia and Oceania, Europe, North America, and Others.

Segment Information (Millions of Yen)	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027 Company Forecast Revised on Aug. 7
Net Sales by Industry	42,024	45,458	41,046	35,304	30,143	37,161	39,320	38,653	41,006	41,983	45,500
Electronics and Semiconductor	18,323	19,257	13,626	11,384	11,070	13,752	14,757	14,684	16,667	16,978	18,900
Year-on-year change	-9.0	5.1	-29.2	-16.5	-2.8	24.2	7.3	-0.5	13.5	1.9	11.3
Transportation	8,481	9,300	9,955	8,757	6,800	8,115	8,282	9,204	9,692	9,632	10,400
Year-on-year change	0.5	9.7	7.0	-12.0	-22.3	19.3	2.1	11.1	5.3	-0.6	8.0
Machinery	8,805	9,884	10,508	8,974	7,460	9,832	10,640	9,434	9,430	10,373	11,600
Year-on-year change	-6.0	12.3	6.3	-14.6	-16.9	31.8	8.2	-11.3	-0.0	10.0	11.8
Stone and Construction	4,818	5,353	5,158	4,504	3,635	4,124	4,239	4,218	3,975	3,885	3,700
Year-on-year change	-13.0	11.1	-3.6	-12.7	-19.3	13.5	2.8	-0.5	-5.8	-2.3	-4.8
Others	1,595	1,662	1,796	1,683	1,176	1,335	1,401	1,111	1,240	1,113	900
Year-on-year change	-19.3	4.2	8.1	-6.3	-30.1	13.5	4.9	-20.7	11.6	-10.3	-19.2
Net Sales by Region	42,024	45,458	41,046	35,304	30,143	37,161	39,320	38,653	41,006	41,983	45,500
Japan	18,919	20,480	21,220	19,098	16,566	19,150	19,179	17,387	18,217	19,512	22,300
Year-on-year change	-3.3	8.3	3.6	-10.0	-13.3	15.6	0.2	-9.3	4.8	7.1	14.3
Taiwan	4,043	4,487	3,519	2,722	2,610	3,388	3,454	3,080	3,111	2,889	2,800
Year-on-year change	-8.6	11.0	-21.6	-22.6	-4.1	29.8	1.9	-10.8	1.0	-7.1	-3.1
China	6,605	7,668	3,897	2,883	2,933	3,647	4,320	3,704	4,275	4,928	4,800
Year-on-year change	-9.4	16.1	-49.2	-26.0	1.7	24.3	18.5	-14.3	15.4	15.3	-2.6
Other Asia and Oceania	5,858	6,042	5,641	5,076	3,989	4,964	5,676	6,041	6,535	6,819	7,100
Year-on-year change	-14.7	3.1	-6.6	-10.0	-21.4	24.4	14.3	6.4	8.2	4.3	4.1
Europe	4,280	4,079	4,006	3,224	2,409	3,399	3,605	4,366	4,514	4,330	4,700
Year-on-year change	-10.6	-4.7	-1.8	-19.5	-25.3	41.1	6.1	21.1	3.4	-4.1	8.5
North America	0	0	0	0	0	1,841	2,244	2,885	2,869	2,172	2,100
Year-on-year change	-	-	-	-	-	-	21.9	28.6	-0.6	-24.3	-3.3
Others	2,316	2,700	2,760	2,299	1,634	768	838	1,187	1,482	1,331	1,700
Year-on-year change	-8.1	16.6	2.2	-16.7	-28.9	-53.0	9.1	41.6	24.9	-10.2	27.7

Characteristics of the Earnings Model

Consumable Products × High Customer Retention × Customized Products

Across all five industries served by the Company, tools experience wear depending on the material and hardness of the workpiece. As a result, there is a physical limitation on the number of processing cycles each tool can perform. Tool consumption generally increases in proportion to customer production volumes. For example, if a customer's production volume increases by 50%, tool demand will generally increase by approximately 50% as well. This volume-linked demand structure enables relatively stable sales and necessitates periodic tool replacement and repair. Customer retention rates are approximately 90% in the Electronics and Semiconductor, Transportation, Machinery, and Stone and Construction markets.

Sales Volumes and Average Selling Prices by Industry

Item	Net Sales (JPY million)	Sales Volume (thousand units/year)	Average Selling Price (JPY thousand)
Electronics and Semiconductor	16,667	900	22
Transportation	9,692	300	32
Machinery	9,430	1,600	6
Stone and Construction	3,975	400	10
Others	1,240	-	-

Note: Results for the fiscal year ended March 2025. Sales volumes are approximate and are presented for reference purposes.

Approximately 90% of the Company's products are manufactured to customer-specific specifications, while standard catalog products account for only around 10% of sales. Dedicated tools are designed, prototyped, and supplied according to each customer's processing conditions. Through direct relationships with end users, the Company has established a technological framework capable of addressing highly demanding precision applications. This high-value-added and high-customer-retention business model contributes to earnings stability.

Procurement Structure and Price Pass-Through

The primary raw materials used in the Company's products consist of abrasive grains, bonding materials, and tool bodies. As a rough guide, the composition ratio is approximately 2:2:6 for abrasive grains, bonding materials, and tool bodies, respectively. More than 95% of abrasive grain consumption consists of synthetic diamond and CBN materials, while natural diamonds are used only in limited applications. The cost of abrasive materials has generally declined over the long term. However, rising procurement costs and labor expenses following the COVID-19 pandemic have led the Company to implement gradual price increases over the past three years. As a result, profitability has improved and become more stable. Customers have also become more receptive to price increases under current market conditions.

Research and Development

Research and development expenses have been increasing in recent years, and the ratio of research and development expenses to Net sales has gradually risen. This reflects increasing customer requirements, more sophisticated manufacturing processes, growing demand for application-specific tool designs, research into new materials, and development activities intended to improve machining precision.

More than half of the Company's research and development expenses are directed toward Electronics and Semiconductor applications. Development activities are primarily conducted through joint projects with customers and the supply of prototype products. Because semiconductor manufacturing requires highly specialized tool specifications, continuous development efforts, including design verification and fundamental testing, are essential.

The Company expects development projects related to semiconductor miniaturization and higher precision requirements to continue increasing. Accordingly, management plans to further expand research and

development expenses over the medium term. For the Company, research and development represents a fundamental activity that enables rapid adaptation to changes in customer manufacturing processes.

Research and Development Expenses (Millions of Yen)	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Net sales	42,024	45,458	41,046	35,304	30,143	37,161	39,320	38,653	41,006	41,983
Research and development expenses	1,741	1,802	1,782	1,735	1,630	1,811	1,985	2,236	2,596	2,568
R&D ratio	4.1	4.0	4.3	4.9	5.4	4.9	5.0	5.8	6.3	6.1

Organization and Human Resources

The Company's principal manufacturing facilities are located in Mie and Chiba Prefectures. Employee turnover at these production sites has remained below 2%, representing a relatively low level. Because the Company's made-to-order business model requires expertise in tool design and finishing methods tailored to specific machining conditions, operational knowledge and manufacturing know-how tend to accumulate within the organization. Such accumulated expertise serves as an important foundation supporting product precision and manufacturing stability.

Diamond tool manufacturing involves multiple production stages, including material selection, design, sintering, machining, and finishing. Each process requires specialized knowledge and experience. The Company's high employee retention rate enables the continued accumulation of these skills within the organization and forms a key foundation for manufacturing quality and technological responsiveness.

The Company's management team places significant emphasis on manufacturing operations. Senior executives, including the President, regularly visit manufacturing facilities to directly observe production processes and improvement initiatives. This close connection with frontline operations contributes to a deeper understanding of manufacturing processes, faster identification of issues, and continuous improvement in product development and quality management.

Business Conditions by Application Market

1. Electronics and Semiconductor

The Electronics and Semiconductor segment is the Company's largest business area, accounting for approximately 40% of consolidated Net sales. The Company supplies specialized tools for a variety of precision manufacturing processes, including wafer processing, ingot processing, pre- and post-CMP processes, and dicing processes. Its principal semiconductor-related products are Electroplated Diamond Wire, Diamond Wheels for Edge Grinding, Precision Grinding Wheels, CMP Conditioners, and Dicing Blades. All of these products are used in critical manufacturing processes that directly influence semiconductor device performance, production yield, and process stability.

These tools are primarily custom-designed to meet specific customer process requirements, resulting in a customer retention rate of approximately 90%. Once a tool specification is adopted in a semiconductor production line, it is rarely changed, and tool consumption generally increases in proportion to manufacturing volume. This volume-linked demand structure, together with the Company's close involvement in customer manufacturing processes, contributes to the relatively high profitability of this segment.

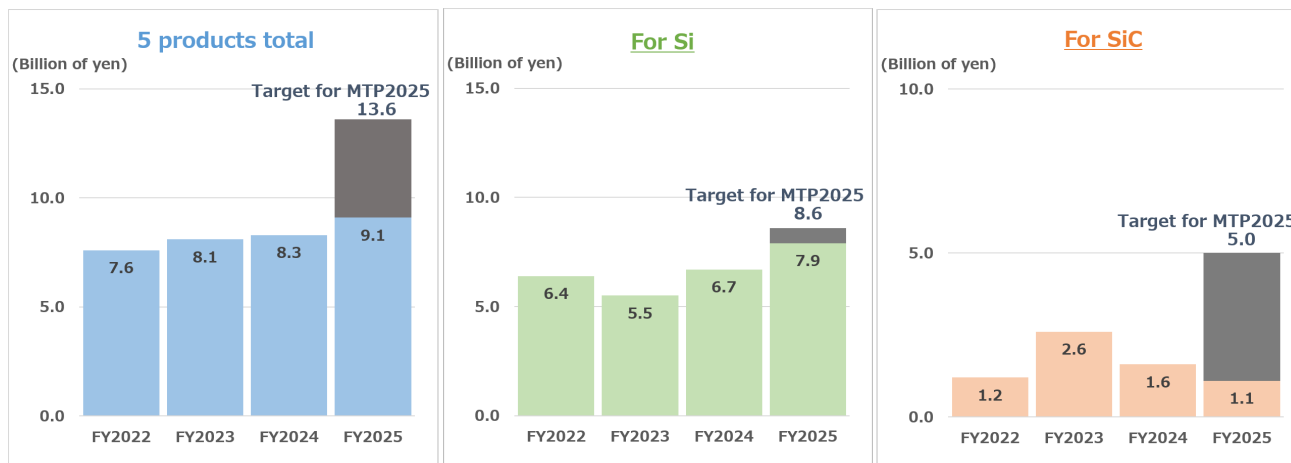
Historically, the Company primarily supplied tools based on customer-defined specifications. However, semiconductor manufacturers continue to demand higher levels of machining precision and production-line stability. Even minor improvements in production yield can have a significant impact on customer productivity. As a result, the Company has identified yield improvement and other technically demanding applications as key future growth areas and is actively strengthening its process expertise and technological capabilities. In the past, the Company achieved a high market share for inner-diameter blades used in semiconductor ingot slicing and generated strong profitability in certain product categories.

Sales of Electroplated Diamond Wire for photovoltaic applications reached approximately ¥10 billion annually during the period from 2015 to 2018. However, large-scale supply of low-cost Chinese products caused market prices to decline to approximately one-tenth of their previous peak level. As domestic photovoltaic manufacturers withdrew from the market, sales for this application became minimal. By contrast, Electroplated Diamond Wire for semiconductor applications requires significantly higher precision and serves different manufacturing processes. Orders continue to increase, and demand is expected to remain strong in the future.

More than half of the Company's research and development expenses are directed toward Electronics and Semiconductor applications. Development activities focus on collaborative projects with customers and the provision of prototype products. Semiconductor-related investments also represent the primary focus of the Company's approximately ¥15 billion capital expenditure program for the period from 2024 through 2026.

Competition consists of several domestic and international abrasive-tool manufacturers. However, the Company possesses a comprehensive lineup of tools covering multiple semiconductor manufacturing processes, and its proposals emphasizing machining performance and process compatibility are highly regarded by customers. Demand is influenced by shipment volumes of silicon and silicon carbide wafers, while market expansion may occasionally be accompanied by pricing pressure. Although laser processing technologies are being adopted in some applications, the Company intends to strengthen its technological capabilities in areas with demanding precision requirements and thereby reinforce its business foundation.

Sales Performance and Original Targets for Five Strategic Products



2. Transportation

The Transportation segment accounts for approximately one-quarter of consolidated Net sales and primarily serves the automotive industry. It also includes aerospace applications and tools used for glass and ceramics processing. Major applications include grinding and cutting tools used in the machining of engine components, shafts, suspension components, and aircraft engine parts.

Demand follows a volume-linked structure, with replacement demand based on tool life representing the primary source of revenue. Once adopted within a production line, tools are typically used continuously. Annual sales volume is approximately 300,000 units, with an average selling price of roughly ¥32,000 per unit. Additional demand is occasionally generated by process-improvement proposals and the launch of new customer products.

While automotive demand is closely related to vehicle production volumes, continued electrification is expected to reduce demand associated with internal combustion engine components. Nevertheless, electric vehicles still require machining processes for brake components, e-axis components, and battery-related parts, creating opportunities for future tool demand. Certain applications may also be classified within the Machinery segment.

In overseas markets, particularly in Europe, automotive manufacturers frequently maintain affiliated tool-production companies, creating strong group-oriented supply structures. Consequently, switching to external suppliers can be difficult even when tool performance is highly evaluated. Differences in procurement systems and distribution channels may also lengthen adoption cycles and result in regional differences in market penetration.

Over the medium to long term, declining demand for engine-related machining and increasing demand associated with new materials and electrification-related components are expected to coexist. The Company intends to maintain its existing business while expanding into emerging applications.

3. Machinery

The Machinery segment consists of grinding and cutting tools used in a wide range of applications, including industrial machinery, machine tools, molds, bearings, cemented carbide materials, and ceramics. Because it serves a broad range of materials and manufacturing processes, customers often require highly customized tool specifications.

Demand is driven primarily by replacement requirements. Tools are replaced when they reach the end of their usable life based on machining area and processing frequency. Although annual unit sales are relatively high, the average selling price is approximately ¥6,000 per unit, significantly lower than the Electronics and Semiconductor segment at approximately ¥22,000 and the Transportation segment at approximately ¥32,000. This difference reflects product size and specifications rather than any unusual market conditions.

A portion of sales is generated through machine-tool manufacturers that subsequently supply end users. Compared with segments where direct customer relationships predominate, this distribution structure tends to result in relatively lower profitability.

The diverse nature of applications often requires customized designs tailored to individual machining conditions. Consequently, this segment is highly compatible with the Company's made-to-order production model. The Company intends to continue offering solutions for a broad range of materials and manufacturing processes.

4. Stone and Construction

The Stone and Construction segment consists of tools used for cutting and polishing stone, concrete, tile, and paving materials. Principal products include Diamond Saw Blades and cutters that are widely used in construction and civil-engineering applications.

Demand follows a volume-linked consumption model, as tools wear in proportion to cutting volume and processing area. Replacement demand therefore represents the primary source of revenue. This segment constitutes a relatively small portion of Company-wide Net sales but serves as a complementary element within the overall business portfolio.

Although infrastructure renewal projects and national resilience initiatives are expected to support a certain level of construction activity, this segment is not anticipated to be a major growth driver for the Company. Management therefore intends to focus primarily on maintaining a stable supply relationship with existing customers.

5. Others

The Others segment consists of jewelry-related products as well as products supplied to universities, research institutions, and ceramic manufacturers. In jewelry applications, tools used for jewelry processing and polishing are sold through channels such as television shopping programs. Products supplied to universities and research institutions are used for sample preparation and research purposes, while products supplied to ceramic manufacturers are used in fired-material processing applications.

Mid-term Management Plan 2030

The Company formulated Mid-term Management Plan 2030 as the culmination of its transformation efforts toward achieving VISION 2030, which defines the ideal state the Company aims to achieve by 2030. The plan is positioned as the final phase, the completion of reforms.

The Company has established the following three strategic priorities:

- Accelerating growth businesses centered on Electronics and Semiconductor.
- Reforming the earnings structure and improving profitability through selection and concentration.
- Strengthening development capabilities, human resources, and management foundations that support future growth.

Under the plan, management has established the following targets for the fiscal year ending March 2031:

Metric	Target
Net sales	¥53.0 billion
Operating profit	¥5.3 billion
Operating profit ratio	10% or higher
Return on equity (ROE)	8% or higher

Reference: <https://www.asahidia.co.jp/wp-content/uploads/2026/05/MTMP2030.pdf>

History

The Company was founded in 1937 as a manufacturer of metal-processing tools, including wire drawing dies. It subsequently expanded its business into the manufacture of industrial diamond tools and developed products serving a broad range of applications, including Electronics and Semiconductor, Transportation, Machinery, and Stone and Construction. Since its establishment, the Company has maintained its independence and expanded its business without major capital ties to other corporations.

Within the semiconductor industry, the Company was an early supplier of inner-diameter blades used for semiconductor ingot slicing. Supported by their highly efficient processing characteristics, these products achieved a substantial market share in specific manufacturing processes. Certain inner-diameter blade products also generated exceptionally high profitability due to the advanced specialized processing technologies involved.

As semiconductor ingots increased in size, manufacturing methods evolved and Electroplated Diamond Wire used in wire saws gradually became the industry standard. In response to these changes, the Company restructured its business portfolio and increasingly focused on tools used in Electronics and Semiconductor manufacturing processes.

The Company's HEAD OFFICE is located in Kojimachi, Chiyoda-ku, Tokyo. Major domestic manufacturing facilities are located in Mie Prefecture and Chiba Prefecture. Research and development activities are primarily conducted at facilities in Kanagawa Prefecture, while process-related development and manufacturing improvements are carried out at individual production sites.

The Company also maintains manufacturing facilities in France, Taiwan, Shanghai, Indonesia, and Thailand, enabling the establishment of a global production and supply network tailored to customer requirements and application characteristics. With respect to shareholder composition, no specific corporate shareholder possesses a level of ownership that materially influences management decisions. Although the Company maintains certain cross-shareholdings with tool manufacturers, management is actively pursuing initiatives designed to reduce such holdings over time.

End

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