

Stock code: 6101  
May 28, 2015

To our shareholders,

Takao Nishijima, Chairman and CEO  
TSUGAMI CORPORATION  
12-20, Tomizawa-cho  
Nihonbashi, Chuo-ku, Tokyo

### **Notice of the 112<sup>th</sup> Annual Shareholders Meeting**

You are cordially invited to attend the 112<sup>th</sup> Annual Shareholders Meeting of TSUGAMI CORPORATION (the “Company”), to be held as set forth below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing. Please review the attached reference materials and exercise your vote by indicating “for” or “against” for each agenda item listed on the enclosed proxy card, affix your seal and return it to us no later than 5:30 p.m. on Thursday, June 17, 2015.

#### **Meeting Details**

- 1. Date & Time** 10:00 am, Friday, June 18, 2015
- 2. Venue** Conference Room at the Company’s Nagaoka Factory at 1-1-1 Higashizao, Nagaoka-shi, Niigata Prefecture. (Please refer to the attached map.)

#### **3. Agenda:**

##### **Items to be reported**

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Corporate Auditors for the 112<sup>th</sup> term, from April 1, 2014 to March 31, 2015, will be reported at the meeting.
2. The Non-Consolidated Financial Statements for the 112<sup>th</sup> term, from April 1, 2014 to March 31, 2015, will be reported at the meeting.

**Items to be resolved**

**Item 1:** Partial Amendments to the Articles of Incorporation

**Item 2:** Appointment of Eight Directors

**Item 3:** Appointment of One Statutory Auditor

**Item 4:** Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers of the Company and employees with similar positions

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If attending the meeting in person, please present the enclosed proxy card at the reception desk. In addition, you are also kindly requested to bring this Notice as meeting materials when you attend.

If any amendments are made to reference materials for the Annual Shareholders Meeting, the business report, or non-consolidated or consolidated financial statements, they will be posted on the Company website at <http://www.tsugami.co.jp>.

(Attachment)

## Business Report

(From April 1, 2014 to March 31, 2015)

### I. Current Status of the Group

#### (1) Business Performance for the Fiscal Year Ended March 31, 2015

##### (i) Business Progress and Results

During the consolidated fiscal year under review, the Japanese economy remained on a modest recovery path overall, despite the effects of the consumption tax hike in certain areas.

In the machine tool industry, the domestic market maintained the moderate upward momentum seen the previous fiscal year. The U.S. and European markets both remained strong, and the Chinese market also generally staged a modest recovery, driven by EMS associated with smartphones.

In this environment, both net sales and income at TSUGAMI Corporation (the "Company") and its affiliates (the "Group") rose year on year, primarily reflecting sales of products for the IT products industry and the contribution of new products for automobiles.

Consolidated net sales for the fiscal year under review increased 68.0% year on year, to 54,132 million yen. Consolidated net sales in Japan increased 32.0% year on year, to 9,712 million yen. Consolidated exports increased 78.6% year on year, to 44,419 million yen. The export ratio increased from 77.2% for the previous fiscal year, to 82.1%.

A breakdown of consolidated net sales by machinery category shows that sales of mainstay Automatic lathes increased 71.0% year on year, to 44,150 million yen, sales of Grinding machines rose 1.1%, to 3,222 million yen, sales of Machining centers rose 1.9%, to 1,536 million yen, and sales of Rolling machines and other specialized machines rose 257.1%, to 4,914 million yen.

Consolidated operating income increased 512.4% year on year, to 7,253 million yen. Consolidated ordinary income increased 300.8% year on year, to 7,745 million yen and consolidated net income increased 1,439.0% year on year, to 5,297 million yen for the fiscal year under review.

##### (ii) Capital Investments Activities

Major facilities acquired during the fiscal year under review are as follows:

Nagaoka Factory	Additional installation of equipment for producing machine tools
PRECISION TSUGAMI (CHINA) CORPORATION	Additional installation of equipment for producing machine tools

Total investments amounted to 1,725 million yen, funded through the Company's own funds.

##### (iii) Financing Activities

The Group did not issue any bonds or shares to raise funds in the fiscal year under review.

**(2) Assets and Operating Results for the Latest Three years**

(Million yen)

Category	109 <sup>th</sup> term ended March 31, 2012	110 <sup>th</sup> term ended March 31, 2013	111 <sup>th</sup> term ended March 31, 2014	112 <sup>th</sup> term ended March 31, 2015
Net sales	35,739	52,812	32,225	54,132
Ordinary income (loss)	3,875	6,800	1,932	7,745
Net income (loss)	2,281	4,207	344	5,297
Net income (loss) per share	33.88 yen	57.16 yen	4.72 yen	74.37 yen
Total assets	50,757	45,919	52,250	56,829
Net assets	27,717	31,998	31,587	37,279
Net asset per share	372.21 yen	427.86 yen	428.18 yen	522.94 yen

**(3) Status of Parent Company and Principal Subsidiaries**

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
TSUGAMI MACHINERY CO., LTD	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
TSUGAMI GENERAL SERVICE CO., LTD.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations Manufacturing of measuring equipment and prototype standard
PRECISION TSUGAMI (CHINA) CORPORATION	287 million yuan	(100.0%)	Manufacturing and sales of machine tools
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	35 million yuan	(100.0%)	Manufacturing and sales of machine tool castings
TSUGAMI KOREA Co., Ltd.	1,000 million won	100.0%	Sales of machine tools
Precision Tsugami (China) Corporation Limited	38 million Hong Kong dollar	100.0%	Holding company
Precision Tsugami (Hong Kong) Limited	490 million Hong Kong dollar	(100.0%)	Holding company

Note) 1. The figures in brackets represent indirect ownership.

#### **(4) Challenges to Address**

(Challenges in the medium to long term)

The Group is addressing the following priority issues proactively as its medium- and long-term management strategies.

(i) Introduction of new products targeting growth fields

The Group will make every effort to launch new products that will sufficiently meet customers' requests in markets that are expected to grow, including the auto parts market, where eco-friendliness and energy saving are required, the IT market, which includes more sophisticated HDDs, smart phones and the medical care market.

(ii) Business strategies targeting growth regions

The Group will aggressively build up its operations over the medium and long term with actions that include the expansion and upgrading of production, sales and after-sales service organizations in markets where investor confidence is high, such as China, Southeast Asia and India.

(iii) Management streamlining and customer satisfaction enhancement

To bolster the comprehensive strength of the corporate group, the Group, including affiliates, will seek to enhance its sales, production, and management systems and to achieve efficient management.

The Group will continue to make every effort to offer new products that satisfy customer demands, to expand and upgrade its services, to improve customer satisfaction on a constant basis, and to maintain the trust of its customers.

Meanwhile, the Group will promote CSR activities, including environment conservation and compliance, and remains committed to justifying the trust of its shareholders, customers, and all other stakeholders.

#### **(5) Principal Businesses (as of March 31, 2015)**

Manufacturing and sale of precision machine tools and precision tools

#### **(6) Main Offices and Factories (as of March 31, 2015)**

(i) Tsugami Corporation

Name	Address
Head office	Chuo-ku, Tokyo
Sales offices	Tokyo, Nagaoka, Suwa, Nagoya and Osaka
Nagaoka Factory	Nagaoka City, Niigata Prefecture
Takami Factory	Nagaoka City, Niigata Prefecture
Niigata Factory	Niigata City, Niigata Prefecture

(ii) Subsidiaries

Name	Address
TSUGAMI MACHINERY CO., LTD	Kawasaki City, Kanagawa Prefecture
TSUGAMI GENERAL SERVICE CO., LTD.	Nagaoka City, Niigata Prefecture
PRECISION TSUGAMI (CHINA) CORPORATION	Zhejiang, China
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	Zhejiang, China
TSUGAMI KOREA Co., Ltd.	Seoul, South Korea

**(7) Employees (as of March 31, 2015)****(i) Employees of the Tsugami Group**

Number of employees	Change from the end of the previous term
1,959 (102)	Up 127 (Down 28)

(Note) The number of employees consists of full-time workers excluding part-time and temporary workers. The annual average number of part-time and temporary workers is presented in brackets. The number of employees rose 127 from the end of the previous fiscal year resulted mainly increase at PRECISION TSUGAMI (China) CORPORATION.

**(ii) Employees of Tsugami Corporation**

Number of employees	Change from the end of the previous term	Average age	Average service years
430 (90)	Down 11 (Down 21)	42.8 years old	17.6 years

(Note) The number of employees consists of full-time workers, excluding part-time and temporary workers. The annual average number of part-time and temporary workers is presented in brackets.

**(8) Principal Lenders (as of March 31, 2015)**

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	-- million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-- million yen
The Hokuetsu Bank, Ltd	-- million yen
Sumitomo Mitsui Banking Corporation (China) Limited	2,751 million yen (142 million yuan)
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	2,461 million yen (127 million yuan)
Mizuho Corporate Bank (China), Ltd.	1,642 million yen ( 84 million yuan)

**(9) Policies Concerning Decisions on Distribution of Retained Earnings and Other Matters**

The Group adopts the basic policy of increasing its collective capabilities and returning profits to shareholders by sustaining aggressive investment in development projects in response to changing social demands and continuing its efforts to enhance competitiveness and streamline management.

Based on the policy, the Group will make united efforts to strengthen business structure and secure stable dividends.

The Group will also deal appropriately with the acquisition of treasury stock for the flexible execution of capital policies and other purposes, as part of its measures for returning profits to shareholders and based on a comprehensive judgment of factors including the need, financial situation and share price trends.

Based on the Company's strong business performance and other factors, the Company has resolved at the Board of Directors to increase its year-end dividends for the fiscal year ended March 31, 2015 by 2 yen from its initial forecast of 6 yen per share and to pay a year-end dividend of 8 yen. Combined with the interim dividend of ¥6 per share already paid, this will take the total annual dividend to ¥14 per share.

The Company plans to pay an annual dividend of ¥16 per share, an interim dividend of ¥8 and a year-end dividend of ¥8, in the fiscal year ending March 31, 2016.

## II. Current Status of the Company

### (1) Shares (as of March 31, 2015)

- (i) Number of authorized shares: 320,000,000  
(ii) Number of shares outstanding: 74,919,379  
(iii) Number of shareholders: 9,602  
(iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	6.59
Japan Trustee Services Bank, Ltd. (trust account)	3,812	5.47
The Master Trust Bank of Japan, Ltd. (trust account)	2,579	3.70
The Dai-ichi Life Insurance Company, Limited	2,100	3.01
DMG MORI SEIKI CO., LTD.	2,000	2.87
JP Morgan chase bank 385632 (Standing agency: Mizuho Bank, Ltd. Custody & Proxy Department)	1,528	2.19
Sumitomo Mitsui Banking Corporation	1,516	2.17
THE BANK OF NEW YORK - JASDECTREATY ACCOUNT (Standing agency: Mizuho Bank, Ltd. Custody & Proxy Department)	1,508	2.16
The Hokuetsu Bank, Ltd.	1,484	2.13
Tsugami Customers' Shareholding Association	1,268	1.82

- Notes
1. In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
  2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.50% of the stock).
  3. Although the Company holds 5,285 thousand shares of treasury stock, it is excluded from the list of major shareholders.

**(2) Status of Subscription Rights to Shares, etc.**

**(i) Subscription rights to shares held by directors (as of March 31, 2015)**

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of subscription rights to shares		59	22
Type and number of shares underlying subscription rights to shares		Common shares: 59,000 (1,000 shares per subscription rights to share)	Common shares: 22,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	608 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000	Number of holders: 1 Number of subscription rights to shares held: 22 Number of shares to be issued: 22,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		19	29
Type and number of shares underlying subscription rights to shares		Common shares: 19,000 (1,000 shares per subscription rights to share)	Common shares: 29,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 13 Number of shares to be issued: 13,000	Number of holders: 1 Number of subscription rights to shares held: 29 Number of shares to be issued: 29,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -



Date of relevant resolution		June 22, 2007	June 20, 2008
Number of subscription rights to shares		24	32
Type and number of shares underlying subscription rights to shares		Common shares: 24,000 (1,000 shares per subscription rights to share)	Common shares: 32,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	279 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 18 Number of shares to be issued: 18,000	Number of holders: 2 Number of subscription rights to shares held: 28 Number of shares to be issued: 28,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 20, 2008	June 19, 2009
Number of subscription rights to shares		13	93
Type and number of shares underlying subscription rights to shares		Common shares: 13,000 (1,000 shares per subscription rights to share)	Common shares: 93,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	123 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 8, 2008 to July 7, 2028	From July 7, 2009 to July 6, 2029
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of subscription rights to shares held: 13 Number of shares to be issued: 13,000	Number of holders: 3 Number of subscription rights to shares held: 86 Number of shares to be issued: 86,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 19, 2009	June 18, 2010
Number of subscription rights to shares		27	5
Type and number of shares underlying subscription rights to shares		Common shares: 27,000 (1,000 shares per subscription rights to share)	Common shares: 5,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	667 yen per share
Exercise period		From July 7, 2009 to July 6, 2029	From July 6, 2012 to June 30, 2015
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 21 Number of shares to be issued: 21,000	Number of holders: 1 Number of subscription rights to shares held: 5 Number of shares to be issued: 5,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 18, 2010	June 18, 2010
Number of subscription rights to shares		58	11
Type and number of shares underlying subscription rights to shares		Common shares: 58,000 (1,000 shares per subscription rights to share)	Common shares: 12,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		532 yen	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 6, 2010 to July 5, 2030	From July 6, 2010 to July 5, 2030
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 4 Number of subscription rights to shares held: 54 Number of shares to be issued: 54,000	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000
	Outside directors	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000

Date of relevant resolution		June 17, 2011	June 17, 2011
Number of subscription rights to shares		133	16
Type and number of shares underlying subscription rights to shares		Common shares: 133,000 (1,000 shares per subscription rights to share)	Common shares: 16,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		408 yen	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 5, 2011 to July 4, 2031	From July 5, 2011 to July 4, 2031
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 5 Number of subscription rights to shares held: 115 Number of shares to be issued: 115,000	Number of holders: 1 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000
	Outside directors	Number of holders: 2 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000
Date of relevant resolution		June 15, 2012	June 15, 2012
Number of subscription rights to shares		140	7
Type and number of shares underlying subscription rights to shares		Common shares: 140,000 (1,000 shares per subscription rights to share)	Common shares: 7,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		459 yen	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 3, 2012 to July 2, 2032	From July 3, 2012 to July 2, 2032
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 6 Number of subscription rights to shares held: 120 Number of shares to be issued: 120,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Outside directors	Number of holders: 2 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 2 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000

Date of relevant resolution		June 21, 2013	June 21, 2013
Number of subscription rights to shares		180	8
Type and number of shares underlying subscription rights to shares		Common shares: 180,000 (1,000 shares per subscription rights to share)	Common shares: 8,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		446 yen	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 9, 2013 to July 8, 2033	From July 9, 2013 to July 8, 2033
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 6 Number of subscription rights to shares held: 145 Number of shares to be issued: 145,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Outside directors	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 2 Number of subscription rights to shares held: 20 Number of shares to be issued: 20,000	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000
Date of relevant resolution		June 20, 2014	
Number of subscription rights to shares		190	
Type and number of shares underlying subscription rights to shares		Common shares: 190,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		453 yen	
Amount to be paid for the exercise of subscription rights to shares		One yen per share	
Exercise period		From July 8, 2014 to July 9, 2034	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 6 Number of subscription rights to shares held: 145 Number of shares to be issued: 145,000	
	Outside directors	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000	
	Auditors	Number of holders: 5 Number of subscription rights to shares held: 30 Number of shares to be issued: 30,000	

(ii) Subscription rights to shares issued to employees, etc. as compensation for the execution of their duties during the fiscal year under review

Subscription rights to shares associated with resolution by annual shareholders meeting held on June 20, 2014

- Number of subscription rights to shares  
200 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
200,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
584,000 yen per unit (584 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 750 yen  
Amount per share to be credited to capital: 375 yen
- Period during which subscription rights to shares can be exercised  
From July 8, 2016 to June 30, 2019
- Conditions for exercise of subscription rights to shares  
Conditions for the exercise of the subscription rights to shares shall be as set out in the “Subscription Rights to Shares Allocation Agreement,” resolved by a meeting of the Company’s Board of Directors, and entered into between the Company and individuals receiving the subscription rights to shares in accordance with the above resolution.
- Status of subscription rights to shares held by the Company’s employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	200	200,000	63

Subscription rights to shares resolved by the annual shareholders meeting held on June 20, 2014

- Number of subscription rights to shares  
110 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
110,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
1,000 yen per unit (1 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 453 yen  
Amount per share to be credited to capital: 226 yen
- Period during which subscription rights to shares can be exercised  
From July 8, 2014 to July 7, 2034
- Conditions for the exercise of the subscription rights to shares
  - (i) In principle, a person having new subscription rights to shares may exercise them only if he or she relinquishes all positions of director, statutory auditor, executive officer, and employee similar to these positions. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
  - (ii) Any conditions for the exercise of subscription rights to shares other than the above shall be approved by the Board of Directors.
- Status of subscription rights to shares held by the Company's employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	110	110,000	19

**(3) Officers****(i) Directors and Statutory Auditors (as of March 31, 2015)**

Position	Name	Responsibility and important concurrent post
Representative Director, Chairman and CEO	Takao Nishijima	
Representative Director, COO	Toshio Honma	COO, Administration
Representative Director, COO	Kiyoshi Tauchi	COO, Manufacturing
Representative Director, COO	Toshiharu Niijima	COO, Technology
Director	Byun Jae-Hyun	President of TSUGAMI KOREA Co., Ltd.
Director	Donglei Tang	President of PRECISION TSUGAMI(CHINA) CORPORATION
Director	Takeo Nakagawa	CEO of Fine Tech Corporation
Director	Shigeru Nishiyama	
Director	Kunio Shimada	Representative partner at Shimada Hamba & Osajima
Standing Statutory Auditor	Keiji Hayazaki	
Statutory Auditor	Kenji Yamada	
Statutory Auditor	Morikuni Uchigasaki	
Statutory Auditor	Hideo Teramoto	Director, Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited
Statutory Auditor	Ryuichi Kimura	Representative Director, President of Semiconductor Company of Tokyo Seimitsu Co., Ltd.

- Notes
1. Directors Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada are outside directors.
  2. Mr. Morikuni Uchigasaki, Mr. Hideo Teramoto and Mr. Ryuichi Kimura, the Statutory Auditors, are outside auditors.
  3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors, and Statutory Auditor Mr. Hideo Teramoto as independent auditors.
  4. Changes in Directors in the fiscal year under review  
Statutory auditors Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai retired from their positions at the close of the 111th Annual Shareholders Meeting held on June 20, 2014 due to the expiration of their term of office. Mr. Keiji Hayazaki, Mr. Morikuni Uchigasaki and Mr. Hideo Teramoto was elected and assumed office as Statutory auditors at this annual shareholders meeting.

**(ii) Compensation paid to Directors and Statutory Auditors**

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	9 (3)	259 million yen (24 million yen)
Statutory Auditors (Outside Statutory Auditors included)	7 (5)	53 million yen (24 million yen)
Total (Outside Officers included)	16 (8)	313 million yen (48 million yen)

- (Notes)
1. The above figures include two outside statutory auditors who retired at the close of the 111th annual shareholders meeting held on June 20, 2014.
  2. The total amount of compensation, etc. for directors does not include salaries for employees concurrently holding a position as director.
  3. The maximum amount of compensation, etc. for directors was resolved to be not more than cash

compensation of 250 million yen per annum by the 109th annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 80 million yen per annum by the 109th annual shareholders meeting.

- 4 The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104th annual shareholders meeting.
- 5 The total amount of compensation, etc. included the following compensation.
  - Compensation in the form of stock options
    - 9 directors: 72 million yen (including 6 million yen for 3 outside directors)
    - 7 statutory auditors: 12 million yen (including 6 million yen for 5 outside statutory auditors)

(iii) Matters concerning out officers

- a. Posts held concurrently by outside officers and relationships between the Company and other relevant companies

Position, Name	Company name	Post	Relationship
Director, Takeo Nakagawa	Fine Tech Corporation FANUC LTD. NIPPON PILLAR PACKING Co., Ltd. OSG CORPORATION	CEO Auditor Director Director	The Company has trading relationships, including sales of products, with Fine Tech Corporation, and trading relationships, including purchase of products, with FANUC LTD. No special interests exist between the Company and both NIPPON PILLAR PACKING Co., Ltd. and OSG CORPORATION.
Director, Shigeru Nishiyama	Mitsui Sugar Co., Ltd.	Auditor	No special interests exist between the Company and Mitsui Sugar Co., Ltd.
Director, Kunio Shimada	Shimada Hamba & Osajima Hulic Reit, Inc.	Representative partner Supervisory Officer	No special interests exist between the Company and both Shimada Hamba & Osajima and Hulic Reit, Inc..
Auditor, Morikuni Uchigasaki	DMG MORI SEIKI CO., LTD. TAIYO KOKI CO., LTD.	Advisor Auditor	No special interests exist between the Company and both DMG MORI SEIKI CO., LTD. and TAIYO KOKI CO., LTD.
Auditor, Hideo Teramoto	The Dai-ichi Life Insurance Company, Limited	Director, Managing Executive Officer	The Company has concluded insurance agreements, including corporate pension plans, with The Dai-ichi Life Insurance Company, Limited.
Auditor, Ryuichi Kimura	Tokyo Seimitsu Co., Ltd.	Representative Director, President of Semiconductor Company	The Company has trading relationships, including purchase of products, with Tokyo Seimitsu Co., Ltd.



b. Major activities in the fiscal year under review

Names	Major activities
Takeo Nakagawa, Director	He attended 12 of the 12 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed based on his insight into the entire manufacturing industry, from the viewpoint of an experienced corporate manager.
Shigeru Nishiyama, Director	He attended 12 of the 12 meetings of the Board of Directors meetings held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Kunio Shimada, Director	He attended 10 of the 12 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced lawyer.
Morikuni Uchigasaki, Statutory Auditor	He attended 9 of the 10 meetings of the Board of Directors that were held after he took office on June 20, 2014 and 3 of the 4 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hideo Teramoto, Statutory Auditor	He attended 8 of the 10 meetings of the Board of Directors that were held after he took office on June 20, 2014 and 4 of the 4 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Ryuichi Kimura Statutory Auditor	He attended 9 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.

c. Outline of the details of contracts for the limitation of liability

In accordance with the provisions provided in Paragraph 1 of Article 427 of the Company Law, the Company has concluded contracts with outside directors and outside auditors that limit liability of the outside directors and outside auditors for damages as stipulated in Paragraph 1 of Article 423 of the Company Law.

The maximum amount of liability for damages based on the above contracts is the minimum liability amount set forth in the laws and ordinances.

#### (4) Status of Independent Auditor

(i) Name of the independent auditor: Ernst & Young ShinNihon LLC

(ii) Amount of Compensation

	Amount to be paid
Compensation to be paid to independent auditors for the fiscal year under review	33 million yen
The total amount of cash and other assets to be paid by the Company and subsidiaries to independent auditors	34 million yen

- Notes
1. The auditing contract between the Company and the independent auditor makes no distinction between auditing services based on the Company Law and auditing services based on the Financial Instruments and Exchange Law. Since no real distinction can be made in practice, the amount of compensation to be paid for the fiscal year under review represents the total amount.
  2. The Company pays compensation to independent auditors for their work in assisting with the IPOs of our subsidiaries in China, which falls under work other than that defined in Paragraph 1, Article 2 of the Certified Public Accountants Act.
  3. Financial statements of PRECISION TSUGAMI (CHINA) CORPORATION is audited by a certified public accountant, not the independent auditor.

(iii) Policy concerning decisions to dismiss or not to reappoint independent auditors

The Company's Board of Statutory Auditors will determine the details of a proposal concerning the dismissal or non-reappointment of an independent auditor for submission to the shareholders meeting when the Board of Statutory Auditors deems this necessary, for example, when execution of duties by the relevant independent auditor is disrupted. The Board of Statutory Auditors may dismiss an independent auditor based on its unanimous approval, when items stipulated in the items of Paragraph 1 of Article 340 of the Company Law are deemed to be applicable to the relevant independent auditor. In this case, the Statutory Auditor elected by the Board of Statutory Auditors will present details and reasons for the dismissal of the independent auditor at the first annual shareholders meeting held after the dismissal.

The Board of Directors will ask the Board of Statutory Auditors to include the dismissal or non-reappointment of the independent auditor in the agenda of the shareholders meeting when the Board of Directors deems this necessary, for example, when execution of duties by the relevant independent auditor is disrupted, and, if the Board of Statutory Auditors judges this request appropriate, it will determine the details of a proposal for submission to the shareholders meeting.

(Note) With the enactment of the Act for Partial Revision of the Company Law (Act No. 90 of 2014) on May 1, 2015, the decision-making body for proposals concerning the dismissal and non-reappointment of independent auditors changed from the Board of Directors to the Board of Statutory Auditors.

(iv) Outline of the details of contracts for the limitation of liability

There are no contracts in question.

## **(5) Systems for Ensuring the Appropriate Implementation of Operations**

The Company has been developing systems (internal control systems) to ensure the appropriateness of operations and the reliability of financial reports in its effort to achieve sustainable growth in corporate value.

The Company's Board of Directors has adopted basic policies of internal control systems as follows:

- (i) Systems for ensuring the execution of the duties of directors and employees are in compliance with laws and ordinances and the Articles of Incorporation
  - a. Given that compliance is one of its key management issues, the Board of Directors shall establish the Tsugami Group Code of Conduct and develop a compliance policy to ensure that the Company operates based on sound social practices.
  - b. The Company shall establish a "whistle-blowing system," an internal reporting system through which activities that apparently violate the laws and ordinances, the Articles of Incorporation, any other internal rules, or social norms carried out by directors or employees are reported. Whistle blowers shall be protected.
  - c. The Company shall have an Audit Office, an organization under the direct control of the president, and shall conduct internal audits of compliance.
- (ii) Systems for the storage and management of information concerning directors' execution of duties  
The Company shall appropriately maintain and manage the minutes of the Board of Directors, approval documents, documents associated with the directors' executions of their duties, and other related information in accordance with internal rules, such as the document management rules and information security management rules.
- (iii) Rules and systems concerning risk management  
To manage the diverse risks associated with its business activities, and to prevent such risks from materializing, the Company shall have a risk management committee through which it will collect and analyze information about risks to identify any indications that risks are emerging at an early stage. The Company shall also establish a risk management system by developing rules and manuals so that it can promptly and accurately respond to the situation if risks have materialized.
- (iv) Systems for securing efficiency of directors' execution of duties  
The Company shall hold regular meetings of the Board of Directors every month, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.
- (v) Systems for ensuring the appropriate implementation of the operations by the Group, consisting of the Company and its subsidiaries
  - a. With respect to compliance, the Tsugami Group Code of Conduct also applies to the Company's subsidiaries.
  - b. Representatives of subsidiaries shall attend monthly corporate management meetings to enable consideration of internal control between the Company and the subsidiaries, and shall ensure the appropriate execution of their operations by sharing information.
  - c. The internal audit division (the Audit Office) shall confirm that the subsidiaries operate in compliance with laws and ordinances, internal rules, and other rules for compliance.

- (vi) Systems for accommodating statutory auditors' requests for assistant employees and the independence of said employees from directors

When requested to do so by statutory auditors, the Company may assign employees to assist statutory auditors. In this case, to ensure the independence of assistant employees from directors, the appointment of assistant employees shall be determined after holding detailed discussions with the Board of Statutory Auditors. The assistant employees shall not concurrently engage in the execution of business operations.

- (vii) Systems for reporting by directors and employees to statutory auditors, and other systems associated with reporting to statutory auditors

Directors and employees shall report the following items to statutory auditors:

- a. Matters associated with facts identified as important facts that will significantly impact on the Company
- b. Matters associated with facts identified as activities that violate or are likely to violate the laws and ordinances or the Articles of Incorporation
- c. Results of internal audit conducted by the internal audit division (the Audit Office)
- d. Management of the whistle-blowing system and the details of whistle-blowing

- (viii) Other systems for securing the effectiveness of audit by statutory auditors

- a. Statutory auditors shall hold regular meetings with representative directors, and exchange views on important audit issues.
- b. Statutory auditors shall hold regular meetings with independent auditors, and exchange views and information, in addition to requesting independent auditors for their reports when necessary.
- c. Statutory auditors shall maintain close contact with the internal audit division (the Audit Office), and may request the internal audit division to carry out investigation when necessary.

- (ix) Systems for ensuring the reliability of financial reporting

- a. To ensure the reliability of the Group's financial reporting and the effective and appropriate submission of the internal control reports that are stipulated in the Financial Instruments and Exchange Act, the Company shall develop an internal control reporting system.
- b. To ensure consistency between the internal control system and the Financial Instruments and Exchange Act and other related laws and ordinances, the Company shall continuously evaluate the system and make the necessary corrections.
- c. The internal audit division (the Audit Office) shall be responsible for monitoring and evaluating the implementation of this system, and for providing support for improving the implementation of the system.

- (x) Systems for getting rid of antisocial forces

- a. The Company shall take a resolute stance against antisocial forces that threaten social order and healthy corporate activities.
- b. The Company shall deal with undue claims of antisocial forces in cooperation with specialist outside institutions including the police, lawyers, and corporate defense councils.

(Note) The foregoing is a description of the systems in operation during the fiscal year under review. However, with the enactment of the Act for Partial Revision of the Company Law (Act No. 90 of 2014) and the Cabinet Order on Revision of Ordinance for Enforcement of the Company Law (Ministry of Justice Order No. 6 of 2015) on May 1, 2015, the Company resolved at the meeting of the Board of Directors held on April 13, 2015 to partially revise the description of such systems.

The revised description uses more concrete and clear expressions to describe systems for ensuring the appropriate implementation of the Group's operations and systems for conducting audits, in line with a review of systems in light of the Group's actual situation and the amendments to laws and regulations, and the Company published details of the revised systems on the website of the Tokyo Stock Exchange and the Company's website.

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2015)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>36,861</b>	<b>Current liabilities:</b>	<b>17,851</b>
Cash and deposits	5,175	Trade notes and accounts payable	8,276
Trade notes and accounts receivable	7,054	Short-term borrowings	6,855
Products and other commodities	8,264	Accrued income tax	616
Goods in process	5,684	Reserve for bonus payment	227
Raw materials and supplies	8,750	Reserve for product warranties	448
Consumption taxes receivable	1,017	Other current liabilities	1,427
Deferred tax assets	443	<b>Long-term liabilities:</b>	<b>1,698</b>
Other current assets	513	Deferred tax liabilities	1,084
Allowance for doubtful accounts	-43	Reserve for directors' retirement benefits	18
<b>Fixed assets:</b>	<b>19,967</b>	Net defined benefit liability	535
<b>Tangible fixed assets:</b>	<b>11,451</b>	Other long-term liabilities	58
Buildings and structures	6,396	<b>Total liabilities</b>	<b>19,550</b>
Machinery, equipment and vehicles	4,171	<b>NET ASSETS:</b>	
Land	564	<b>Shareholders' equity:</b>	<b>31,460</b>
Leased assets	27	Common stock	12,345
Construction in progress	3	Capital surplus	5,889
Other tangible fixed assets	287	Retained earnings	15,963
<b>Intangible fixed assets:</b>	<b>756</b>	Treasury stock	-2,738
<b>Investments and other assets:</b>	<b>7,759</b>	<b>Accumulated other comprehensive income:</b>	<b>4,953</b>
Investment securities	6,148	Unrealized gains on marketable securities	2,798
Stocks of affiliates	11	Translation adjustments	2,123
Investments in affiliates	1,131	Remeasurements of defined benefit plans	32
Long-term loans receivable	316	<b>Subscription rights to shares</b>	<b>865</b>
Deferred tax assets	1		
Other investments and other assets	149		
<b>Deferred assets:</b>	<b>0</b>	<b>Total net assets</b>	<b>37,279</b>
Stock issuance cost	0		
<b>Total Assets</b>	<b>56,829</b>	<b>Total Liabilities and Total Net Assets</b>	<b>56,829</b>

## CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2014 to March 31, 2015)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>54,132</b>
<b>Cost of sales:</b>	<b>39,890</b>
<b>Gross profit</b>	<b>14,241</b>
<b>Selling, general and administrative expenses</b>	<b>6,988</b>
<b>Operating income</b>	<b>7,253</b>
<b>Non-operating income:</b>	<b>1,360</b>
Interest received	24
Dividends received	84
Foreign exchange gains	1,071
Reversal of allowance for doubtful accounts	32
Insurance benefits received	34
Other non-operating income	114
<b>Non-operating expenses:</b>	<b>869</b>
Interest paid	273
Loss on sales of trade notes	143
Payment fee	313
Other non-operating expenses	138
<b>Ordinary income</b>	<b>7,745</b>
<b>Extraordinary income:</b>	<b>65</b>
Gain on sales of fixed assets	25
Gain on sales of investments securities	2
Subsidy income	37
<b>Extraordinary expenses:</b>	<b>129</b>
Loss on retirement of fixed assets	19
Loss on sales of fixed assets	31
Impairment loss	60
Loss on liquidation of business	16
<b>Income before taxes and other adjustments</b>	<b>7,681</b>
Corporate, inhabitant and enterprise taxes	2,126
Deferred taxes	258
<b>Income before minority interests</b>	<b>5,297</b>
Minority interests in income	--
<b>Net income</b>	<b>5,297</b>

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2014	12,345	5,889	11,424	-1,079	28,579
Cumulative effects of changes in accounting policies			108		108
Restated balance	12,345	5,889	11,533	-1,079	28,688
Change during the fiscal year					
Cash dividends paid			-866		-866
Net income			5,297		5,297
Purchase of treasury stock				-1,848	-1,848
Disposal of treasury stock		0		189	189
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	0	4,430	-1,658	2,771
Balance as of March 31, 2015	12,345	5,889	15,963	-2,738	31,460

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2014	1,391	1,134	-123	2,401	605	31,587
Cumulative effects of changes in accounting policies						108
Restated balance	1,391	1,134	-123	2,401	605	31,696
Change during the fiscal year						
Cash dividends paid						-866
Net income						5,297
Purchase of treasury stock						-1,848
Disposal of treasury stock						189
Changes in items other than shareholders' equity during the fiscal year (net)	1,406	988	156	2,551	259	2,811
Total change during the fiscal year	1,406	988	156	2,551	259	5,583
Balance as of March 31, 2015	2,798	2,123	32	4,953	865	37,279

## Notes to Consolidated Financial Statements

### 1. Important Matters that Become Basis of Presenting Consolidated Financial Statements

#### (1) Scope of consolidation

##### (i) State of consolidated subsidiaries

- Number of consolidated subsidiaries: 7
- Names of major consolidated subsidiaries: TSUGAMI MACHINERY CO., LTD.  
TSUGAMI GENERAL SERVICE CO., LTD.  
PRECISION TSUGAMI (CHINA) CORPORATION  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd.  
TSUGAMI KOREA Co., Ltd.  
Precision Tsugami (China) Corporation Limited  
Precision Tsugami (Hong Kong) Limited

##### (ii) State of non-consolidated subsidiaries

- Names of major non-consolidated subsidiaries:  
TSUGAMI (THAI) CO., LTD.  
TSUGAMI GmbH  
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED  
TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED  
TSUGAMI Universal Pte. Ltd.
- Reason for non-consolidation  
The non-consolidated subsidiaries are small in size, and their total assets, sales, net income or loss (amounts to equivalent to the equity holding) and retained earnings (amounts to equivalent to the equity holding) do not have significant material effect on the consolidated financial statements.

#### (2) Application of equity method

##### (i) State of non-consolidated subsidiaries and affiliates to which the equity method is applicable

- Number of non-consolidated subsidiaries and affiliates to which the equity method is applicable: 0

##### (ii) State of non-consolidated subsidiaries and affiliates to which the equity method is not applicable

- Names of major companies: TSUGAMI (THAI) CO., LTD.  
TSUGAMI GmbH  
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED  
TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED  
TSUGAMI Universal Pte. Ltd.  
REM SALES LLC
- Reason for not applying the equity method: These non-consolidated subsidiaries and affiliates are excluded from the scope of equity method application because their exclusion produces minor effects on consolidated financial statements and has no significance in light of their respective net income or net loss (amount corresponding to equity), retained earnings and other items.

#### (3) Matters concerning fiscal year of consolidated subsidiaries, etc.

Among the consolidated subsidiaries, the balance sheet date of PRECISION TSUGAMI (CHINA) CORPORATION, Shinagawa Precision Machinery (Zhejiang) Co., Ltd. and Precision Tsugami (Hong Kong) Limited are December 31. In preparing the consolidated financial statements, financial statements based on provisional calculations made as of the consolidated closing date were utilized in connection with this company.



(4) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

- Securities with fair market value: Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)

- Securities without fair market value:

Cost accounting method using the moving average method

b. Derivatives:

Stated at market value

c. Valuation standard and valuation method for inventories

Primarily cost accounting method using the moving average method (The values in the consolidated balance sheet were calculated using the book-value write-down method based on the decline of profitability.).

(ii) Depreciation and amortization methods used for material depreciable and amortizable assets

a. Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries adopt the declining-balance method. The Company's foreign consolidated subsidiaries use the straight-line method.

The buildings acquired by the Company or its domestic consolidated subsidiaries after April 1, 1998, excluding fittings and equipment, are depreciated on a straight-line basis.

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery, equipment and vehicles: 9 years

b. Intangible fixed assets (excluding leased assets)

- Software for internal use Such assets are amortized using the straight-line method based on the effective period of internal use (five years).

- Other intangible fixed assets The straight-line method is used.

c. Leased assets

- Leased assets pertaining to finance lease transactions other than ownership transfers

Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.

Among finance lease transactions other than those that are deemed to transfer the ownership of leased assets to lessees, the lease transactions whose start dates are prior to March 31, 2008, are accounted for by the method for ordinary lease transactions.

(iii) Accounting standards for major deferred assets

Stock issuance cost

This is amortized using the straight-line method (3 years).

(iv) Accounting standards for significant allowances

a. Allowance for doubtful accounts

To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.

b. Allowance for employees' bonuses

To prepare for bonus payments to employees of the Company and its consolidated subsidiaries in Japan, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.

c. Allowance for directors' retirement benefits

	Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.
d. Allowance for product warranties	To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.
(v) Standards for translating significant assets or liabilities in foreign currencies into yen	Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the consolidated closing date. Translation adjustments are accounted for as gains or losses. Assets, liabilities, revenues, and expenses at overseas subsidiaries are translated into yen at spot exchange rates at the consolidated closing date. Translation adjustments are included in "Translation adjustments" in net assets.
(vi) Significant hedge accounting method	
Hedge accounting method	Deferred hedge accounting is applied. If hedges against exchange fluctuation risks meet requirements for the appropriation method, the appropriation method is applied.
Hedging instruments and hedged items	The hedging instruments and hedged items to which hedge accounting was applied during the consolidated fiscal year under review are as follows: Hedging instruments: exchange contracts Hedged items: foreign currency receivables
Hedging policy	The Group carries out hedging within the scope of the target trade accounts receivable to avoid exchange fluctuation risks and lock in earnings.
Method for assessing hedging effectiveness:	An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.

(vii) Other important matters for the preparation of consolidated financial statements

a. Accounting standards for Net defined benefit liability

For net defined benefit liability, the amount that is obtained by subtracting pension assets from retirement benefit obligations is provided on the basis of estimated amounts at the end of the consolidated fiscal year under review to prepare for retirement benefits paid to employees of the Company.

Any difference arising as a result of the change of accounting standards is expensed equally, mainly over 15 years.

Also, any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.

Any unrecognized actuarial difference is posted in remeasurements of defined benefit plans in accumulated other comprehensive income under net assets, after making an adjustment for tax effect.

b. Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax.

(5) Changes in accounting policy

(Application of Accounting Policies for Retirement Benefits)

We have reviewed the method for calculating retirement benefit obligations and service costs and have changed the method for allocating expected retirement benefits to periods from a fixed-amount method to a projected benefit method and the discount rate from a discount rate based on a number of years approximating to the employees' average remaining service years to a single weighted average discount rate reflecting the estimated periods of benefit payments and amounts for each estimated period by applying the provisions set forth in the text of Paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 on May 17, 2012. Hereinafter the "Accounting Standard for Retirement Benefits") and in the text of Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 on March 26, 2015. Hereinafter the "Guidance on Accounting Standard for Retirement Benefits") from the consolidated fiscal year under review.

The application of the Accounting Standard for Retirement Benefits, etc. follows the transitional treatment set forth in Paragraph 37 of the Accounting Standard for Retirement Benefits, and we have made an adjustment for the amount affected by the change in the method for calculating retirement benefit obligations and service costs to retained earnings at the beginning of the consolidated fiscal year under review.

As a result, the net defined benefit liability declined 168 million yen, and retained earnings rose 108 million yen at the beginning of the consolidated fiscal year under review. The effect on operating income, ordinary income and income before income taxes and other adjustments in the consolidated fiscal year under review is minor. The effect on net assets per share, net income per share and net income per share after residual equity adjustment is minor.

**2. Notes to Consolidated Balance Sheets**

(1) Amounts rounded down to the nearest one million yen.

(2) Aggregated depreciation for tangible fixed assets 12,047 million yen

(3) Amount of discount for bills receivable 985 million yen

Amount of discount for export bills receivable 2,269 million yen

(4) The amount of an allowance for doubtful accounts that is directly deducted from assets

Investments and other assets 1 million yen

### 3. Notes to Consolidated Statements of Changes in Net Assets

#### (1) Matters relating to the total number of outstanding shares

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	74,919 thousand	--	--	74,919 thousand

#### (2) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	2,562 thousand	3,128 thousand	405 thousand	5,285 thousand

Note The increase in common shares of treasury stock of 3,128 thousand shares due to the purchase of 3,123 thousand shares on the Tokyo Stock Exchange, and the purchase of 5 thousand shares of odd-lot shares. The decrease in common shares of treasury stock of 405 thousand shares was due to the exercise of stock options.

#### (3) Matters relating to dividends

##### (i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 13, 2014

- Total amount of dividend 434 million yen
- Dividend per share 6 yen
- Record date March 31, 2014
- Effective date May 28, 2014

Matters relating to dividends resolved at the Board of Directors meeting on November 12, 2014

- Total amount of dividend 432 million yen
- Dividend per share 6 yen
- Record date September 30, 2014
- Effective date November 28, 2014

##### (ii) Dividends with a record date in the fiscal year under review but an effective date in the following fiscal year

The following dividends will be submitted to the Board of Directors meeting on May 13, 2015 for approval.

- Total amount of dividend 557 million yen
- Dividend per share 8 yen
- Record date March 31, 2015
- Effective date May 29, 2015

Dividend resources are planned to be retained earnings.

#### (4) Matters concerning subscription rights to shares at the end of the consolidated fiscal year under review

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	59,000	22,000
Unexercised subscription rights to shares	59	22

	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	19,000	29,000
Unexercised subscription rights to shares	19	29
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	36,000	37,000
Unexercised subscription rights to shares	36	37
	Resolved at the annual shareholders meeting on June 20, 2008	Resolved at the Board of directors meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	24,000	93,000
Unexercised subscription rights to shares	24	93
	Resolved at the annual shareholders meeting on June 19, 2009	Resolved at the annual shareholders meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	75,000	312,000
Unexercised subscription rights to shares	75	312
	Resolved at the Board of directors meeting on June 18, 2010	Resolved at the annual shareholders meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	58,000	43,000
Unexercised subscription rights to shares	58	43
	Resolved at the annual shareholders meeting on June 17, 2011	Resolved at the Board of directors meeting on June 17, 2011
Type of subject shares	Common shares	Common shares
Number of subject shares	231,000	133,000
Unexercised subscription rights to shares	231	133
	Resolved at the annual shareholders meeting on June 17, 2011	Resolved at the annual shareholders meeting on June 15, 2012
Type of subject shares	Common shares	Common shares
Number of subject shares	66,000	158,000
Unexercised subscription rights to shares	66	158
	Resolved at the Board of directors meeting on June 15, 2012	Resolved at the annual shareholders meeting on June 15, 2012
Type of subject shares	Common shares	Common shares
Number of subject shares	140,000	68,000
Unexercised subscription rights to shares	140	68

	Resolved at the Board of directors meeting on June 21, 2013	Resolved at the annual shareholders meeting on June 21, 2013
Type of subject shares	Common shares	Common shares
Number of subject shares	180,000	96,000
Unexercised subscription rights to shares	180	96
	Resolved at the Board of directors meeting on June 20, 2014	Resolved at the annual shareholders meeting on June 20, 2014
Type of subject shares	Common shares	Common shares
Number of subject shares	190,000	105,000
Unexercised subscription rights to shares	190	105

Note Subscription rights to shares whose exercise periods have not begun are excluded.

#### 4. Notes on Financial Instruments

##### (1) Situation of financial instruments

The Group raises funds needed for the execution of operations in Japan and overseas by borrowing from banks and other means.

The Group mitigates the credit risks of customers related to trade notes and accounts receivable under its credit management regulations. Investment securities are primarily shares, and the Group obtains information on the market values of listed shares quarterly.

Short-term borrowings are used for operating funds.

Derivatives trading involves exchange forward contracts as hedges within the scope of the target trade notes and accounts receivable in foreign currencies and trade notes and accounts payable in foreign currencies to avoid exchange fluctuation risks and lock in earnings.

##### (2) Market values of financial instruments

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2015. (Million yen)

	Carrying amount on the consolidated balance sheet (*)	Market value (*)	Difference
(i) Cash and deposits	5,175	5,175	--
(ii) Trade notes and accounts receivable	7,054	7,054	--
(iii) Investment securities			
Other securities	6,146	6,146	--
(iv) Trade notes and accounts payable	(8,276)	(8,276)	--
(v) Short-term borrowings	(6,855)	(6,855)	--
(vi) Derivatives trading	--	--	--

(\*) The figures in parentheses are posted in liabilities.

Notes 1. Methods to calculate the market values of financial instruments and matters relating to securities and derivatives trading

(i) Cash and deposits and (ii) Trade notes and accounts receivable

These are settled within the short term, and their market values are almost equal to their book values. The book values are therefore deemed to be the market values.

(iii) Investment securities, Other securities

The market values of shares are share prices on the stock exchange.

(iv) Trade notes and accounts payable and (v) Short-term borrowings

These are settled within the short term, and their market values are almost equal to their book values. The book values are therefore deemed to be the market values.

(vi) Derivatives trading

Not applicable.

2. Unlisted shares (consolidated balance sheet amount: 1 million yen) do not have market prices, its future cash flows cannot be estimated, and it is very difficult to estimate their market values. The Company therefore does not include it in “Investment securities, Other securities.”

**5. Notes on Per Share Information**

(1) Net assets per share	522.94 yen
(2) Net income per share	74.37 yen

## NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2015)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>23,415</b>	<b>Current liabilities:</b>	6,992
Cash and deposits	2,889	Trade notes payable	3,987
Trade notes receivable	159	Trade accounts payable	1,746
Accounts receivable	8,430	Accounts payable	151
Products, commodities	4,360	Accrued expenses payable	201
Goods in process	1,779	Accrued income tax	404
Raw materials, supplies	2,439	Reserve for product warranties	184
Deferred tax assets	235	Reserve for bonus payment	168
Advance payments	2,059	Other current liabilities	148
Prepaid expenses	60	<b>Long-term liabilities:</b>	<b>1,563</b>
Consumption taxes receivable	1,017	Deferred tax liabilities	929
Other current assets	50	Reserve for retirement benefits	575
Allowance for doubtful accounts	-67	Other long-term liabilities	58
<b>Fixed assets:</b>	<b>15,635</b>	<b>Total liabilities</b>	<b>8,556</b>
<b>Tangible fixed assets:</b>	<b>3,907</b>	<b>NET ASSETS:</b>	
Buildings	2,655	<b>Shareholders' equity:</b>	<b>26,977</b>
Structures	74	<b>Common stock</b>	<b>12,345</b>
Machinery and equipment	435	<b>Capital surplus:</b>	<b>5,889</b>
Vehicles	2	Capital legal reserve	5,884
Tools, furniture and fixtures	147	Other capital surplus	5
Land	564	<b>Retained earnings:</b>	<b>11,480</b>
Leased assets	27	Other retained earnings:	11,480
<b>Intangible fixed assets:</b>	<b>45</b>	Retained earnings brought forward	11,480
Telephone subscription right	10	<b>Treasury stock</b>	<b>-2,738</b>
Software	32	<b>Valuation and translation adjustments:</b>	<b>2,798</b>
Leased assets	3	Unrealized gains on marketable securities	2,798
<b>Investments and other assets:</b>	<b>11,681</b>	<b>Subscription rights to shares</b>	<b>718</b>
Investment securities	6,148		
Stocks of affiliates	4,015		
Investments in affiliates	1,077		
Long-term loans receivable from subsidiaries and affiliates	348		
Long-term loans receivable	1		
Other investments	91		
		<b>Total net assets</b>	<b>30,494</b>
<b>Total Assets</b>	<b>39,050</b>	<b>Total Liabilities and Total Net Assets</b>	<b>39,050</b>



**NON- CONSOLIDATED STATEMENTS OF INCOME**

(From April 1, 2014 to March 31, 2015)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>34,992</b>
<b>Cost of sales:</b>	<b>30,005</b>
<b>Gross profit</b>	<b>4,986</b>
<b>Selling, general and administrative expenses:</b>	<b>3,806</b>
<b>Operating income</b>	<b>1,179</b>
<b>Non-operating income:</b>	<b>1,584</b>
Interest received	79
Dividends received	164
Rent received	51
Reversal of allowance for doubtful accounts	76
Foreign exchange gains	1,108
Insurance benefits received	33
Other non-operating income	72
<b>Non-operating expenses:</b>	<b>241</b>
Interest paid	18
Leased asset expenses	32
Sales discount	6
Amortization of stock issuance cost	5
Loss on sales of trade notes	69
Dormant expenses	35
Payment fee	30
Other non-operating expenses	43
<b>Ordinary income</b>	<b>2,522</b>
<b>Extraordinary income:</b>	<b>27</b>
Gain on sales of fixed asstes	25
Gain on sales of investments securities	2
<b>Extraordinary expenses:</b>	<b>65</b>
Loss on retirement of fixed assets	4
Impairment loss	60
<b>Income before taxes</b>	<b>2,484</b>
Corporate, inhabitant and enterprise taxes	641
Deferred taxes	145
<b>Net income</b>	<b>1,698</b>

## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholders' equity							
	Common stock	Capital surplus			Retained earnings		Treasury stock	Total shareholders' equity
		Capital legal reserve	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance as of March 31, 2014	12,345	5,884	5	5,889	10,540	10,540	-1,079	27,695
Cumulative effects of changes in accounting policies					108	108		108
Restated balance	12,345	5,884	5	5,889	10,648	10,648	-1,079	27,804
Change during the fiscal year								
Cash dividends paid					-866	-866		-866
Net income					1,698	1,698		1,698
Purchase of treasury stock							-1,848	-1,848
Disposal of treasury stock			0	0			189	189
Changes in items other than shareholders' equity during the fiscal year (net)								
Total change during the fiscal year	--	--	0	0	832	832	-1,658	-826
Balance as of March 31, 2015	12,345	5,884	5	5,889	11,480	11,480	-2,738	26,977

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Total valuation and translation adjustments		
Balance as of March 31, 2014	1,391	1,391	605	29,692
Cumulative effects of changes in accounting policies				108
Restated balance	1,391	1,391	605	29,801
Change during the fiscal year				
Cash dividends paid				-866
Net income				1,698
Purchase of treasury stock				-1,848
Disposal of treasury stock				189
Changes in items other than shareholders' equity during the fiscal year (net)	1,406	1,406	113	1,519
Total change during the fiscal year	1,406	1,406	113	693
Balance as of March 31, 2015	2,798	2,798	718	30,494

## Notes to Non-Consolidated Financial Statements

### 1. Matters Concerning Significant Accounting Policies

#### (1) Valuation standard and valuation method for assets

(i) Shares in subsidiaries and affiliates: Cost accounting method using the moving average method

#### (ii) Other securities:

- Securities with fair market value: Market value method based on the quoted market value on the closing date of the fiscal year (Valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method.)

- Securities without fair market value: Cost accounting method using the moving average method

(iii) Derivatives: Stated at market value

#### (iv) Valuation standard and valuation method for inventories

Primarily cost accounting method using the moving average method (The values in the balance sheet were calculated using the book-value write-down method based on the decline of profitability.).

#### (2) Depreciation method for fixed assets

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

Depreciation is principally computed by the declining-balance method. However, buildings acquired on or after April 1, 1998, excluding fittings and equipment, are depreciated on a straight-line basis.

The significant service lives are summarized as follows:

Buildings: 15 to 38 years

Machinery and equipment: 9 years

Tools, furniture and fixtures 5 years

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

- Software for internal use Such assets are amortized using the straight-line method based on the effective period of internal use (five years).

##### (iii) Leased assets

- Leased assets pertaining to finance lease transactions other than ownership transfers

Depreciation for leased assets is computed using the straight-line method over the lease terms as service life, assuming no residual value.

Among finance lease transactions other than those that are deemed to transfer the ownership of leased assets to lessees, the lease transactions whose start dates are prior to March 31, 2008, are accounted for by the method for ordinary lease transactions.

#### (3) Deferred assets

Stock issuance cost This is amortized using the straight-line method (3 years).

#### (4) Accounting standards for allowances

(i) Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.

(ii) Allowance for employees' bonuses To prepare for bonus payments to employees, an amount that needs to be paid in the fiscal year under review are provided as an estimate.

(iii) Allowance for retirement benefits To prepare for retirement benefits payment to employees, the allowance is provided on the basis of amounts of retirement benefit obligations and pension assets estimated at the end of the fiscal year under review.

In addition, any difference arising as a result of the change of accounting standards (2,086 million yen) is expensed equally, mainly

over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.

(iv) Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

(5) Significant hedge accounting method

Hedge accounting method

Deferred hedge accounting is applied. If hedges against exchange fluctuation risks meet requirements for the appropriation method, the appropriation method is applied.

Hedging instruments and hedged items

The hedging instruments and hedged items to which hedge accounting was applied during the fiscal year under review are as follows:

Hedging instruments: exchange contracts

Hedged items: foreign currency receivables and payables

Hedging policy

The Group carries out hedging within the scope of the target trade accounts receivable and trade accounts payable to avoid exchange fluctuation risks and lock in earnings.

Method for assessing hedging effectiveness:

An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.

(6) Other matters that form the basis for the preparation of financial statements

Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax.

(7) Changes in Accounting Policy

(Application of Accounting Policies for Retirement Benefits)

We have reviewed the method for calculating retirement benefit obligations and service costs and have changed the method for allocating expected retirement benefits to periods from a fixed-amount method to a projected benefit method and the discount rate from a discount rate based on a number of years approximating to the employees' average remaining service years to a single weighted average discount rate reflecting the estimated periods of benefit payments and amounts for each estimated period by applying the provisions set forth in the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 on May 17, 2012. Hereinafter the "Accounting Standard for Retirement Benefits") and in the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 on March 26, 2015. Hereinafter the "Guidance on Accounting Standard for Retirement Benefits") from the fiscal year under review. The application of the Accounting Standard for Retirement Benefits, etc. follows the transitional treatment set forth in Paragraph 37 of the Accounting Standard for Retirement Benefits, and we have made an adjustment for the amount affected by the change in the method for calculating retirement benefit obligations and service costs to retained earnings at the beginning of the fiscal year under review. As a result, the net defined benefit liability declined 168 million yen, and retained earnings brought forward rose 108 million yen at the beginning of the fiscal year under review. The effect on operating income, ordinary income and income before taxes in the fiscal year under review is minor. The effect on net assets per share, net income per share and net income per share after residual equity adjustment is minor.

## 2. Notes to Non-Consolidated Balance Sheets

- (1) Amounts rounded down to the nearest one million yen.
- (2) Aggregated depreciation for tangible fixed assets 9,575 million yen
- (3) Amount of discount for bills receivable 985 million yen  
Amount of discount for export bills receivable 2,269 million yen
- (4) The amount of an allowance for doubtful accounts that is directly deducted from assets  
Investments and other assets 2 million yen
- (5) Monetary receivables from and monetary payables to affiliates are as follows:
- (i) Short-term monetary receivables 6,992 million yen
- (ii) Long-term monetary receivables 348 million yen
- (iii) Short-term monetary payables 74 million yen

## 3. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

- (i) Sales 15,727 million yen
- (ii) Purchases 10,100 million yen
- (iii) Transactions other than operating transactions 179 million yen

## 4. Notes to Non-Consolidated Statements of Changes in Net Assets

(1) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current fiscal year	Increase in shares in the fiscal year under review	Decrease in shares in the fiscal year under review	Number of shares at the end of the fiscal year under review
Common shares	2,562 thousand	3,128 thousand	405 thousand	5,285 thousand

Note The increase in common shares of treasury stock of 3,128 thousand shares due to the purchase of 3,123 thousand shares on the Tokyo Stock Exchange, and the purchase of 5 thousand shares of odd-lot shares. The decrease in common shares of treasury stock of 405 thousand shares was due to the exercise of stock options.

## 5. Deferred Tax Accounting

The major causes for the generation of deferred tax assets are stock-based compensation expenses and the denial of reserve for retirement benefits, etc., while the major cause for the generation of deferred tax liabilities is unrealized gains on marketable securities.

## 6. Notes on Fixed Assets Used under Lease Contracts

Not applicable.

## 7. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	PRECISION TSUGAMI (CHINA) CORPORATION	(Owning) Indirect: 100.0%	Concurrent service by directors Manufacture and sales of products of the Company Purchase of products of the company	Sales of the Company's products and parts	10,989	Accounts receivable	3,569
				Purchase of products of the company	9,655	Advance payments	2,059
				Receipt of interest (Note)	77		
Subsidiary	Precision Tsugami (China) Corporation Limited	(Owning) Direct: 100.0%	Holding company	Acceptance of new shares	508	--	--
Affiliate	REM SALES LLC	(Owning) Direct: 29.5%	Sales of the Company's products and parts	Sales of the Company's products and parts	2,812	Accounts receivable	86
Affiliate	TSUGAMI PRECISION ENGINEERING INDIA PVT.LTD.	(Owning) Direct: 81.0%	Sales of the Company's products	Sales of the Company's products and parts	357	Accounts receivable	517

Note Business terms and policies for their determination, etc.

Terms for sales and purchases of the Company's products, etc. are determined with their market prices as reference data.

## 8. Notes on Per Share Information

(1) Net assets per share 427.60 yen

(2) Net loss per share 23.85 yen

# Accounting Audit Report on Consolidated Financial Statements

## Independent Auditors' Report

May 11, 2015

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner  
Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner  
Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements, for the consolidated fiscal year from April 1, 2014 to March 31, 2015, in accordance with Paragraph 4, Article 444 of the Company Law.

### Responsibility of management for consolidated financial statements

Management is responsible for preparing and appropriately presenting consolidated financial statements in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting consolidated financial statements that do not have material misstatements due to wrong doing or error.

### Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the consolidated financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these consolidated financial statements and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of consolidated financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these consolidated financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of consolidated financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of consolidated financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

### Auditor's opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material

respects, the state of consolidated properties and the state of consolidated profit and loss of a corporate group that consists of the Company and its consolidated subsidiaries for the consolidated fiscal year specified above in conformity with business accounting standards generally accepted in Japan.

#### **Interest**

No interest exists between the Company and this audit corporation or between the Company and the Designated and Engagement Partners named above as required under the stipulations of the Certified Public Accountants Act.



# Accounting Audit Report on Non-Consolidated Financial Statements

## Independent Auditors' Report

May 11, 2015

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner  
Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner  
Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements and their supporting schedules of changes in net assets, notes to non-consolidated financial statements, and their supporting schedules, for the 112<sup>th</sup> fiscal year from April 1, 2014 to March 31, 2015, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law.

### Responsibility of management for non-consolidated financial statements

Management is responsible for preparing and appropriately presenting non-consolidated financial statements and their supporting schedules in compliance with business accounting standards generally accepted in Japan. This includes the development and operation of internal control which management deems necessary for preparing and appropriately presenting non-consolidated financial statements and their supporting schedules that do not have material misstatements due to wrong doing or error.

### Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the non-consolidated financial and their supporting schedules statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these non-consolidated financial statements and their supporting schedules and conduct audits based on the audit plan. In the audits, procedures to obtain audit evidence for the amounts and disclosure of non-consolidated financial statements and their supporting schedules are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these non-consolidated financial statements and their supporting schedules due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of non-consolidated financial statements and their supporting schedules to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of non-consolidated

financial statements and their supporting schedules as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

#### Auditor's opinion

In our opinion, the non-consolidated financial statements and their supporting schedules referred to above present fairly, in all material respects, the state of assets and the state of profit and loss of the Company for the accounting period covered by the non-consolidated financial statements and their supporting schedules in conformity with business accounting standards generally accepted in Japan.

#### Interest

No interest exists between the Company and this audit corporation or between the Company and the Designated and Engagement Partners named above as required under the stipulations of the Certified Public Accountants Act.

## Report by the Board of Statutory Auditors

### Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 112<sup>th</sup> fiscal year from April 1, 2014 to March 31, 2015 prepared by Statutory Auditors.

#### 1. Methods and Contents of the Audit by Statutory Auditors and the Board

The Board established the audit policy, allocation of duties and the like, received reports from Statutory Auditors on the state of audit execution and results, received reports from Directors and Independent Auditors on the state of execution concerning their duties, and requested explanations as needed.

The Statutory Auditors communicated with Directors, internal audit division members, other employees and other sources to prepare conditions for information gathering and audits in compliance with the audit criteria set by the Board and in accordance with the audit policy, allocated duties and the like. At the same time, the Statutory Auditors attended Board of Directors and other important meetings, received reports from Directors, employees and other sources on the state of the execution of their duties, requested explanations as needed, viewed important documents on decisions, and studied the state of operations and assets at Tsugami Corporation (the "Company") and its principal offices. The Statutory Auditors also expressed their opinions about the content of Board of Directors resolutions on the establishment of organizations as prescribed in Paragraphs 1 and 3, Article 100 of the Enforcement Regulations for the Company Law as a requisite for a system that ensures the execution of duties by directors that are described in the Business Report in compliance with laws and the Articles of Incorporation and other proper operations of a joint stock company, and the state of a system (internal control system) established in accordance with the resolutions, based on regular reports from directors and employees about the state of the development and operation of the system and explanations that the Statutory Auditors requested as needed. With respect to subsidiaries, the Statutory Auditors sought to communicate and exchange information with their Directors and Statutory Auditors, and received from subsidiaries reports on their operations as needed. Based on the aforementioned methods, the Statutory Auditors examined business reports and their supporting schedules for the fiscal year under review. Further, the Statutory Auditors monitored and verified independence maintenance and proper audit execution by Independent Auditors, received reports from the Independent Auditors on the state of the execution of their duties, and requested explanations as needed. In addition, the Statutory Auditors received a notice from the Independent Auditors, stating that they were developing the "system for ensuring proper duty execution" (items prescribed in respective paragraphs of Article 131 of the Corporate Calculation Regulations) in accordance with "Quality Control Standards for Auditing" (Business Accounting Council Standard issued on October 28, 2005) and the like, and requested explanations as needed.

Based on the aforementioned methods, the Statutory Auditors examined the Company's non-consolidated financial statements (non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets, and notes to non-consolidated financial statements), their supporting schedules, and the Company's consolidated financial statements (consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements) for the fiscal year under review.

## 2. Results of the Audit

### (1) Results of the audit of the business report and its supporting schedules

- (a) The business report and its supporting schedules present fairly the state of the Company in conformity with the relevant laws and the Articles of Incorporation.
- (b) No misconduct or material fact contrary to the relevant laws or the Articles of Incorporation has been found with respect to the execution of Directors' duties.
- (c) The contents of Board of Directors resolutions on the internal control system are fair and reasonable. No item requiring special mention has been found with respect to the contents of the Business Report and the execution of Directors' duties concerning said internal control system.

### (2) Results of the audit of non-consolidated financial statements and their supporting schedules

The methods and results of the audit conducted by Ernst & Young ShinNihon LLC, Accounting Auditors, are fair and reasonable.

### (3) Results of the audit of consolidated financial statements

The methods and results of the audit conducted by Ernst & Young ShinNihon LLC, Accounting Auditors, are fair and reasonable.

May 12, 2015

Board of Statutory Auditors

Tsugami Corporation

Keiji Hayazaki, Standing Statutory Auditor  
Kenji Yamada, Statutory Auditor  
Morikuni Uchigasaki, Outside Statutory Auditor  
Hideo Teramoto, Outside Statutory Auditor  
Ryuichi Kimura, Outside Statutory Auditor

## Reference Materials for the Annual Shareholders Meeting

### Item 1: Partial Amendments to the Articles of Incorporation

#### 1. Reason for amendments

The "Act for Partial Revision of the Company Law of Japan", which came into force on May 1, 2015, newly recognizes the signing of limited liability agreements with Directors who have no involvement with the execution of business, etc. and Statutory Auditors who are not Outside Statutory Auditors. In accordance with these changes, the Company proposes to make the following amendments to parts of Article 27 and Article 35 of the current Articles of Incorporation to enable these Directors and Statutory Auditors also to perform their expected roles fully. Note that approval has been received from each Audit and Supervisory Board Member for this item's proposal to amend Article 27 of the current Articles of Incorporation.

#### 2. Details of amendments

The details of the proposed amendments are as follows.

(The underlined portions indicate the proposed amendments.)

Current Articles of Incorporation	Proposed Amendments
<p>CHAPTER IV. DIRECTORS AND BOARD OF DIRECTORS (Agreements for Limitation of Liability of <u>Outside Directors</u>) Article 27 In accordance with the provisions of Article 427, Paragraph 1 of the Company Law, the Company may enter into agreements with <u>an Outside Director</u> to limit liability for damages caused by his/her dereliction of duty. Provided, however, that the maximum amount of liability of such Outside Directors prescribed in such agreements shall be the amount stipulated by laws and regulations.</p>	<p>CHAPTER IV. DIRECTORS AND BOARD OF DIRECTORS (Agreements for Limitation of Liability of Directors) Article 27 In accordance with the provisions of Article 427, Paragraph 1 of the Company Law, the Company may enter into agreements with <u>a Director (excluding Directors who have involvement with the execution of business, etc.)</u> to limit liability for damages caused by his/her dereliction of duty <u>under Article 423, Paragraph 1 of the Company Law</u>. Provided, however, that the maximum amount of liability <u>for damages</u> of such Directors (excluding Directors who have involvement with the execution of business, etc.) prescribed in such agreements shall be the amount stipulated by laws and regulations.</p>
<p>CHAPTER V. AUDIT &amp; SUPERVISORY BOARD MEMBERS AND AUDIT &amp; SUPERVISORY BOARD (Agreements for Limitation of Liability of <u>Outside Statutory Auditors</u>) Article 35 In accordance with the provisions of Article 427, Paragraph 1 of the Company Law, the Company May enter into agreements with an <u>Outside Statutory Auditor</u> to limit liability for damages caused by his/her dereliction of duty. Provided, however, that the maximum amount of liability of such Outside Statutory Auditors prescribed in such agreements shall be the amount stipulated by laws and regulations.</p>	<p>CHAPTER V. AUDIT &amp; SUPERVISORY BOARD MEMBERS AND AUDIT &amp; SUPERVISORY BOARD (Agreements for Limitation of Liability of <u>Statutory Auditors</u>) Article 27 In accordance with the provisions of Article 427, Paragraph 1 of the Company Law, the Company may enter into agreements an <u>Statutory Auditor</u> to limit liability for damages caused by his/her dereliction of duty <u>under Article 423, Paragraph 1 of the Company Law</u>. Provided, however, that the maximum amount of liability <u>for damages</u> of such Statutory Auditors prescribed in such agreements shall be the amount stipulated by laws and regulations.</p>

**Item 2: Appointment of Eight Directors**

The term of office for all Directors shall expire at the close of this Annual Shareholders Meeting.

We therefore propose the reappointment of the eight Directors.

The eight candidates for the position of Director are as follows:

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
1	Takao Nishijima (December 14, 1947)	<p>May 1970      Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)</p> <p>February 1999      Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.</p> <p>May 1999      General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.</p> <p>June 2000      Director and General Manager of the Sales Development Division, Control Headquarters</p> <p>April 2003      Representative Director, Chairman and CEO</p> <p>April 2012      Representative Director, Chairman and CEO (current positions)</p>	10 thousand
2	Toshio Honma (August 2, 1952)	<p>April 1975      Joined the Hokuetsu Bank, Ltd.</p> <p>April 2002      Manager of the Nagaoka Shinsan Branch of the Hokuetsu Bank, Ltd.</p> <p>April 2004      Manager of the Shinmachi Branch of Hokuetsu Bank, Ltd.</p> <p>April 2006      Manager of the Naoetsu Branch of Hokuetsu Bank, Ltd.</p> <p>April 2008      Managing Executive Officer and General Manager of the Administration Division of the Company</p> <p>June 2009      Director, Managing Executive Officer and General Manager of the Administration Division of the Company</p> <p>May 2011      Director and Senior Advisor of the Company</p> <p>June 2011      Standing Statutory Auditor</p> <p>June 2013      Representative Director, COO, Administration (current positions)</p>	10 thousand

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
3	Toshiharu Nijima (November 14, 1954)	<p>November 1979 Joined the Company</p> <p>October 2003 Leader of the Automatic Lathe Group, Technology Headquarters</p> <p>April 2006 Managing Executive Officer and General Manager of the Technology Headquarters</p> <p>June 2008 Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory</p> <p>April 2009 Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>June 2009 Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>April 2012 Representative Director, COO, Plant Manager</p> <p>December 2014 Representative Director, COO, Technology Manager (current positions)</p>	14 thousand
4	Byun Jae- Hyun (July 10, 1956)	<p>October 1982 General Manager of the Import Business Division of Samsung C&amp;T Corporation</p> <p>July 2000 CEO of DI Corporation</p> <p>January 2007 Vice President of Exicon Co., Ltd.</p> <p>January 2010 President of TSUGAMI KOREA Co., Ltd.</p> <p>April 2012 Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>June 2012 Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>June 2013 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd.</p> <p>September 2014 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (current positions)</p>	0

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
5	Donglei TANG (November 27, 1962)	<p>July 1992      Joined Tokyo Seimitsu Co., Ltd.</p> <p>November 2005      Administration Officer and General Manager of China Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2009      Executive Officer and Manager of Shanghai Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2010      Managing Executive Officer in Charge of China Operations of the Company, and Vice Chairman and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>June 2010      Director, Managing Executive Officer in Charge of China Operations of the Company, and Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2012      Director, Senior Executive Officer, President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>June 2013      Director, Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION (current positions)</p>	0
6	Takeo Nakagawa (October 12, 1938)	<p>May 1999      Professor Emeritus at the University of Tokyo (current post)</p> <p>October 2000      CEO of Fine Tech Corporation</p> <p>June 2002      Director of Nippon Pillar Packing Co., Ltd. (current position)</p> <p>June 2007      Auditor at FANUC Ltd. (current position)</p> <p>June 2008      Director of the Company (current position)</p> <p>February 2014      Director of OSG CORPORATION (current position)</p> <p>April 2015      CEO of Fine Tech Corporation (current position)</p>	20 thousand



Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
7	Shigeru Nishiyama (March 4, 1948)	<p>June 1971      Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)</p> <p>June 2006      Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.</p> <p>December 2008   Representative Director, President of HORAI Co., Ltd.</p> <p>June 2010      Representative Director, CEO of HORAI Co., Ltd.</p> <p>June 2013      Director of the Company (current position)</p> <p>June 2013      Auditor at Mitsui Sugar Co., Ltd. (current position)</p>	0
8	Kunio Shimada (August 16, 1959)	<p>April 1986      Registered as an attorney Attorney with Iwata Godo Attorneys and Counsellors at Law</p> <p>October 1991    Registered as an attorney in New York State</p> <p>June 2000      Managing Director of Mizuho Servicing Co., Ltd. (current position)</p> <p>July 2010      Representative partner at Shimada Hamba &amp; Osajima (current position)</p> <p>June 2011      Director of the Company (current position)</p> <p>November 2013   Supervisory Officer of Hulic Reit, Inc. (current position)</p>	0

- Notes
1. Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada are candidates for the position of outside directors.
  2. The Company has notified the Tokyo Stock Exchange of the appointment of Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors.
  3. The Company requests the appointment of Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada as its outside directors based on its assessment that they possess deep insight and experience in general, and can advise the Company's management from a broad perspective.
  4. Mr. Takeo Nakagawa concurrently holds the position of Director and CEO of Fine Tech Corporation. The Company has sold products, etc. (amounting to 9 million yen in the fiscal year ended March 31, 2015) to Fine Tech Corporation, but these sales are insignificant, accounting for less than 0.1% of the Group's annual consolidated net sales, and the Company believes that these transactions have no impact on Mr. Takeo Nakagawa's independence and that Mr. Takeo Nakagawa is capable of executing the duties of outside and independent director appropriately. Mr. Shigeru Nishiyama served as Director of Sumitomo Mitsui Financial Group, Inc. (the financial holding company of Sumitomo Mitsui Banking Corporation) until June 2008. The Sumitomo Mitsui Financial Group, Inc. is one of the Company's main financial institutions. No special interest exists between the Company and each of the other candidates for the position of Director.
  5. The Company has executed an agreement with Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the provisions of Paragraph 1, Article 427 thereof. When Mr. Nakagawa, Mr. Nishiyama and Mr. Shimada are reappointed as Directors, the Company will execute an agreement with these three Directors on the limitation of

liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the Articles of Incorporation of the Company and the provisions of Paragraph 1, Article 427 of the Companies Act. In addition, the limited amount of liability for damages under the said agreement shall be the minimum liability stipulated under laws.

6. Although Mr. Takeo Nakagawa, Shigeru Nishiyama and Mr. Kunio Shimada are currently outside directors of the Company, their term of office as outside director is seven years for Mr. Takeo Nakagawa, two year for Mr. Shigeru Nishiyama and four years for Mr. Kunio Shimada at the close of this annual shareholders meeting.

**Item 3: Appointment of One Statutory Auditor**

Auditor Mr. Ryuichi Kimura shall retire from his position at the close of this annual shareholders meeting due to the expiration of his term of office. We therefore propose the appointment of another statutory auditor.

We have secured the consent of the Board of Statutory Auditors to this item in advance.

The one candidate for the position of statutory auditor is as follows:

Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
Hitoshi Yoshida (November 26, 1960)	April 1983      Joined TOKYO SEIMITSU CO., LTD.	0
	April 2002      Executive Officer of the Metrology Company and Leader of Multi-purpose measuring Group of TOKYO SEIMITSU CO., LTD.	
	April 2005      Managing Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD.	
	June 2005      Director of TOKYO SEIMITSU CO., LTD.	
	October 2007    President of the Metrology Company of TOKYO SEIMITSU CO., LTD.	
	June 2011      Representative Director of TOKYO SEIMITSU CO., LTD.	
	April 2015      President and CEO of TOKYO SEIMITSU CO., LTD. (current position)	

- Note
1. No special interest exists between the Company and the candidate nominated above.
  2. Mr. Hitoshi Yoshida is candidate for the position of outside director.
  3. The Company requests the appointment of candidate Mr. Hitoshi Yoshida as its outside statutory auditor based on its assessment that he will be able to audit the business execution of the directors of the Company fairly and objectively, taking advantage of his deep insight and considerable work experience.
  4. When the appointment of Mr. Hitoshi Yoshida as Statutory Auditor is approved, the Company will execute an agreement with Mr. Yoshida regarding the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the Articles of Incorporation of the Company and the provisions of Paragraph 1, Article 427 of the Companies Act. In addition, the limited amount of liability for damages under the said agreement shall be the minimum liability stipulated under laws.

**Item 4:** Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors with conditions particularly favorable to executive officers of the Company and employees with similar positions

Under the provisions of Articles 236, 238, and 239 of the Company Law, we request the shareholders to approve the delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors in conditions particularly favorable to the executive officers of the Company and employees with similar positions.

1. Reason for offering of the subscription rights to shares for subscription under especially favorable conditions

The Company has been granting subscription rights to shares as stock options for a stock-linked compensation plan. The grants were designed to establish a closer link between the Company's stock prices and results and the officers and employees so that they share with shareholders not only benefits from high stock prices, but also the risks of low stock prices, bolstering their morale and enthusiasm for improving business results.

2. The outline and the numerical limit of the subscription rights to shares whose offering terms may be determined based on the resolution made at the above general meeting of shareholders scheduled

(1) The numerical limit of the subscription rights to shares, the offering terms of which may be determined based on the above delegation

The maximum number of the subscription rights to shares as described in below (3) shall be 110.

The total number of the Company's shares that are issued in exchange of the exercise of the subscription rights to shares shall be limited to a maximum of 110,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the above subscription rights to shares.

(2) No transfer of cash shall be required for the subscription rights to shares, the offering terms of which may be determined based on the above delegation

(3) The outline of the subscription rights to shares, the offering terms of which may be determined based on the above delegation

(i) Type and the number of shares that are the object of the subscription rights to shares

The type of shares that are the object of the subscription rights to shares shall be common stocks of the Company. The number of shares for each subscription right to shares (the "Number of Granted Shares") shall be 1000 shares.

However, if a share-split (including a gratis allotment of common stocks of the Company; the same shall apply below regarding the descriptions of the share-split) or a reverse share-split is conducted for common stocks of the Company after the date of resolution at the above general meeting of shareholders (the "Resolution Date"), the Number of Granted Shares shall be adjusted by applying the following formula, with fractions of less than one share rounded down to the nearest one share:

$$\text{Number of Granted Shares after adjustment} = \text{Number of Granted Shares before adjustment} \times \text{Ratio of share-split / reverse share-split}$$

In addition to the above case, if an adjustment of the Number of Granted Shares is considered to be necessary for unavoidable reasons, the Company shall carry out the adjustment deemed reasonable.

- (ii) Amount of assets contributed on exercise of the subscription rights to shares  
The amount of assets contributed upon exercise of each subscription right to shares is calculated by multiplying the paid-in value of 1 yen per share delivered upon exercise of each subscription right to shares by the Number of Granted Shares.
- (iii) Exercise period of the subscription rights to shares  
Within 20 years from the day following the allotment date of the subscription rights to shares
- (iv) Matters concerning the increase in capital and capital reserve when shares are issued upon exercise of the subscription rights to shares
  - i. The amount of increase in capital when shares are issued with the exercise of the subscription rights to shares shall be one half of the maximum amount of increase in capital, etc., which is calculated in accordance with Paragraph 1 of Article 17 of the Corporate Calculation Regulation, and fractions of less than 1 yen shall be rounded up to the nearest 1 yen.
  - ii. The amount of increase in the capital reserve when shares are issued upon exercise of the subscription rights to shares shall be the amount calculated by deducting the amount of capital to be increased as stated in the preceding paragraph i from the maximum amount of increase in capital, etc., as stated in the same paragraph i above.
- (v) Restriction on acquiring the subscription rights to shares by assignment  
Acquisition of the subscription rights to shares by assignment shall require approval by a resolution of the Board of Directors.
- (vi) Provisions concerning the acquisition of the subscription rights to shares  
If a proposal for a merger agreement in which the Company ceases to exist, or a proposal for a stock swap agreement or a stock transfer plan in which the Company will become a wholly owned subsidiary, is approved at a general meeting of shareholders of the Company, the Company may acquire the subscription rights to shares on the date stipulated separately by the Company's Board of Directors.
- (vii) Fractions of less than 1 share occurring on exercise of the subscription rights to shares  
If a fraction of less than 1 share to be delivered to the holder of the subscription rights to shares occurs upon exercise of the subscription rights to shares, it shall be rounded down to the nearest 1 share.
- (viii) Other conditions for exercise of the subscription rights to shares
  - i. In principle, a holder of the subscription rights to shares may exercise the subscription rights to shares within the period described in Provision (iii) above, only when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
  - ii. Any other conditions associated with the exercise of the subscription rights to shares shall be determined by the resolution of a meeting of the Company's Board of Directors.