

Annual Securities Report

From April 1, 2010 to March 31, 2011

Document submitted to EDINET

Tsugami Corporation (E01480)

(The English translation of Yuukasyouken-Houkokusyo)

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| Document submitted | Annual Securities Report |
| Applicable law clause | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act |
| Destination | Director General of the Kanto Finance Bureau |
| Date of submission | June 20, 2011 |
| Fiscal year | The 108th term (from April 1, 2010 to March 31, 2011) |
| Corporate name | Tsugami Corporation |
| Name and title of representative | Takao Nishijima, Chairman and CEO |
| Address of home office | 1-9-10, Horidome-cho, Nihonbashi, Chuo-ku, Tokyo |
| Telephone number | +81-3-3808-1711 (key number) |
| Contact person | Yoshihiro Miura, Senior Executive Officer, General Manager, Administration Division |
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| Telephone number | +81-3-3808-1711 (key number) |
| Contact person | Yoshihiro Miura, Senior Executive Officer, General Manager, Administration Division |
| Place for public inspection | Tokyo Stock Exchange, Inc. (2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo) |

Chapter 1. Corporate Information

Section 1. Overview of the Company's Situation

1. Changes in major financial data

| Fiscal term | 104 th term | 105 th term | 106 th term | 107 th term | 108 th term |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month and year | March 2007 | March 2008 | March 2009 | March 2010 | March 2011 |
| (1) Consolidated financial data | | | | | |
| Net sales (million yen) | 36,557 | 28,495 | 22,687 | 15,598 | 35,932 |
| Ordinary income (loss) (million yen) | 5,535 | 2,756 | 626 | -117 | 3,504 |
| Net income (loss) (million yen) | 3,447 | 1,629 | -873 | -244 | 2,837 |
| Comprehensive income (million yen) | – | – | – | – | 3,378 |
| Net assets (million yen) | 23,450 | 21,916 | 19,718 | 19,882 | 22,122 |
| Total assets (million yen) | 35,943 | 32,732 | 25,703 | 31,147 | 35,860 |
| Net assets per share (yen) | 322.67 | 319.50 | 289.07 | 294.29 | 331.39 |
| Net income per share (yen) | 46.36 | 23.03 | -12.88 | -3.65 | 42.72 |
| Net income per share after residual equity adjustment (yen) | 46.05 | 22.86 | – | – | 41.89 |
| Capital adequacy ratio (%) | 65.0 | 66.3 | 76.0 | 63.2 | 60.9 |
| Earnings on equity (%) | 14.79 | 7.24 | – | – | 13.67 |
| Price-earnings ratio (times) | 14.56 | 14.50 | – | – | 13.58 |
| Cash flows from operating activities (million yen) | 4,142 | 3,946 | 439 | 2,299 | 2,295 |
| Cash flows from investing activities (million yen) | -383 | -1,394 | -1,803 | -1,358 | -1,599 |
| Cash flows from financing activities (million yen) | -3,157 | -2,696 | 1,210 | -268 | -437 |
| Cash and cash equivalents at the end of the term (million yen) | 3,496 | 3,352 | 3,188 | 3,842 | 4,061 |
| Number of employees (Average number of temporary employees in addition to the above) | 601 (427) | 591 (464) | 580 (404) | 570 (182) | 899 (192) |

| Fiscal term | 104 th term | 105 th term | 106 th term | 107 th term | 108 th term |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month and year | March 2007 | March 2008 | March 2009 | March 2010 | March 2011 |
| (2) Financial data of the submitting company | | | | | |
| Net sales (million yen) | 35,255 | 27,962 | 22,043 | 14,818 | 35,146 |
| Ordinary income (loss) (million yen) | 5,110 | 2,564 | 625 | -393 | 2,867 |
| Net income (loss) (million yen) | 3,257 | 1,544 | -540 | -408 | 2,426 |
| Capital (million yen) | 10,599 | 10,599 | 10,599 | 10,599 | 10,599 |
| (Number of shares issued) (thousand shares) | (79,019) | (68,019) | (68,019) | (68,019) | (68,019) |
| Net assets (million yen) | 22,723 | 21,137 | 19,277 | 19,319 | 21,241 |
| Total assets (million yen) | 35,186 | 32,031 | 25,425 | 29,771 | 34,091 |
| Net assets per share (yen) | 312.66 | 308.02 | 282.55 | 285.88 | 318.02 |
| Dividend per share | 10.00 | 10.00 | 10.00 | 5.00 | 10.00 |
| (Of which, interim dividend per share) (yen) | (4.00) | (5.00) | (5.00) | (0.00) | (5.00) |
| Net income (loss) per share (yen) | 43.80 | 21.82 | -7.98 | -6.09 | 36.53 |
| Net income per share after residual equity adjustment (yen) | 43.51 | 21.66 | – | – | 35.82 |
| Capital adequacy ratio (%) | 64.3 | 65.3 | 75.1 | 64.2 | 61.5 |
| Earnings on equity (%) | 14.36 | 7.09 | – | – | 12.11 |
| Price-earnings ratio (times) | 15.41 | 15.31 | – | – | 15.88 |
| Dividend payout ratio (%) | 22.8 | 45.83 | – | – | 27.4 |
| Number of employees (Average number of temporary employees in addition to the above) | 425 (247) | 412 (244) | 523 (190) | 517 (47) | 511 (177) |

- (Note) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; the same shall apply hereinafter).
2. Since net losses were posted in the 106th and 107th term, net income per share after residual equity adjustment in the consolidated financial data and the financial data of the submitting company has no value, although there were residual securities.
3. Since net losses were posted in the 106th and 107th term, earnings on equity and the price-earnings ratio in the consolidated financial data and the financial data of the submitting company have no value.
4. Since net losses were posted in the 106th and 107th term, the dividend payout ratio in the financial data of the submitting company has no value.

2. Corporate history

| | |
|----------------|--|
| March 1937 | Tsugami Mfg., Co., Ltd. established with capital of 2 million yen in Nagaoka, Niigata |
| December 1938 | Head office relocated to Kyobashi-ku, Tokyo |
| September 1941 | All plants in Nagaoka factory completed |
| February 1945 | Tsugami Precision Engineering Industry Co., Ltd. absorbed and renamed Shinsyu Plant |
| February 1948 | Head office relocated to Minato-ku, Tokyo |
| May 1949 | Listed on Tokyo Stock Exchange, Osaka Securities Exchange, and Niigata Stock Exchange |
| October 1961 | Toyo Seiki K.K. absorbed and made Ibaraki Plant |
| July 1968 | Zao Seisakusho K.K. established |
| September 1970 | Tsugami <i>Sogo Kenkyusho</i> (Research Institute) established in Nagaoka. |
| November 1970 | Corporate name changed to Tsugami Corporation |
| September 1974 | Tsugami Machine Tool Trading Corp. established |
| March 1975 | Ibaraki Plant closed and sold |
| October 1982 | Corporate name changed to Tsugami Corporation |
| May 1988 | Shares of Azuma Shimamoto Ltd. (corporate name changed to Tsugami Shimamoto Ltd.) acquired |
| April 1991 | Tsugami Precision Co., Ltd. (currently a consolidated subsidiary) established |
| May 1991 | Weldon Machine Tool Inc., a U.S. manufacturer of machine tools, acquired (corporate name changed to WMT Corporation) |
| April 1997 | Tsugami High Tech Co., Ltd. (currently Tsugami Machinery Co., Ltd., a consolidated subsidiary) established |
| November 2001 | Shares of Tsugami Techno Co., Ltd. acquired |
| December 2002 | Liquidation of WMT Corporation completed |
| September 2003 | Precision Tsugami (China) Corporation (currently a consolidated subsidiary) established |
| April 2004 | Tsugami Machine Tool Trading Corp. absorbed |
| October 2004 | Shimamoto Precision Ltd. and Tsugami Techno Co., Ltd. merged. The corporate name of the new company as a result of the merger is Tsugami Shimamoto Ltd. Tsugami High Tech Co., Ltd. and Tsugami Machinery Co., Ltd. merged. The corporate name of the new company is Tsugami Machinery Co., Ltd. (currently a consolidated subsidiary). |
| February 2005 | Invests in REM Sales LLC (currently an affiliate to which the equity method is not applied) |
| November 2005 | New plants in Nagaoka and Shinsyuu factories completed |
| October 2006 | Tsugami General Service Co., Ltd. and Tsugami Tool Co., Ltd. merged. The corporate name of the new company formed as a result of the merger is Tsugami General Service Co., Ltd. (currently a consolidated subsidiary). |
| November 2007 | Tsugami GmbH (currently a non-consolidated subsidiary) established |
| January 2009 | Tsugami Shimamoto Ltd. absorbed |
| February 2010 | TSUGAMI KOREA Co., Ltd. (currently a non-consolidated subsidiary) established |
| November 2010 | Shinagawa Precision Machinery (Zhejiang) Co., Ltd. (currently a non-consolidated subsidiary) established |

3. Businesses

The Group consists of TSUGAMI Corporation (“the Company”), eight subsidiaries (of which four are consolidated subsidiaries), and two affiliates and engages primarily in the manufacture and sale of automatic lathes, grinding machines, machining centers, and rolling machines chiefly in Japan and China. The Group undertakes additional business activities, including research on individual companies and other services.

(1) Positions of Group companies in the Group’s businesses

The following is a description of the positions of Group companies in the Group’s businesses in Japan and China:

(i) Japan

The Company manufactures and sells machine tools, measurement instruments, and other tools. Products are sold also by TSUGAMI Machinery Co., Ltd. and TSUGAMI Precision Co., Ltd., subsidiaries. The Company purchases certain parts and products from subsidiaries TSUGAMI Precision Co., Ltd. and Precision TSUGAMI (China) Corporation.

(ii) China

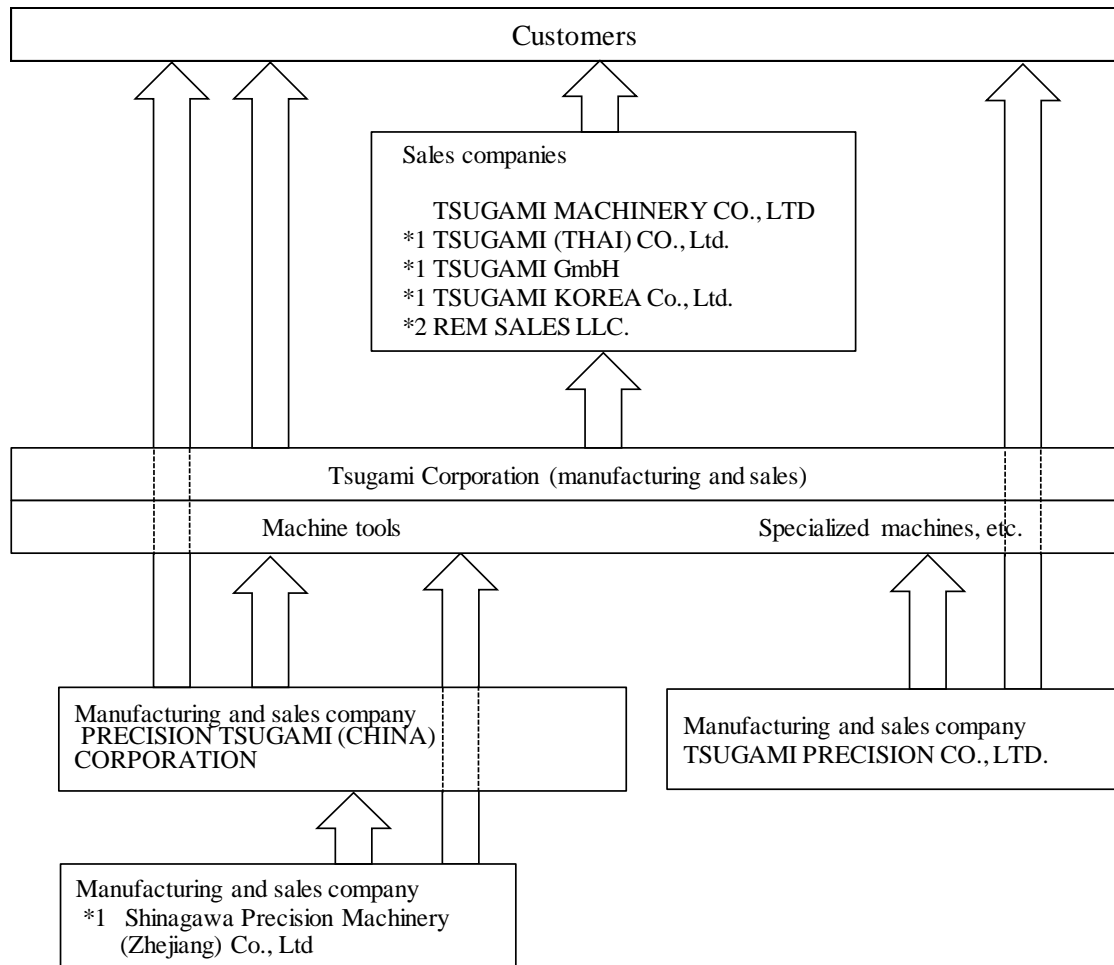
Precision TSUGAMI (China) Corporation manufactures and sells machine tools. It also purchases certain parts from the Company (in Japan) and sells products to the Company.

TSUGAMI (Thai) Co., Ltd., TSUGAMI GmbH, and TSUGAMI Korea Co., Ltd., subsidiaries, and REM Sales LLC, an affiliate, sell products of the Company.

After-sales services for the products of the Group are provided by the Company and the subsidiaries TSUGAMI Machinery Co., Ltd. and TSUGAMI (Thai) Co., Ltd.

(2) Business diagram

Businesses operated by the Group are as presented in the following figure.



Maintenance, repair and other service divisions

TSUGAMI MACHINERY CO., LTD
 *1 TSUGAMI (THAI) CO., Ltd.
 *1 TSUGAMI GmbH
 *1 TSUGAMI KOREA Co., Ltd.
 *2 REM SALES LLC.
 TSUGAMI GENERAL SERVICE CO., LTD.

(Notes) No asterisk: consolidated subsidiaries

*1: non-consolidated subsidiaries to which equity method is not applied

*2: affiliates to which equity method is not applied

⇒ Flows of products and components

4. Situations of affiliates

| Name | Address | Capital or investments | Major business | Ownership of voting rights (%) | Relations |
|--|-------------------------------------|------------------------|--|--------------------------------|---|
| Consolidated subsidiaries Tsugami Machinery Co., Ltd. | Kawasaki-ku, Kawasaki-shi, Kanagawa | 60 million yen | Sales, installation and repairing of machine tool parts in Japan. | 100 | Sells products and parts of the Company; installs and repairs products of the Company. There are interlocking officers. |
| Tsugami General Service Co., Ltd. | Nagaoka-shi, Niigata | 42 million yen | Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations in Japan. | 100 | Checks and maintains buildings and equipment on the premises of plants; carries out the agency of nonlife insurance. There are interlocking officers. |
| Tsugami Precision Co., Ltd. | Chuo-ku, Tokyo | 10 million yen | Manufacturing and sales of machine tools, measuring equipment and prototype standard in Japan. | 100 | Processes, assembles, and sells products of the Company. There are interlocking officers. |
| Precision Tsugami (China) Corporation (Note 1, 2) | Zhejiang, China | 112 million yuan | Manufacturing and sales of machine tools in China. | 100 | Processes, assembles, and sells products of the Company. There are interlocking officers. |

(Note) 1. Precision Tsugami (China) Corporation is a specified subsidiary.

2. The ratio of the net sales of Precision Tsugami (China) Corporation (excluding intra-Group sales among consolidated companies) to consolidated net sales exceeded 10%.

Information on major profit and other items

| | |
|---------------------|-------------------|
| (1) Net sales | 9,888 million yen |
| (2) Ordinary income | 670 million yen |
| (3) Net income | 558 million yen |
| (4) Net assets | 2,369 million yen |
| (5) Total assets | 6,653 million yen |

5. Employees

(1) Group employees

As of March 31, 2011

| Business segment | Number of employees | |
|------------------|---------------------|-------|
| Japan | 556 | (192) |
| China | 343 | (-) |
| Total | 899 | (192) |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees.

2. The number of employees rose 329 from the end of the previous fiscal year because of a change in the employment agreements for temporary employees at Precision Tsugami (China) Corporation in the fiscal year under review

(2) Employees of the submitting company

As of March 31, 2011

| Number of employees | Average age | Average service years | Average annual salary (thousand yen) |
|---------------------|-------------|-----------------------|---|
| 511 (177) | 43.0 | 18.1 | 5,601 |

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees. Workers on loan from other companies to the Company (12 employees) are included. Workers on loan from the Company to other companies (60 employees) are not included. The employees of the Company are classified into Japan Segment.

2. The average annual salary (tax included) includes overtime charges and bonuses.

(3) Labor union

The labor union of the Company belongs to JAM, an industrial union. The number of union members, who have concluded union-shop contracts, is 313.

Labor-management relations are good.

Section 2. Business Situation

1. Overview of operating results

(1) Operating results

The Japanese economy recovered moderately during the consolidated fiscal year under review, backed by exports to China and other emerging countries in Asia. Uncertainty over the future of the economy increased, reflecting concern over a slowdown due to a strong yen from the second half and anxiety about the repercussions of the recent Great East Japan Earthquake and electric power shortages associated with the earthquake.

In the machine tool industry, demand from abroad, especially China and other emerging countries in Asia, grew steadily, and there were signs of a recovery in domestic demand. However, concern about the future of the industry is rising because of the recent situation.

In this environment, Tsugami Corporation (the “Company”) and its affiliates (the “Group”) were proactive in seeking to supply precision machine tools to markets based on the precision processing knowhow they have accumulated over the years to meet demands in emerging countries such as China as well as the advancing needs of customers in IT and related industries.

To deal with the appreciation of the yen and make its products more price competitive, the Group worked to review and streamline its production systems by taking steps such as raising production at Chinese factories.

Consolidated net sales for the fiscal year under review rose 130.4% year on year, to 35,932 million yen.

Consolidated net sales in Japan increased 119.5% year on year, to 9,540 million yen. Consolidated exports climbed 134.6% year on year, to 26,392 million yen. The export ratio rose from 72.1% for the previous fiscal year, to 73.4%.

Consolidated operating income stood at 3,732 million yen (compared with 84 million yen for the previous fiscal year). The Group posted consolidated ordinary income of 3,504 million yen (a consolidated loss of 117 million yen for the previous fiscal year) and consolidated net income of 2,837 million yen (a consolidated net loss of 244 million yen) for the fiscal year under review.

Operating results by business segment are as follows:

- (i) In Japan, net sales stood at 35,366 million yen, up 135.3% year on year. Operating income was 2,882 million yen.
- (ii) In China, net sales were 9,932 million yen, up 112.4% year on year. Operating income was 902 million yen.

(2) Cash flows

For cash flows, please refer to (2) Analysis of cash flows of 7. Analysis of financial position and operating results of Section 2. Business Situation.

2. Production, orders received, and sales

(1) Production performance

The table below shows production performance by segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) (million yen) | Year on year (%) |
|------------------|--|------------------|
| Japan | 39,747 | – |
| China | 7,494 | – |
| Total | 47,241 | – |

(Note) 1. The amounts above are amounts before intra-Group transfers based on standard invoice prices.

2. The amounts above do not include consumption taxes.

3. The segments above are applied for the first time in the fiscal year under review, and it is difficult to obtain segment data in accordance with the segments for the previous fiscal year. Therefore, no year-on-year comparisons are included in the table.

(2) Orders received

Since the Group (the Company and its consolidated subsidiaries) produces based on prospects for orders, a description of orders received is omitted.

(3) Sales performance

The table below show sales performance by business segment for the fiscal year under review.

| Business segment | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) (million yen) | Year on year (%) |
|------------------|--|------------------|
| Japan | 28,438 | 135.8 |
| China | 7,494 | 111.9 |
| Total | 35,932 | 130.4 |

(Note) 1. Transactions between the segments were canceled out.

2. The table below shows sales to a major customer and the ratio of sales to total sales in the previous fiscal year.

There were no customers accounting for 10% or more of total sales in the fiscal year under review, and therefore a description of sales by customer is omitted.

| | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) (million yen) | |
|--------------------|--|-----------|
| | Amount (million yen) | Ratio (%) |
| Keiaisha Co., Ltd. | 4,544 | 12.7 |

3. The amounts above do not include consumption taxes.

3. 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.

(1) 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 and digital cameras, and the medical care market.

(2) 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.

The business alliance with Tornos S.A. in Switzerland in the production and sale of machine tools has been producing effects steadily.

(3) 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.

(Immediate challenges)

The Group will seek to minimize the impact of the Great East Japan Earthquake that occurred in March and the associated power outages on the Group's businesses, as uncertainty over the future of business activities is increasing because of the effect of the earthquake.

4. Business and other risks

Risks that may adversely affect the operating results, share prices, financial situation and other aspects of the Group include the following:

(1) Effects of business fluctuations

The machine tool industry is an industry that is susceptible to the effects of business fluctuations. The Group is continuing its efforts to minimize the effects that unexpected market downsizing can have on its performance, by reducing fixed costs and taking other steps in an attempt to maximize management efficiency. Sudden and unexpected changes, however, may affect the Group's production, business performance and financial situation.

(2) Effects of changes in prices of raw materials

The prices of cast metals and iron and steel products, the main raw materials of products of the Group, are influenced by movements of exchange rates and the international supply-demand situation. Increases in prices of raw materials for those reasons may affect the Group's production, business performance, and financial situation.

(3) Effects of fluctuations in exchange rates

Each year, overseas sales are accounting for a greater percentage of total sales of the Group's products. Exports by the Group are denominated in yen, and they are not directly influenced by exchange rate fluctuations in principle. A sharp appreciation of the yen, however, prompts agents and users overseas to ask the Group to lower its selling prices for its products. In addition, the risk of an exchange loss attributable to fluctuations in the Chinese yuan is rising in proportion to the growing weight of production at manufacturing factories in China.

(4) Effects of overseas operations

A subsidiary in China manufactures and sells machine tools, and the Group sells products and provides after-the-sale services through subsidiaries in Thailand, Germany, and South Korea. Deterioration in political situations and changes in laws and regulations in those countries may affect the Group's production, business performance and financial standing.

(5) Effects of matters relating to quality

The Group is united in its commitment to improving quality, in addition to proactively developing new products and introducing them to markets. Nonetheless, unexpected issues, such as accidents and poor service, may affect the Group's production, business performance and financial conditions should they arise.

(6) Effects relating to intellectual property rights

To protect its technologies, the Group applies for patents for them and acquires intellectual property rights. However, if other companies infringe on the intellectual property rights of the Group, if the invalidation of intellectual property rights of the Group is sought, or if injunctions against the manufacture and sale of products are filed against the Group in association with infringements of intellectual property rights, then this may affect the Group's production, business performance and financial conditions.

(7) Effects of natural disasters

The Group has production, selling, and service bases worldwide, and may therefore be affected by disasters that might be caused by a range of phenomena, including natural disasters, computer viruses, and terrorism.

The Group has production bases in Niigata and in China. If large natural disasters, such as earthquakes and floods, should occur, and if as a result the supply of products should become impossible or be delayed, then this may affect the Group's production, business performance and financial situation.

No production or sales bases of the Group were directly damaged by the March 11 earthquake that hit eastern Japan, but the situation at its customers may affect the Group's production, business performance and financial standing.

5. Significant management contracts

Not applicable.

6. Research and development activities

The Group is focusing on product development activities to quickly meet the needs of customers and develop high-precision, high-speed and high-rigidity machines promptly based on precision processing technologies that the Group has cultivated in product development and technology development for many years.

Total R&D expenses in the entire Group in the fiscal year under review were 751 million yen.

The R&D are conducted in the Company (Japan).

The Company plays a central role in developing small, high-speed, high-precision machines that can be used for processing auto parts that are environmentally friendly, safe, and energy saving (electric power steering, next-generation brakes, environmentally-friendly engines) and high-precision products in the information and communications industries, especially personal computer-related products, such as hard disk drives (HDDs), parts for small information terminals, such as mobile phones and digital cameras, and super high-precision parts such as parts for medical equipment.

During the fiscal year under review, the Company developed the G300F/G300T CNC high-precision cylindrical grinding machine, the SS207, B0385, B0385L, CH154 CNC high-precision automatic lathe and the VA32A, VA35 vertical machining center.

7. Analysis of financial position, operating results, and cash flows

(1) Analysis relating to the consolidated financial position

(Current assets)

Current assets at the end of the fiscal year under review rose 3,387 million yen, to 23,578 million yen (20,191 million yen at the end of the previous fiscal year), primarily reflecting an increase of 2,514 million yen in inventories and of 487 million yen in trade accounts receivable.

(Fixed assets)

Fixed assets at the end of the fiscal year under review increased 1,332 million yen, to 12,263 million yen (10,930 million yen at the end of the previous fiscal year). The primary reason for the increase was a 644 million yen rise in investment securities and 443 million yen in investments in affiliates.

(Current liabilities)

Current liabilities at the end of the fiscal year under review climbed 2,475 million yen, to 11,771 million yen (9,296 million yen at the end of the previous fiscal year), mainly attributable to a 1,064 million yen increase in trade notes and accounts payable and a 1,080 million yen rise in short-term borrowings.

(Long-term liabilities)

Long-term liabilities at the end of the fiscal year under review declined 1 million yen, to 1,966 million yen (1,968 million yen at the end of the previous fiscal year) primarily because of a 351 million yen increase in deferred tax liabilities, which more than offset a decrease in corporate bonds of 300 million yen and decrease in reserve for retirement benefits of 46 million yen.

(Net assets)

Net assets at the end of the fiscal year under review climbed 2,239 million yen, to 22,122 million yen (net assets of 19,882 million yen for the previous fiscal year), primarily reflecting a 2,171 million yen increase in retained earnings, 529 million yen in unrealized gains on marketable securities, which more than offset expenditure on the purchase of treasury stock of 564 million yen.

(2) Analysis of cash flows

(Cash flows)

Cash and cash equivalents rose by 218 million yen from the end of the previous consolidated fiscal year, to 4,061 million yen at the end of the consolidated fiscal year under review. The following shows cash flows in each category in the fiscal year under review.

(Cash flows from operating activities)

Cash generated by operating activities was 2,295 million yen (2,299 million yen generated for the previous fiscal year). The result mainly reflected net income before taxes and other adjustments of 3,244 million yen, depreciation and amortization expenses of 738 million yen and an increase in trade notes and accounts payable of 1,242 million yen. These factors offset a decrease in cash, reflecting an increase in trade notes and accounts receivable of 383 million yen, and increase in inventories of 2,571 million yen.

(Cash flows from investing activities)

Cash used for investing activities was 1,599 million yen (1,358 million yen used for the previous fiscal year). Key factors in this result included expenditure for the acquisition of tangible fixed assets of 1,127 million yen and payment for investment (in the establishment of Shinagawa Precision Machinery (Zhejiang) Co., Ltd.) of 443 million yen.

(Cash flows from financing activities)

Cash used for financing activities was 437 million yen (268 million yen used for the previous fiscal year). The cash outflow resulted mainly from the redemption of bonds of 300 million yen, an expenditure of 592 million yen on the acquisition of treasury stock, and dividends paid of 666 million yen. These factors offset fund increases from factors such as short-term borrowings of 1,130 million yen.

(3) Analysis relating to consolidated operating results

Net sales in the fiscal year under review stood at 35,932 million yen, (up 130.4% year on year). Operating income was 3,732 million yen (84 million yen at the end of the previous fiscal year). A net income was 2,837 million yen (a net loss of 244 million yen at the end of the previous fiscal year).

For analysis by business segment, please refer to (1) Operating results of 1. Overview of operating results of Section 2. Business Situation.

Section 3. Facilities

1. Overview of capital investment

Capital expenditures of the Group were 1,124 million yen.

Capital expenditures by business segment are as follows:

Capital expenditures in Japan were 425 million yen, which was allocated primarily to production facilities at Nagaoka and Shinshu factories of the Company.

Capital expenditures in China were 742 million yen, which was allocated primarily to production facilities at Precision Tsugami (China) Corporation, a subsidiary.

The Group's own funds and funds raised through the issuing of bonds were appropriated for the capital expenditures.

2. Major facilities

The table below shows major facilities of the Group.

(1) Submitting company

As of March 31, 2011

| Factory (location) | Business segment | Facilities | Book value (million yen) | | | | | | Number of employees |
|---|------------------|---------------------------------------|--------------------------|-------------------------|------------------------|---------------|-------|-------|---------------------|
| | | | Buildings | Machinery and equipment | Land (m ²) | Leased assets | Other | Total | |
| Nagaoka factory (Nagaoka-shi, Niigata) | Japan | Equipment for producing machine tools | 2,008 | 550 | 232 (71,339) | 8 | 272 | 3,072 | 357 (143) |
| Shinshu factory (Saku-shi, Nagano) | Japan | Equipment for producing machine tools | 608 | 368 | 22 (64,685) | 4 | 29 | 1,033 | 83 (30) |
| Niigata factory (Niigata-shi, Niigata) | Japan | Equipment for producing machine tools | 63 | 2 | 164 (18,245) | – | 8 | 239 | – |
| Other (Kawasaki-ku, Kawasaki-shi, Kanagawa) | Japan | Apartments for unmarried employees | 158 | – | 91 (469) | – | 0 | 250 | – |

(2) Overseas subsidiary

As of March 31, 2011

| Corporate name | Factory (location) | Business segment | Facilities | Book value (million yen) | | | | | | Number of employees |
|---------------------------------------|---------------------------------|------------------|---------------------------------------|--------------------------|-------------------------|------------------------|---------------|-------|-------|---------------------|
| | | | | Buildings | Machinery and equipment | Land (m ²) | Leased assets | Other | Total | |
| Precision Tsugami (China) Corporation | China factory (Zhejiang, China) | China | Equipment for producing machine tools | 529 | 1,009 | – (–) | – | 17 | 1,556 | 343 (–) |

(Note) 1. The book value in the "Other" column is a total value of tools, and equipment and fixtures and does not include construction in progress.

2. The number in parentheses in the number of employees column is the number of temporary employees.

3. Equipment introduction and retirement plans

The Group develops capital expenditure plans, taking into comprehensive consideration business forecasts, industry trends, and financial efficiency.

In principle, each consolidated company develops an equipment plan, which is adjusted primarily by the submitting company.

The table below shows plans for the introduction of important equipment as of the end of the fiscal year under review.

| Corporate name, factory | Location | Business segment | Facilities | Planned investments (million yen) | | Financing method | Planned start and completion date | |
|---------------------------------------|----------------------|------------------|------------------------------------|-----------------------------------|-------------|------------------|-----------------------------------|------------|
| | | | | Total | Amount paid | | Start | Completion |
| Nagaoka factory of the Company | Nagaoka-shi, Niigata | Japan | Machinery and equipment | 150 | – | Self-financing | April 2011 | March 2012 |
| Shinshu factory of the Company | Saku-shi, Nagano | Japan | Machinery and equipment | 170 | – | Self-financing | April 2011 | March 2012 |
| Precision Tsugami (China) Corporation | Zhejiang, China | China | Buildings, machinery and equipment | 2,200 | 18 | Self-financing | April 2011 | March 2012 |

Section 4. Situation of Submitting Company

1. Shares of the Company

(1) Total number of shares and other information

(i) Total number of shares

| Type | Number of shares issuable |
|---------------|---------------------------|
| Common shares | 320,000,000 |
| Total | 320,000,000 |

(ii) Shares issued

| Type | Number of shares issued at end of fiscal year (March 31, 2011) | Number of shares issued on the date of the submission of the report (June 20, 2011) | Stock exchange or registered financial instruments dealers association | Remarks |
|---------------|--|---|--|----------------------------------|
| Common shares | 68,019,379 | 68,019,379 | The First Section of the Tokyo Stock Exchange | Number of shares per unit: 1,000 |
| Total | 68,019,379 | 68,019,379 | — | — |

(Note) The figures in the number of shares issued on the date of the submission of the report column do not include shares issued through the exercise of subscription rights to shares from June 1, 2011 through the date of the submission of the report.

(2) Subscription rights to shares

The table below shows the details of the subscription rights to shares issued under Articles 280-20 and 280-21 of the Old Commercial Code.

(i) Resolution of the annual shareholders meeting held on June 24, 2005

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|---|--|---|
| Number of subscription rights to shares | 109 | 109 |
| Number of own subscription rights to shares of the subscription rights to shares | – | – |
| Type of shares underlying subscription rights to shares | Common shares | Same as at left |
| Number of shares underlying subscription rights to shares | 109,000 | 109,000 |
| Amount to be paid for the exercise of subscription rights to shares (yen) | 1 | Same as at left |
| Exercise period | From July 1, 2005 to June 30, 2025 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) | Issue price: 1 Amount per share to be credited to capital: 1 | Same as at left |
| Conditions for the exercise of subscription rights to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | – | – |

The table below shows the details of the subscription rights to shares issued under the Company Law.

(ii) Resolution at a Board of Directors meeting held on June 23, 2006

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|---|--|---|
| Number of subscription rights to shares | 45 | 45 |
| Number of own subscription rights to shares of the subscription rights to shares | – | – |
| Type of shares underlying subscription rights to shares | Common shares | Same as at left |
| Number of shares underlying subscription rights to shares | 45,000 | 45,000 |
| Amount to be paid for the exercise of subscription rights to shares (yen) | 1 | Same as at left |
| Exercise period | From July 21, 2006 to July 20, 2026 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) | Issue price: 609 Amount per share to be credited to capital: 305 | Same as at left |
| Conditions for the exercise of subscription rights to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | (Note 2) | Same as at left |

(iii) Resolution of the annual shareholders meeting held on June 23, 2006

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|---|--|---|
| Number of subscription rights to shares | 38 | 25 |
| Number of own subscription rights to shares of the subscription rights to shares | – | – |
| Type of shares underlying subscription rights to shares | Common shares | Same as at left |
| Number of shares underlying subscription rights to shares | 38,000 | 25,000 |
| Amount to be paid for the exercise of subscription rights to shares (yen) | 1 | Same as at left |
| Exercise period | From July 21, 2006 to July 20, 2026 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) | Issue price: 609 Amount per share to be credited to capital: 305 | Same as at left |
| Conditions for the exercise of subscription rights to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | (Note 2) | Same as at left |

(iv) Resolution at a Board of Directors meeting held on June 22, 2007

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|---|--|---|
| Number of subscription rights to shares | 59 | 59 |
| Number of own subscription rights to shares of the subscription rights to shares | – | – |
| Type of shares underlying subscription rights to shares | Common shares | Same as at left |
| Number of shares underlying subscription rights to shares | 59,000 | 59,000 |
| Amount to be paid for the exercise of subscription rights to shares (yen) | 1 | Same as at left |
| Exercise period | From July 10, 2007 to July 9, 2027 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) | Issue price: 514 Amount per share to be credited to capital: 257 | Same as at left |
| Conditions for the exercise of subscription rights to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | (Note 2) | Same as at left |

(v) Resolution of the annual shareholders meeting held on June 22, 2007

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 60 | 54 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 60,000 | 54,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | Same as at left |
| Exercise period | From July 10, 2007 to July 9, 2027 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 514 Amount per share to be credited to capital: 257 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | (Note 2) | Same as at left |

(vi) Resolution at a Board of Directors meeting held on June 20, 2008

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 62 | 62 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 62,000 | 62,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 8, 2008 to July 7, 2028 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 280 Amount per share to be credited to capital: 140 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | (Note 2) | Same as at left |

(vii) Resolution of the annual shareholders meeting held on June 20, 2008

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 47 | 43 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 47,000 | 43,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 8, 2008 to July 7, 2028 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 280 Amount per share to be credited to capital: 140 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | (Note 2) | Same as at left |

(viii) Resolution of the annual shareholders meeting held on June 19, 2009

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 800 | 800 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 800,000 | 800,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 225 | 225 |
| Exercise period | From July 7, 2011 to June 30, 2014 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 256 Amount per share to be credited to capital: 128 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | – | – |

(ix) Resolution at a Board of Directors meeting held on June 19, 2009

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 152 | 152 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 152,000 | 152,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 7, 2009 to July 6, 2029 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 124 Amount per share to be credited to capital: 62 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | – | – |

(x) Resolution of the annual shareholders meeting held on June 19, 2009

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 105 | 87 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 105,000 | 87,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 7, 2009 to July 6, 2029 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 124 Amount per share to be credited to capital: 62 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | – | – |

(xi) Resolution of the annual shareholders meeting held on June 18, 2010

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 350 | 350 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 350,000 | 350,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 667 | 667 |
| Exercise period | From July 6, 2012 to June 30, 2015 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 849 Amount per share to be credited to capital: 425 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | – | – |

(xii) Resolution at a Board of Directors meeting held on June 18, 2010

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 97 | 97 |
| Number of own subscription right to shares of the subscription right to shares | – | – |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 97,000 | 97,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 6, 2010 to July 5, 2030 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 533 Amount per share to be credited to capital: 267 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | – | – |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | – | – |

(xiii) Resolution of the annual shareholders meeting held on June 18, 2010

| | At end of fiscal year under review (March 31, 2011) | At end of month preceding date of submission of the report (May 31, 2011) |
|--|---|---|
| Number of subscription right to shares | 85 | 68 |
| Number of own subscription right to shares of the subscription right to shares | — | — |
| Type of shares underlying subscription right to shares | Common shares | Same as at left |
| Number of shares underlying subscription right to shares | 85,000 | 68,000 |
| Amount to be paid for the exercise of subscription right to shares (yen) | 1 | 1 |
| Exercise period | From July 6, 2010 to July 5, 2030 | Same as at left |
| Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription right to shares (yen) | Issue price: 533 Amount per share to be credited to capital: 267 | Same as at left |
| Conditions for the exercise of subscription right to shares | (Note 1) | Same as at left |
| Matters relating to the transfer of subscription right to shares | The approval of the Board of Directors is required for the transfer of subscription right to shares. | Same as at left |
| Matters relating to subrogation payments | — | — |
| Matters relating to the delivery of subscription right to shares in association with reorganization acts | — | — |

(Note) 1. The conditions for the exercise of subscription rights to shares shall be stipulated in a resolution of the Board of Directors, of the Company and the “Subscription Rights to Share Allocation Agreement” concluded between the Company and the recipients of subscription rights to shares, based on the resolution.

2. In the event of a stock swap or a stock transfer in which the Company will become a wholly owned subsidiary, obligations relating to subscription rights to shares that are not exercised or canceled shall be able to be transferred to the company that will become the parent company through the stock swap or stock transfer under certain conditions. Details shall be specified in the invitation to issuing of subscription.

(3) Exercise of bonds with subscription rights to shares with an amended exercise price
Not applicable.

(4) Features of rights plan
Not applicable.

(5) Changes in the number of shares outstanding and capital

| Date | Change in number of shares outstanding (shares) | Number of shares outstanding (shares) | Change in capital (million yen) | Capital (million yen) | Change in capital reserve (million yen) | Capital reserve (million yen) |
|--------------------------|---|---------------------------------------|---------------------------------|-----------------------|---|-------------------------------|
| November 15, 2006 (Note) | -10,000,000 | 79,019,379 | – | 10,599 | – | 4,138 |
| March 24, 2008 (Note) | -11,000,000 | 68,019,379 | – | 10,599 | – | 4,138 |

(Note) The decreases were because of retirement of treasury stock.

(6) Ownership of shares by owner

As of March 31, 2011

| Classification | Ownership of shares (one unit is 1,000 shares) | | | | | | | | Fractional shares (shares) |
|------------------------------|--|------------------------|----------------------|--------------------|--------------------------------------|-------------|------------------------|--------|----------------------------|
| | Government and local governments | Financial institutions | Securities companies | Other corporations | Foreign corporations and individuals | | Individuals and others | Total | |
| | | | | | Entities other than individuals | Individuals | | | |
| Number of shareholders | – | 38 | 46 | 157 | 85 | 8 | 8,711 | 9,045 | – |
| Number of shares held (unit) | – | 22,311 | 1,942 | 5,671 | 10,705 | 34 | 26,895 | 67,558 | 461,379 |
| Holdings (%) | – | 33.0 | 2.9 | 8.4 | 15.8 | 0.1 | 39.8 | 100.0 | – |

(Note) 1. Treasury stock (2,140,680 shares) includes 2,140 units in the individuals and others category and 680 fractional shares.

2. Shares in the other corporations column includes 12 units of shares under the name of the Japan Securities Depository Center.

(7) Major shareholders

As of March 31, 2011

| Name | Address | Number of shares held (thousand shares) | Ratio of holdings to the number of shares issued (%) |
|--|---|---|--|
| Japan Trustee Services Bank, Ltd. (trust account) | 1-8-11, Harumi, Chuo-ku, Tokyo | 5,031 | 7.39 |
| Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) | 1-8-12, Harumi, Chuo-ku, Tokyo | 4,592 | 6.75 |
| Morgan Stanley and Company Inc. (Standing agency: Morgan Stanley MUFG, Ltd.) | 1585 BROADWAY NEW YORK, NEW YORK 10036, U.S.A (Yebisu Garden Place Tower, 4-20-3 Ebisu, Shibuya-ku) | 3,517 | 5.17 |
| The Dai-ichi Life Insurance Company, Limited | 1-8-12, Harumi, Chuo-ku, Tokyo | 3,225 | 4.74 |
| Goldman Sachs and Company Regular Account (Standing agency: Goldman Sachs Japan Co., Ltd.) | 200 WEST STREET NEW YORK, NY, USA (6-10-1, Roppongi, Minato-ku, Tokyo) | 2,379 | 3.49 |
| Mori Seiki Co., Ltd. | 106, Kitakoriyama-cho, Yamatokoriyama-shi, Nara | 2,000 | 2.94 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2-11-3, Hamamatsu-cho, Minato-ku, Tokyo | 1,765 | 2.59 |
| Sumitomo Mitsui Banking Corporation | 1-1-2, Yurakucho, Chiyoda-ku, Tokyo | 1,516 | 2.22 |
| The Hokuetsu Bank, Ltd. | 2-2-14, Otedori, Nagaoka-shi, Niigata | 1,484 | 2.18 |
| Tsugami Customers' Shareholding Association | 1-1-1, Higashi-Zao, Nagaoka-shi, Niigata | 1,221 | 1.79 |
| Total | — | 26,731 | 39.30 |

- (Note) 1. All shares held by Japan Trustee Services Bank, Ltd. relate to the trust service.
2. All shares held by Mizuho Trust & Banking Co., Ltd. relate to the trust service.
3. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.
4. The number of shares held by The Dai-ichi Life Insurance Company, Limited 962 thousand shares in separate pension accounts and 163 thousand shares in separate variable accounts.
5. The Nomura Securities Co.,Ltd. and its joint holders (NOMURA INTERNATIONAL PLC and Nomura Asset Management Co.,Ltd.) have sent the Company a copy of a large holding report dated September 24, 2010. According to the copy, they held the shares shown in the table below as of September 15, 2010. However, since the Company has not been able to confirm the number of shares held by them as of the end of the fiscal year, they are not included in the table above.

| Name | Address | Number of shares and other securities (shares) | Holdings (%) |
|----------------------------------|--|--|--------------|
| Nomura Securities Co.,Ltd. | 1-9-1, Nihonbashi, Chuo-ku, Tokyo | Shares 436,473 | 0.64 |
| NOMURA INTERNATIONAL PLC | Nomura House, 1 St.Martin's-le-Grand London EC1A 4NP, UK | Shares 1,096,175 | 1.61 |
| Nomura Asset Management Co.,Ltd. | 1-12-1, Nihonbashi, Chuo-ku, Tokyo | Shares 983,000 | 1.45 |

6. The Mitsubishi UFJ Financial Group and its joint holders (The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Asset Management Co., Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.) have sent the Company a copy of a large holding report dated December 20, 2010. According to the copy, they held the shares shown in the table below as of December 13, 2010. However, since the Company has not been able to confirm the number of shares held by them as of the end of the fiscal year, they are not included in the table above.

| Name | Address | Number of shares and other securities (shares) | Holdings (%) |
|--|--------------------------------------|--|--------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 2-7-1, Marunouchi, Chiyoda-ku, Tokyo | Shares 530,257 | 0.78 |
| Mitsubishi UFJ Trust and Banking Corporation | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo | Shares 1,923,000 | 2.83 |
| Mitsubishi UFJ Asset Management Co., Ltd. | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo | Shares 147,000 | 0.22 |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo | Shares 127,847 | 0.19 |

7. BlackRock Japan Co., Ltd. and its joint holders (BlackRock (Luxembourg) S.A., BlackRock Institutional Trust Company, N.A. and BlackRock Investment management (UK) Limited) sent the Company a copy of a change report relating to a large holding report on March 23, 2011. According to the copy, they held the numbers of shares shown in the table below as of March 15, 2011. However, since the Company has not been able to confirm the numbers of shares they held as at the end of the fiscal year, they are not included in the table above.

| Name | Address | Number of shares and other securities (shares) | Holdings (%) |
|--|--|--|--------------|
| BlackRock Japan Co., Ltd. | 1-8-3 Marunouchi, Chiyoda-ku, Tokyo | Shares 1,575,000 | 2.32 |
| BlackRock (Luxembourg) S.A. | 6D, Route de Treves, Senningerberg, L-2633, Luxembourg | Shares 603,000 | 0.89 |
| BlackRock Institutional Trust Company, N. A. | 400 Howard Street, San Francisco, California, U.S.A. | Shares 201,000 | 0.30 |
| BlackRock Investment Management (UK) Limited | 33 King William Street, London, U.K. | Shares 347,000 | 0.51 |

8. Joho Capital, L.C.C. sent the Company a copy of a change report relating to a large holding report on March 22, 2011. According to the copy, they held the numbers of shares shown in the table below as of March 16, 2011. However, since the Company has not been able to confirm the numbers of shares they held as at the end of the fiscal year, they are not included in the table above.

| Name | Address | Number of shares and other securities (shares) | Holdings (%) |
|---------------------|--|--|--------------|
| Joho Capital, L.C.C | Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware. | Shares 3,609,000 | 5.31 |

(8) Voting rights

(i) Shares issued

As of March 31, 2011

| Classification | Number of shares | Number of voting rights | Remarks |
|---|--------------------------|-------------------------|---------|
| Nonvoting shares | – | – | – |
| Shares with limited voting rights (treasury stock) | – | – | – |
| Shares with limited voting rights (other shares) | – | – | – |
| Shares with complete voting rights (treasury stock) | Common shares 2,140,000 | – | – |
| Shares with complete voting rights (other shares) | Common shares 65,418,000 | 65,418 | – |
| Fractional shares | Common shares 461,379 | – | – |
| Total number of shares issued | 68,019,379 | – | – |
| Number of voting rights of all shareholders | – | 65,418 | – |

(Note) Shares with complete voting rights (other shares) include 12,000 shares (12 voting rights) under the name of the Japan Securities Depository Center.

(ii) Treasury stock

As of March 31, 2011

| Owner | Address of owner | Number of shares held under the owner's own name (shares) | Number of shares held under the name of any other person (shares) | Total number of shares held (shares) | Ratio of holdings to the number of shares issued (%) |
|---------------------|--|---|---|--------------------------------------|--|
| Tsugami Corporation | 1-9-10, Horidome-cho, Nihonbashi, Chuo-ku, Tokyo | 2,140,000 | – | 2,140,000 | 3.15 |
| Total | – | 2,140,000 | – | 2,140,000 | 3.15 |

(9) Stock option system

The Company has a stock option system. In the system, the Company issues subscription right to shares under the Old Commercial Code and Company Law.

The details of the system are as follows:

1. Stock options based on a resolution at the annual shareholders meeting held on June 24, 2005

A special resolution was passed at the 102nd annual shareholders meeting held on June 24, 2005 that subscription right to shares would be issued to the Company's directors, statutory auditors, and titled executive officers under Articles 280-20 and 280-21 of the Old Commercial Code.

| | |
|---|--|
| Date of relevant resolution | June 24, 2005 |
| Positions and numbers of officers to receive stock options | The Company's directors 4 Statutory auditors 4 Titled executive officers 7 |
| Type of shares underlying subscription right to shares | Described in (2) Situation of subscription right to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription right to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription right to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

2. Stock options based on a resolution at the annual shareholders meeting held on June 23, 2006

A special resolution was passed at the 103rd annual shareholders meeting held on June 23, 2006 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's titled executive officers and employees with similar titles under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 23, 2006 |
| Positions and numbers of officers to receive stock options | Titled executive officers 8 Employees with similar positions 3 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

3. Stock options based on a resolution at a Board of Directors meeting held on June 23, 2006

A meeting of the Board of Directors held on June 23, 2006 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 23, 2006 |
| Positions and numbers of officers to receive stock options | The Company's directors 4 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

4. Stock options based on a resolution at the annual shareholders meeting held on June 22, 2007

A special resolution was passed at the 104th annual shareholders meeting held on June 22, 2007 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 22, 2007 |
| Positions and numbers of officers to receive stock options | Titled executive officers 11 Employee with similar positions 1 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

5. Stock options based on a resolution at a Board of Directors meeting held on June 22, 2007

A meeting of the Board of Directors held on June 22, 2007 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 22, 2007 |
| Positions and numbers of officers to receive stock options | The Company's directors 4 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

6. Stock options based on a resolution at the annual shareholders meeting held on June 20, 2008

A special resolution was passed at the 105th annual shareholders meeting held on June 20, 2008 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 20, 2008 |
| Positions and numbers of officers to receive stock options | Titled executive officers 18 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

7. Stock options based on a resolution at a Board of Directors meeting held on June 20, 2008

A meeting of the Board of Directors held on June 20, 2008 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 20, 2008 |
| Positions and numbers of officers to receive stock options | The Company's directors 7 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | Described in (2) Situation of subscription rights to shares |

8. Stock options based on a resolution at the annual shareholders meeting held on June 19, 2009

- (i) A special resolution was passed at the 106th annual shareholders meeting held on June 19, 2009 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to the Company's directors, statutory auditors and employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|--|
| Date of relevant resolution | June 19, 2009 |
| Positions and numbers of officers to receive stock options | The Company's directors 5 Statutory auditor 1 Employees of the Company 123 Directors of subsidiaries of the Company 7 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

- (ii) A special resolution was passed at the 106th annual shareholders meeting held on June 19, 2009 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|--|
| Date of relevant resolution | June 19, 2009 |
| Positions and numbers of officers to receive stock options | Titled executive officers and/or employees with similar positions 14 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

9. Stock options based on a resolution at a Board of Directors meeting held on June 19, 2009

A meeting of the Board of Directors held on June 19, 2009 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 19, 2009 |
| Positions and numbers of officers to receive stock options | The Company's directors 7 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

10. Stock options based on a resolution at the annual shareholders meeting held on June 18, 2010

(i) A special resolution was passed at the 107th annual shareholders meeting held on June 18, 2010 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 18, 2010 |
| Positions and numbers of officers to receive stock options | Employees of the Company 63 Directors of subsidiaries of the Company 7 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

(ii) A special resolution was passed at the 107th annual shareholders meeting held on June 18, 2010 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 18, 2010 |
| Positions and numbers of officers to receive stock options | Titled executive officers and/or employees with similar positions 20 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

11. Stock options based on a resolution at a Board of Directors meeting held on June 18, 2010

A meeting of the Board of Directors held on June 18, 2010 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company's directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 18, 2010 |
| Positions and numbers of officers to receive stock options | The Company's directors 7 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Described in (2) Situation of subscription rights to shares |
| Number of shares | Ditto |
| Amount to be paid for the exercise of subscription rights to shares | Ditto |
| Exercise period | Ditto |
| Conditions for the exercise of subscription rights to shares | Ditto |
| Matters relating to the transfer of subscription rights to shares | Ditto |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

12. Stock options based on a resolution at the annual shareholders meeting held on June 17, 2011

- (i) A special resolution was passed at the 108th annual shareholders meeting held on June 17, 2011 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock options to employees of the Company and directors of subsidiaries of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 17, 2011 |
| Positions and numbers of officers to receive stock options | Employees of the Company 81 |
| Type of shares underlying subscription rights to shares | Common shares |
| Number of shares | 350,000 shares maximum |
| Amount to be paid for the exercise of subscription rights to shares | (Note 1) |
| Exercise period | From the day two years after the day following the date on which the subscription rights to shares are allotted to June 30, 2016. |
| Conditions for the exercise of subscription rights to shares | Stipulated in a resolution of the Board of Directors of the Company and the “Subscription Rights to Share Allocation Agreement” based on the resolution concluded between the Company and the recipients of subscription rights to shares |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

(Note) 1. 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 per share (the “Exercise Price”) delivered upon exercise of each subscription right to shares by the Number of Granted Shares.

The Exercise Price shall be the highest of the amount calculated by multiplying 1.05 by the average price of closing prices of the Company’s common stock quoted on the Tokyo Stock Exchange (excluding a day when no trading is carried out) on ordinary trading days in the month prior to the month when the subscription right to shares are allotted (the Allotment Date”) (with fractions of less than one yen rounded up to the nearest one yen), or the closing price of the day prior to the Allotment Date (or, if there is no closing price for that day, the closing price of the nearest day prior to the Allotment Date).

However, if the Company conducts a share-split or a reverse share-split for its common stocks after the Allotment Date, the Exercise Price shall be adjusted in accordance with the following formula, and fractions of less than one yen resulting from the adjustment shall be rounded up to the nearest one yen.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of share-split or reverse share-split}}$$

The Exercise Price shall be adjusted in accordance with the following formula, if, after the Allotment Date, the Company issues new common stocks or disposes of its treasury stocks at a price below the market price (excluding the transfer of treasury stocks in accordance with the provision stipulated in Article 194 of the Company Law, or the conversion of securities that are or may be converted to the Company’s common stock, or the exercise of subscription right to shares (including those attached to bonds with share options), through which a holder of such rights may request the issuance of the Company’s common stocks). Any fractions of less than one yen resulting from this adjustment shall be rounded up to the nearest one yen.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Paid-in value per share}}{\text{Market value}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

The “number of shares outstanding” stated in the above formula is the number calculated by deducting the number of treasury stocks, common stocks held by the Company, from the number of the Company’s common stocks outstanding. In the case of the disposal of treasury stocks, the “number of shares newly issued” shall be deemed to be replaced with the “number of treasury stocks to be disposed of.”

In addition to the above, if the adjustment of the Exercise Prices is required for unavoidable reasons, including events of the gratis allotment to the ordinary shareholders of other types of shares after the Allotment Date, and dividend payments for the common stocks of other companies, the Exercise Price shall be adjusted to the reasonable extent, by taking into account conditions for the relevant allotment or dividend payments.

(ii) A special resolution was passed at the 108th annual shareholders meeting held on June 17, 2011 that the shareholders meeting would delegate to the Board of Directors the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to titled executive officers and employees with similar positions of the Company under particularly favorable conditions under the provisions of Articles 236, 238, and 239 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 17, 2011 |
| Positions and numbers of officers to receive stock options | Titled executive officers and/or employees with similar positions 14 |
| Type of shares underlying subscription rights to shares | Common shares |
| Number of shares | 100,000 shares maximum |
| Amount to be paid for the exercise of subscription rights to shares | One yen per share |
| Exercise period | Within 20 years of the day following the date when the subscription rights to shares are granted |
| Conditions for the exercise of subscription rights to shares | Stipulated in a resolution of the Board of Directors of the Company and the “Subscription Rights to Share Allocation Agreement” based on the resolution concluded between the Company and the recipients of subscription rights to shares |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

13. Stock options based on a resolution at a Board of Directors meeting held on June 17, 2011

A meeting of the Board of Directors held on June 17, 2011 adopted a resolution on the determination of subscription requirements for subscription rights to shares to be issued as stock compensation-type stock options to the Company’s directors and statutory auditors under Articles 238 and 240 of the Company Law.

| | |
|---|---|
| Date of relevant resolution | June 17, 2011 |
| Positions and numbers of officers to receive stock options | The Company’s directors 8 Statutory auditors 4 |
| Type of shares underlying subscription rights to shares | Common shares |
| Number of shares | 165,000 shares maximum |
| Amount to be paid for the exercise of subscription rights to shares | One yen per share |
| Exercise period | Within 20 years of the day following the date when the subscription rights to shares are granted |
| Conditions for the exercise of subscription rights to shares | Stipulated in a resolution of the Board of Directors of the Company and the “Subscription Rights to Share Allocation Agreement” based on the resolution concluded between the Company and the recipients of subscription rights to shares |
| Matters relating to the transfer of subscription rights to shares | The approval of the Board of Directors is required for the transfer of subscription rights to shares. |
| Matters relating to subrogation payments | — |
| Matters relating to the delivery of subscription rights to shares in association with reorganization acts | — |

2. Acquisition of treasury stock

Type of stock The acquisition of common shares under Article 155, Item 3 of the Company Law and the acquisition of common shares under Article 155, Item 7 of the Company Law

(1) Acquisition based on resolutions at the shareholders meeting

Not applicable.

(2) Acquisition based on resolutions at Board of Directors meetings

| Classification | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Resolution at a Board of Directors meeting held on March 12, 2010 (Acquisition period: from March 12, 2010 to June 17, 2010) | 1,000,000 | 500,000,000 |
| Treasury stock acquired before the fiscal year under review | – | – |
| Treasury stock acquired in the fiscal year under review | – | – |
| Number and total value of remaining treasury stock | 1,000,000 | 500,000,000 |
| Ratio of treasury stock that had not been acquired until the end of the fiscal year under review (%) | 100.0 | 100.0 |
| Treasury stock acquired in the current fiscal year | – | – |
| Ratio of treasury stock that has not been acquired until the date of the submission of the report (%) | 100.0 | 100.0 |

| Classification | Number of shares | Total value (yen) |
|--|------------------|-------------------|
| Resolution at a Board of Directors meeting held on June 18, 2010 (Acquisition period: from June 18, 2010 to September 10, 2010) | 1,000,000 | 600,000,000 |
| Treasury stock acquired before the fiscal year under review | – | – |
| Treasury stock acquired in the fiscal year under review | 450,000 | 230,960,000 |
| Number and total value of remaining treasury stock | 550,000 | 369,040,000 |
| Ratio of treasury stock that had not been acquired until the end of the fiscal year under review (%) | 55.0 | 61.5 |
| Treasury stock acquired in the current fiscal year | – | – |
| Ratio of treasury stock that has not been acquired until the date of the submission of the report (%) | 55.0 | 61.5 |

| Classification | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Resolution at a Board of Directors meeting held on September 13, 2010 (Acquisition period: from September 13, 2010 to December 10, 2010) | 1,000,000 | 600,000,000 |
| Treasury stock acquired before the fiscal year under review | – | – |
| Treasury stock acquired in the fiscal year under review | 334,000 | 170,900,000 |
| Number and total value of remaining treasury stock | 666,000 | 429,100,000 |
| Ratio of treasury stock that had not been acquired until the end of the fiscal year under review (%) | 66.6 | 71.5 |
| Treasury stock acquired in the current fiscal year | – | – |
| Ratio of treasury stock that has not been acquired until the date of the submission of the report (%) | 66.6 | 71.5 |

| Classification | Number of shares | Total value (yen) |
|--|------------------|-------------------|
| Resolution at a Board of Directors meeting held on December 13, 2010 (Acquisition period: from December 13, 2010 to March 10, 2011) | 1,000,000 | 600,000,000 |
| Treasury stock acquired before the fiscal year under review | – | – |
| Treasury stock acquired in the fiscal year under review | 312,000 | 184,937,000 |
| Number and total value of remaining treasury stock | 688,000 | 415,063,000 |
| Ratio of treasury stock that had not been acquired until the end of the fiscal year under review (%) | 68.8 | 69.2 |
| Treasury stock acquired in the current fiscal year | – | – |
| Ratio of treasury stock that has not been acquired until the date of the submission of the report (%) | 68.8 | 69.2 |

(3) Acquisition not based on resolutions at the shareholders meeting or Board of Directors meetings

| Classification | Number of shares | Total value (yen) |
|---|------------------|-------------------|
| Treasury stock acquired in the fiscal year under review | 7,377 | 4,403,383 |
| Treasury stock acquired in the current fiscal year | 842 | 470,456 |

(Note) The treasury stock acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2011 to the date of the submission of the report.

(4) Treatment of acquired treasury stock and treasury stock held

| Classification | Fiscal year under review | | Current fiscal year | |
|---|--------------------------|-------------------------------|---------------------|-------------------------------|
| | Number of shares | Total value disposed of (yen) | Number of shares | Total value disposed of (yen) |
| Acquired treasury stock offered to prospective underwriters | – | – | – | – |
| Acquired treasury stock cancelled | – | – | – | – |
| Acquired treasury stock transferred in relation to mergers, stock swaps, and company splits | – | – | – | – |
| Other (Note) | 117,000 | 27,019,000 | 48,000 | 17,280,000 |
| Treasury stock held | 2,140,680 | – | 2,093,522 | – |

(Note) 1. Exercise of subscription rights to shares (117,000 shares, disposal of 27,019,000 yen) in the fiscal year under review.

Exercise of subscription rights to shares (48,000 shares, disposal of 17,280,000 yen) in the current fiscal year.

2. The treasury stock disposed of in the current fiscal year does not include fractional shares transferred from June 1, 2011 to the date of the submission of the report.

3. The treasury stock held in the current fiscal year does not include fractional shares repurchased or transferred from June 1, 2011 to the date of the submission of the report.

3. Dividend Policy

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.

As part of its returns to shareholders, the Company acquires treasury stock for flexible capital policy, comprehensively considering the need for treasury stock acquisitions, the financial standing of the Company, and the trends of prices of the Company's stock.

For the year ended March 31, 2011, the Company has decided to pay an annual dividend of 10 yen per share according to its initial plan, including interim dividend of 5 yen per share and a year-end dividend of 5 yen per share)

Dividends are determined by the Board of Directors.

The Articles of Incorporation stipulate that the Company may pay dividends by resolution of the Board of Directors under the provisions of Article 459, Paragraph 1 of the Company Law. For the fiscal year ending March 31, 2012, the Company plans to pay an annual dividend of 10 yen per share (an interim dividend of 5 yen and a year-end dividend of 5 yen).

The Articles of Incorporation specifies that the Company may pay interim dividends whose record date is September 30 of every year by resolution of the Board of Directors.

The table below shows dividends for the fiscal year ended of March 31, 2011

| Resolution | Total amount of dividend (million yen) | Dividend per share (yen) |
|--|---|-----------------------------|
| Resolution of Board of Directors on November 12, 2010 | 332 | 5.00 |
| Resolution of Board of Directors on May 12, 2011 | 329 | 5.00 |

4. Trends in Stock Prices

(1) Highest and lowest stock prices in each of the past five years

| Fiscal term | 104 th term | 105 th term | 106 th term | 107 th term | 108 th term |
|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Closing month and year | March 2007 | March 2008 | March 2009 | March 2010 | March 2011 |
| Highest (yen) | 979 | 700 | 424 | 662 | 788 |
| Lowest (yen) | 605 | 276 | 126 | 143 | 409 |

(Note) The highest and lowest stock prices above are those on the First Section of the Tokyo Stock Exchange.

(2) Highest and lowest stock prices in each month of the past six months

| Month | October 2010 | November | December | January 2011 | February | March |
|---------------|--------------|----------|----------|--------------|----------|-------|
| Highest (yen) | 559 | 569 | 597 | 650 | 623 | 626 |
| Lowest (yen) | 485 | 494 | 558 | 561 | 579 | 409 |

(Note) The highest and lowest stock prices above are those on the First Section of the Tokyo Stock Exchange.

5. Officers

| Title | Job title | Name | Date of birth | Career summary | Term of office | Number of shares held (thousand shares) |
|--|---|----------------------|----------------------|---|----------------|---|
| Director Chairman and CEO (Representative Director) | | Takao Nishijima | December 14, 1947 | <p>May 1970 Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)</p> <p>Feb. 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>Jun. 2000 Director and General Manager of the Sales Development Division, Control Headquarters</p> <p>Apr. 2003 Representative Director, Chairman and CEO</p> <p>Apr. 2006 Representative Director, Chairman and CEO (current positions)</p> | (Note 3) | 10 |
| Director Senior Executive Officer (Representative Director) | General Manager of the Nagaoka Factory | Toshiharu Niijima | November 14, 1954 | <p>Nov. 1979 Joined the Company</p> <p>Oct. 2003 Leader of the Automatic Lathe Group, Technology Headquarters</p> <p>Apr. 2005 Executive Officer and Deputy General Manager of the Technology Headquarters</p> <p>Jul. 2005 Executive Officer and Acting General Manager of the Technology Headquarters</p> <p>Apr. 2006 Managing Executive Officer and General Manager of the Technology Headquarters</p> <p>Apr. 2008 Managing Executive Officer, General Manager of the Technology Headquarters and Deputy General Manager of the Production Headquarters</p> <p>Jun. 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>Apr. 2009 Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>Jun. 2009 Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory (current positions)</p> | (Note 3) | 14 |
| Director Senior Executive Officer | General Manager of the Production Division | Kiyoshi Tauchi | April 24, 1951 | <p>Mar. 1970 Joined the Company</p> <p>Apr. 2005 Executive Officer and Leader of the Parts Manufacture Group of the Production Headquarters of the Company</p> <p>Apr. 2008 Executive Officer and General Manager of the Quality Assurance Division of the Company</p> <p>Apr. 2009 Managing Executive Officer and General Manager of the Manufacturing Planning Division of the Company</p> <p>Oct. 2010 Senior Executive Officer(Production)</p> <p>Apr. 2011 Senior Executive Officer, General Manager of the Production Division</p> <p>Jun. 2011 Director, Senior Executive Officer and General Manager of the Production Division (current positions)</p> | (Note 3) | 3 |

| Title | Job title | Name | Date of birth | Career summary | Term of office | Number of shares held (thousand shares) |
|--|--|---------------------|----------------------|---|----------------|---|
| Director Senior Executive Officer | General Manager of the Sales Planning Division | Makoto Kuniyoshi | December 6, 1956 | Apr. 1979 Joined The Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation) Apr. 2006 General Manager of the SME Business Department of Sumitomo Mitsui Banking Corporation Apr. 2007 Executive Officer and General Manager of the Eastern Japan Corporate Business Division II of Sumitomo Mitsui Banking Corporation Jun. 2008 Senior Executive Managing Director of SMBC Consulting Co., Ltd. Apr. 2011 Senior Advisor of the Company May. 2011 Senior Executive Officer, General Manager of the Sales Planning Division Jun. 2011 Director, Senior Executive Officer and General Manager of the Sales Planning Division (current positions) | (Note 3) | – |
| Director Senior Executive Officer | General Manager of the Administration Division | Yoshihiro Miura | December 20, 1956 | Apr. 1979 Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.) Apr. 2005 General Manager of the Umeda Branch of Mizuho Bank, Ltd. Apr. 2008 Executive Officer and General Manager of the Branch Banking Division of Mizuho Bank, Ltd. Jun. 2009 Managing Executive Officer of Mizuho Bank, Ltd. Apr. 2011 Senior Advisor of the Company May 2011 Senior Executive Officer, General Manager of the Administration Division Jun. 2011 Director, Senior Executive Officer and General Manager of the Administration Division (current positions) | (Note 3) | – |
| Director Senior Executive Officer | | Donglei TANG | November 27, 1962 | Jul. 1992 Joined Tokyo Seimitsu Co., Ltd. Nov. 2005 Administration Officer and General Manager of the China Office of the Company, and Director and General Manager of Precision Tsugami (China) Corporation Apr. 2009 Executive Officer and Manager of the Shanghai Office of the Company, and Director and General Manager of Precision Tsugami (China) Corporation Apr. 2010 Managing Executive Officer in charge of China operations and Vice Chairman and General Manager of Precision Tsugami (China) Corporation Jun. 2010 Director and Managing Executive Officer in charge of China operations, and Vice Chairman and General Manager of Precision Tsugami (China) Corporation (current positions) | (Note 3) | – |
| Director | | Takeo Nakagawa | October 12, 1938 | May 1999 Professor Emeritus at the University of Tokyo (current post) Oct. 2000 CEO of Fine Tech Corporation (current positions) Jun. 2007 Auditor at FUNUC LTD. (current position) Jun. 2008 Director of the Company (current position) | (Note 3) | 20 |
| Director | | Kunio Shimada | August 16, 1959 | Apr. 1986 Registered as an attorney(current position) Attorney with Iwata Godo Attorneys and Counsellors at Law Oct. 1991 Registered as an attorney in New York State Jun. 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position) Jul. 2010 Representative partner at Shimada Hamba & Osajima (current position) Jun. 2011 Director of the Company (current position) | (Note 3) | – |

| Title | Job title | Name | Date of birth | Career summary | Term of office | Number of shares held (thousand shares) |
|----------------------------|-----------|------------------|-------------------|--|----------------|---|
| Standing Statutory Auditor | | Toshio Honma | August 2, 1952 | Apr. 1975 Joined the Hokuetsu Bank, Ltd. Apr. 2002 Manager of the Nagaoka Shinsan Branch of the Hokuetsu Bank, Ltd. Apr. 2006 Manager of the Naoetsu Branch of Hokuetsu Bank, Ltd. Apr. 2008 Managing Executive Officer and General Manager of the Administration Division of the Company Jun. 2009 Director, Managing Executive Officer and General Manager of the Administration Division of the Company May 2011 Director and Senior Advisor of the Company Jun. 2011 Standing Statutory Auditor (current position) | (Note 4) | — |
| Statutory Auditor | | Yoshifumi Miyata | October 19, 1952 | Apr. 1976 Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited) Apr. 2001 General Manager of the Capital Market Department of the Daiichi Mutual Life Insurance Company Apr. 2003 General Manager of the Structured Investment Department of the Daiichi Mutual Life Insurance Company Apr. 2005 General Manager of the Finance Department of the Daiichi Mutual Life Insurance Company Apr. 2006 Executive Officer and General Manager of the Integrated Financial Institution Relations Department of the Daiichi Mutual Life Insurance Company Apr. 2008 Executive Officer of the Daiichi Mutual Life Insurance Company Apr. 2009 Managing Executive Officer of the Daiichi Mutual Life Insurance Company Apr. 2010 Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited (current position) Jun. 2010 Statutory Auditor of the Company (current position) | (Note 5) | — |
| Statutory Auditor | | Hiyoaki Tamai | March 20, 1960 | Apr. 1983 Joined Mori Seiki Co., Ltd. Mar. 1998 Deputy General Manager of Planning of Mori Seiki Co., Ltd. Jun. 2000 General Manager of Planning and General Affairs of Mori Seiki Co., Ltd. Jun. 2002 General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd. Jun. 2003 Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd. Jun. 2007 Managing Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd. Jun. 2008 Senior Executive Managing Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd. (current position) Jun. 2010 Statutory Auditor of the Company (current position) | (Note 5) | — |
| Statutory Auditor | | Ryuichi Kimura | December 30, 1962 | Apr. 1986 Joined Tokyo Seimitsu Co., Ltd. Mar. 2005 Executive Officer of the Semiconductor Company and General Manager of Tokyo and Osaka Sales Offices of Tokyo Seimitsu Co., Ltd. Jun. 2005 Director of Tokyo Seimitsu Co., Ltd. (current position) Apr. 2007 Managing Executive Officer of the Semiconductor Company and General Manager of Tokyo and Osaka Sales Offices of Tokyo Seimitsu Co., Ltd. Aug. 2007 Director of the Semiconductor Company of Tokyo Seimitsu Co., Ltd. Jun. 2011 Statutory Auditor of the Company (current position) | (Note 4) | — |
| Total | | | | | | 47 |

(Note) 1. Directors Takeo Nakagawa and Kunio Shimada are outside directors stipulated in Article 2, Item 15 of the Company Law.

2. Statutory Auditors Yoshifumi Miyata Hiyoaki Tamai and Ryuichi Kimura are outside statutory auditors stipulated in Article 2, Item 16 of the Company Law.

3. One year from the closing of the annual shareholders meeting held on June 17, 2011

4. Four years from the closing of the annual shareholders meeting held on June 17, 2011
5. Four years from the closing of the annual shareholders meeting held on June 18, 2010
6. To prepare for any contingency involving statutory auditors, the Company appoints one reserve statutory auditor prescribed in Article 329, Paragraph 2 of the Company Law. The table below shows a career summary of the reserve statutory auditor.

| Name | Date of birth | Career summary | Number of shares held (thousand shares) |
|----------------------|---------------|--|--|
| Toshikazu Oyanagi | July 1, 1955 | Apr. 1979 Joined the Hokuetsu Bank, Ltd. Apr. 2006 Manager of the Shibata Nishi Branch of the Hokuetsu Bank, Ltd. Apr. 2008 Manager of the Murakami Branch of Hokuetsu Bank, Ltd. Apr. 2010 Manager of the Tokyo Office of Hokuetsu Bank, Ltd. Apr. 2011 Senior Advisor of the Company May 2011 Senior Advisor, Manager, Administration Division (current positions) | - |

6. Corporate Governance

(1) Corporate governance

(Basic policy on corporate governance)

The Company is committed to fulfilling the expectations of its shareholders by making quick and appropriate management judgments that facilitate continued growth in corporate value. As a member of the international community, the Company also understands that it needs to fulfill its corporate social responsibility.

Promoting IR activities and disclosure for shareholders and investors, the Company will seek to enhance management transparency.

(i) Corporate governance system

D) Outline of the corporate governance system and reason for the establishment of the system

The Company operates based on a statutory auditor system involving the Board of Directors and the Board of Statutory Auditors. The Company had eight directors (including two outside directors) and four statutory auditors (including three outside statutory auditors) as of June 20, 2011.

The Company positions the Board of Directors and Board of Statutory Auditors as key organs for corporate governance and makes decisions through comprehensive discussions and studies of management challenges and significant matters to address. To enhance corporate governance, the Company has placed the Audit Office (2 officers) under the direct control of the president and has established a Risk Management Committee and an Information Security Committee.

In addition to that, the Company has designated independent officers (two outside directors and two outside statutory auditors) as stipulated in the Securities Listing Regulations of the Tokyo Stock Exchange.

The Company believes that its existing governance system comprising two outside directors and three outside statutory auditors can adequately fulfill its function of monitoring management from outside. However, considering it is important for the Company, as a listed company, to have a supervisory function of more independent positions to protect the interests of shareholders, the Company has decided to have independent officers to enhance its governance function.

II) Development of internal control system

The Company's Board of Directors has adopted the following basic policies for building internal control systems:

- 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.
 - d. The Company has a Board of Statutory Auditors. The directors' execution of their duties shall be in accordance with the standards on audits by statutory auditors established by the Board of Statutory Auditors.
- 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

The Company is the senior entity in the Group.

- 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 basic policy of the Company is to systematically stand firm against antisocial forces that threaten the order of society and the sound activities of companies and to eliminate all relationships with them. The basic policy is stated in the Tsugami Group Code of Conduct.
 - 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.

III) Accounting audit

The Company has chosen Ernst & Young ShinNihon LLC as its accounting auditor. The Company has concluded an audit agreement with Ernst & Young ShinNihon LLC and provided management information from time to time. The statutory auditors of the Company and the accounting auditor have exchanged information as needed and at regular meetings, including those for discussions on the annual audit plan and audit reporting, and have collaborated with each other in audit operations.

The certified public accountants who carried out accountancy service for the Company are Messrs. Akira Igarashi, and Naoki Nomoto, who all work for Ernst & Young ShinNihon LLC. Seven certified public accountants and seven other members assisted with the accountancy service.

IV) Relationships that outside directors and outside statutory auditors have with the Company

Outside Director Takeo Nakagawa is a professor emeritus at the University of Tokyo and the CEO of Fine Tech Corporation. The Company trade products with Fine Tech Corporation. Mr. Takeo Nakagawa is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Kunio Shimada is a managing director of Mizuho Servicing Co., Ltd. and a representative partner at Shimada Hamba & Osajima. There are no trading relationships between those companies and the Company. Mr. Kunio Shimada is registered as an independent officer with the Tokyo Stock Exchange.

Outside Statutory Auditor Yoshifumi Miyata is a managing executive officer of The Dai-ichi Life Insurance Company, which has 2.1 million shares in the Company. The Company has concluded a corporate pension plan agreement with The Dai-ichi Life Insurance Company. Mr. Yoshifumi Miyata is registered as an independent officer with the Tokyo Stock Exchange.

Outside Statutory Auditor Hiroaki Tamai is a senior executive managing director and the general manager of the Administrative Headquarters of Mori Seiki Co., Ltd., which has 2 million shares in the Company. The Company has 100,000 shares in Mori Seiki. Mori Seiki and the Company trade products. Mr. Hiroaki Tamai is registered as an independent officer with the Tokyo Stock Exchange.

Outside Statutory Auditor Ryuichi Kimura is a director of the Semiconductor Company of Tokyo Seimitsu Co., Ltd., which has 4,592,000 shares in the Company. The Company has 1,033,000 shares in Tokyo Seimitsu. Tokyo Seimitsu and the Company trade products.

In supervising and auditing, the outside directors and outside statutory auditors enhance collaboration with the internal audit division, statutory auditors, independent auditors, and internal control division by asking questions about reports and resolutions and expressing opinions from the perspective of people outside the Company as needed.

(ii) Remuneration for directors and statutory auditors

| Officer classification | Total remuneration (million yen) | Breakdown of remuneration (million yen) | | | | Number of officers |
|--|----------------------------------|---|--------------|-------|--------------------|--------------------|
| | | Basic remuneration | Stock option | Bonus | Retirement benefit | |
| Director (excluding Outside Director) | 191 | 157 | 34 | – | – | 6 |
| Statutory Auditor (excluding Outside Director) | 23 | 18 | 5 | – | – | 1 |
| Outside officer | 37 | 30 | 7 | – | – | 7 |

(Note) 1. A director and two outside statutory auditors who retired at the end of the 107th annual shareholders meeting held on June 18, 2010 are included in the table above.

2. Total remuneration for directors does not include salaries for employees who are also directors.
3. A resolution passed at the 103rd annual shareholders meeting stipulates that total annual monetary remuneration for directors shall be 200 million yen or less (excluding salaries for employees who are also directors). A resolution passed at the 104th annual shareholders meeting stipulates that total annual remuneration to be allocated as stock compensation-type stock options apart from the monetary remuneration shall be 60 million yen or less.
4. A resolution passed at the 103rd annual shareholders meeting stipulates that total annual monetary remuneration for statutory auditors shall be 60 million yen or less. A resolution passed at the 104th annual shareholders meeting stipulates that total annual remuneration to be allocated as stock compensation-type stock options apart from the monetary remuneration shall be 20 million yen or less.
5. The upper limit of total remuneration for directors is stipulated in a resolution of the shareholders meeting. Remuneration for each director is determined in consideration of the importance of the role, responsibilities, and duties of each director. The upper limit of total remuneration for statutory auditors is stipulated in a resolution of the shareholders meeting. Remuneration for each statutory auditor is determined through consultation among the statutory auditors in consideration of whether they are full-time or part-time auditors and of audit work assigned to each statutory auditor.

(iii) Share holding

a. Number of stocks held for purposes other than pure investment and their balance sheet amounts

23 stocks 4,911 million yen

b. Stocks held for purposes other than pure investment, and their number of shares, balance sheet amount, and purpose

At end of the previous fiscal year

Specific stocks held

| Stock | Number of shares | Balance sheet amount (million yen) | Purpose |
|--------------------------|------------------|---------------------------------------|---|
| Tokyo Seimitsu Co., Ltd. | 1,033,000 | 1,667 | To strengthen the business relationship with the business partner |
| Tornos Holdings SA | 1,500,000 | 1,125 | To strengthen the business relationship with the business partner |
| FANUC LTD. | 50,000 | 496 | To strengthen the business relationship with the business partner |
| Yamazen Corporation | 500,000 | 198 | To strengthen the business relationship with the business partner |
| THK Co., Ltd. | 59,000 | 120 | To strengthen the business relationship with the business partner |
| Mori Seiki Co., Ltd. | 100,000 | 114 | To strengthen the business relationship with the business partner |
| The Hachijuni Bank, Ltd. | 196,000 | 104 | To strengthen the business relationship |
| Yuasa Trading Co., Ltd. | 1,000,000 | 89 | To strengthen the business relationship with the business partner |
| The Daishi Bank, Ltd. | 241,000 | 78 | To strengthen the business relationship |
| The Hokuetsu Bank, Ltd. | 484,426 | 74 | To strengthen the business relationship |

At end of the fiscal year under preview

Specific stocks held

| Stock | Number of shares | Balance sheet amount (million yen) | Purpose |
|--|------------------|---------------------------------------|---|
| Tornos Holdings SA | 1,463,813 | 1,723 | To strengthen the business relationship with the business partner |
| Tokyo Seimitsu Co., Ltd. | 1,033,000 | 1,537 | To strengthen the business relationship with the business partner |
| FANUC LTD. | 50,000 | 629 | To strengthen the business relationship with the business partner |
| Yamazen Corporation | 500,000 | 242 | To strengthen the business relationship with the business partner |
| THK Co., Ltd. | 59,000 | 123 | To strengthen the business relationship with the business partner |
| Yuasa Trading Co., Ltd. | 1,000,000 | 105 | To strengthen the business relationship with the business partner |
| Mori Seiki Co., Ltd. | 100,000 | 98 | To strengthen the business relationship with the business partner |
| The Hachijuni Bank, Ltd. | 196,000 | 93 | To strengthen the business relationship |
| The Hokuetsu Bank, Ltd. | 491,892 | 93 | To strengthen the business relationship |
| The Daishi Bank, Ltd. | 241,000 | 66 | To strengthen the business relationship |
| Mitsubishi UFJ Financial Group, Inc. | 134,800 | 51 | To strengthen the business relationship |
| The Dai-ichi Life Insurance Company, Limited | 387 | 48 | To strengthen the business relationship |
| Minebea Co., Ltd | 100,000 | 45 | To strengthen the business relationship with the business partner |
| DAIKIN INDUSTRIES, LTD | 13,400 | 33 | To strengthen the business relationship with the business partner |
| Teikoku Tsushin Kogyo Co., Ltd. | 80,000 | 14 | To strengthen the business relationship with the business partner |
| TOMITA CO., LTD. | 2,741 | 1 | To strengthen the business relationship with the business partner |

(iv) Outline of contracts for limitation of liability

Under the provision of Article 427, Paragraph 1 of the Company Law, the Company and the outside directors and outside statutory auditors have concluded contracts to limit liability for damages stipulated in Article 423, Paragraph 1 of the Company Law.

The minimum liability amount under the contracts is the minimum liability amount specified by laws and ordinances.

(v) Decision-making body of dividends etc.

The Articles of Incorporation of the Company stipulate that the matters specified in each item of Article 459, Paragraph 1 of the Company Law, including dividends, may be determined not by resolution of a shareholders meeting but by resolution of the Board of Directors, unless otherwise specified in laws and ordinances. This is intended to facilitate the flexible distribution of profits by making the determination of dividends the authority of the Board of Directors.

The Articles of Incorporation also stipulate that interim dividends whose record date is September 30 of each year can be paid through a resolution of the Board of Directors.

(vi) Number of directors

The Articles of Incorporation stipulate that the number of the Company's directors is ten at maximum.

(vii) Requirements for a resolution to elect directors

The Articles of Incorporation stipulate that a resolution of a shareholders meeting to elect directors shall be made by a majority of the votes of the shareholders present at a meeting where shareholders holding one third or more of the votes of shareholders who are entitled to exercise their votes are present. The Articles of Incorporation also stipulate that cumulative votes shall not be cast for a resolution to elect directors.

(viii) Requirements for a special resolution in shareholders meeting

To ensure that a quorum is constituted for a special resolution in a shareholders meeting, the Articles of Incorporation stipulate that the resolutions specified in Article 309, Paragraph 2 of the Company Law shall be made by a majority of two-thirds of the votes of the shareholders present at a meeting where shareholders holding a majority of one-third of the votes of the shareholders entitled to exercise their votes are present.

(2) Audit fees

(i) Breakdown of compensation to auditing certified public accountants

| Classification | Previous fiscal year | | Fiscal year under review | |
|---------------------------|---|--|---|--|
| | Compensation for audit certification work (million yen) | Compensation for nonaudit work (million yen) | Compensation for audit certification work (million yen) | Compensation for nonaudit work (million yen) |
| Submitting company | 32 | - | 32 | - |
| Consolidated subsidiaries | - | - | - | - |
| Total | 32 | - | 32 | - |

(ii) Other important compensation

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)
Not applicable.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

Precision Tsugami (China) Corporation, a consolidated subsidiary, paid 0 million yen for audit certification work to Ernst & Young Hua Ming Certified Public Accountants, which belongs to the same network as the accounting auditor for the Company.

(iii) Nonaudit work of auditing certified public accountants for the submitting company

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

Not applicable.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

Not applicable.

(iv) Policy for determining audit fees

Not applicable.

Section 5. Financial Status

1. Preparation of consolidated financial statements and non-consolidated financial statements

- (1) The Company's consolidated financial statements are prepared under the Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Ordinance No. 28 of 1976; hereinafter the "Regulations for Consolidated Financial Statements").

The consolidated financial statements for the previous fiscal year (from April 1, 2009 to March 31, 2010) were prepared under the Regulations for Consolidated Financial Statements prior to revision. The consolidated financial statements for the fiscal year under review (from April 1, 2010 to March 31, 2011) were prepared under the Regulations for Consolidated Financial Statements after revision.

- (2) The Company's financial statements are prepared under the Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Ordinance No. 59 of 1963; hereinafter the "Regulations for Financial Statements").

The financial statements for the 107th term (from April 1, 2009 to March 31, 2010) were prepared under the Regulations for Financial Statements prior to revision. The financial statements for the 108th term (from April 1, 2010 to March 31, 2011) were prepared under the Regulations for Financial Statements after revision.

2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the previous fiscal year (from April 1, 2009 to March 31, 2010) and the financial statements for the 107th fiscal year (from April 1, 2009 to March 31, 2010) and the consolidated financial statements for the fiscal year under review (from April 1, 2011 to March 31, 2012) and the financial statements for the 108th fiscal year (from April 1, 2010 to March 31, 2011) were audited by Ernst & Young ShinNihon LLC.

3. Special efforts to ensure the adequacy of consolidated financial statements

The Company is making special efforts to ensure the adequacy of consolidated financial statements. Specifically, to establish a system to obtain information on accounting standards properly and to respond to changes in accounting standards appropriately, the Company has become a member of the Financial Accounting Standards Foundation and obtains new information from time to time. The Company also participates in training programs of the Financial Accounting Standards Foundation and other organizations.

1. Consolidated Financial Statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheets

(Million yen)

| | Figures at the end of the previous consolidated fiscal year (As of March 31, 2010) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2011) |
|--|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,892 | 4,111 |
| Trade notes and accounts receivable | 7,541 | 7,729 |
| Products and other commodities | 1,088 | 2,925 |
| Goods in process | 4,635 | 5,181 |
| Raw materials and supplies | 2,479 | 2,611 |
| Deferred tax assets | 136 | 289 |
| Other current assets | 459 | 786 |
| Allowance for doubtful accounts | -43 | -56 |
| Total current assets | 20,191 | 23,578 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | 7,570 | 7,783 |
| Accumulated depreciation | -3,879 | -4,102 |
| Buildings and structures (net) | 3,691 | 3,681 |
| Machinery, equipment and vehicles | 8,986 | 8,898 |
| Accumulated depreciation | -7,257 | -7,017 |
| Machinery, equipment and vehicles (net) | 1,729 | 1,881 |
| Land | 591 | 591 |
| Leased assets | 31 | 31 |
| Accumulated depreciation | -8 | -14 |
| Leased assets (net) | 22 | 17 |
| Construction in progress | - | 18 |
| Other tangible fixed assets | 794 | 963 |
| Accumulated depreciation | -621 | -719 |
| Other tangible fixed assets (net) | 172 | 243 |
| Total tangible fixed assets | 6,208 | 6,433 |
| Intangible fixed assets | 53 | 139 |
| Investments and other assets | | |
| Investment securities | *1 4,283 | *1 4,927 |
| Investments in affiliates | 226 | 670 |
| Long-term loans receivable | 2 | 1 |
| Deferred tax assets | - | 1 |
| Other intangible fixed assets | 155 | 88 |
| Total investments and other assets | 4,667 | 5,689 |
| Total fixed assets | 10,930 | 12,263 |
| Deferred assets | | |
| Bond issuance expenses | 25 | 18 |
| Total deferred assets | 25 | 18 |
| Total assets | 31,147 | 35,860 |

(Million yen)

| | Figures at the end of the previous consolidated fiscal year (As of March 31, 2010) | Figures at the end of the consolidated fiscal year under review (As of March 31, 2011) |
|--|---|---|
| Liabilities | | |
| Current liabilities | | |
| Trade notes and accounts payable | 6,946 | 8,011 |
| Short-term borrowings | 1,008 | 2,089 |
| Corporate bonds due for redemption within one year | 300 | 300 |
| Accrued income tax | 67 | 374 |
| Reserve for bonus payment | 189 | 248 |
| Reserve for product warranties | 53 | 107 |
| Other current liabilities | 730 | 640 |
| Total current liabilities | 9,296 | 11,771 |
| Long-term liabilities | | |
| Corporate bonds | 900 | 600 |
| Deferred tax liabilities | 129 | 480 |
| Reserve for retirement benefits | 837 | 791 |
| Reserve for directors' retirement benefits | 8 | 12 |
| Other long-term liabilities | 92 | 82 |
| Total long-term liabilities | 1,968 | 1,966 |
| Total liabilities | 11,264 | 13,738 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 10,599 | 10,599 |
| Capital surplus | 4,151 | 4,157 |
| Retained earnings | 4,791 | 6,962 |
| Treasury stock | -207 | -771 |
| Total shareholders' equity | 19,334 | 20,947 |
| Accumulated other comprehensive income | | |
| Unrealized gains on marketable securities | 463 | 993 |
| Deferred gains (losses) on hedges | -99 | 5 |
| Translation adjustments | -20 | -114 |
| Total accumulated other comprehensive income | 343 | 884 |
| Subscription rights to shares | 204 | 290 |
| Total net assets | 19,882 | 22,122 |
| Total liabilities and net assets | 31,147 | 35,860 |

(ii) Consolidated statements of income and comprehensive income

Consolidated statements of income

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Net sales | 15,598 | 35,932 |
| Cost of sales | *1 12,538 | *1 28,569 |
| Gross profit | 3,059 | 7,363 |
| Selling, general and administrative expenses | | |
| Salaries and allowances | 632 | 804 |
| Provision for reserve for bonus payment | 37 | 56 |
| Retirement benefit expenses | 103 | 73 |
| Provision for reserve for directors' retirement benefits | - | 5 |
| Research and development expenses | *2 752 | *2 751 |
| Insurance premiums | 85 | 106 |
| Provision for allowance for doubtful accounts | 14 | 61 |
| Provision for reserve for product warranties | 53 | 107 |
| Other selling, general and administrative expenses | 1,295 | 1,664 |
| Total selling, general and administrative expenses | 2,974 | 3,631 |
| Operating income | 84 | 3,732 |
| Non-operating income | | |
| Interest received | 0 | 0 |
| Dividends received | 26 | 83 |
| Rent received | 4 | - |
| Insurance benefits received | 41 | 43 |
| Subsidy income | 127 | - |
| Other non-operating income | 95 | 44 |
| Total non-operating income | 295 | 172 |
| Non-operating expenses | | |
| Interest paid | 21 | 76 |
| Loss on sales of trade notes | 40 | 45 |
| Dormant expenses | *3 321 | - |
| Foreign exchange losses | 68 | 229 |
| Other non-operating expenses | 46 | 47 |
| Total non-operating expenses | 498 | 399 |
| Ordinary income/loss | -117 | 3,504 |

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Extraordinary income | | |
| Gain on sales of fixed assets | – | *4 0 |
| Gain on sales of investments securities | – | 5 |
| Total extraordinary income | – | 6 |
| Extraordinary expenses | | |
| Loss on retirement of fixed assets | 0 | *5 9 |
| Loss on sales of fixed assets | *6 1 | *6 4 |
| Loss on devaluation of investment securities | – | 179 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | – | 11 |
| Settlement Package | – | 60 |
| Other extraordinary expenses | – | 1 |
| Total extraordinary expenses | 1 | 266 |
| Income/loss before taxes and other adjustments | -119 | 3,244 |
| Corporate, inhabitant and enterprise taxes | 72 | 478 |
| Income taxes for prior periods | 17 | – |
| Deferred taxes | 35 | -72 |
| Total corporate and other taxes | 125 | 406 |
| Income before minority interests | – | 2,837 |
| Minority interests in income | – | – |
| Net income/loss | -244 | 2,837 |

Consolidated Statements of Comprehensive Income

| | (Million yen) | |
|---|---|---|
| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
| Income before minority interests | - | 2,837 |
| Other comprehensive income | | |
| Unrealized gains on marketable securities | - | 529 |
| Deferred gains (losses) on hedges | - | 104 |
| Translation adjustments | - | -93 |
| Total other comprehensive income | - | *2 540 |
| Comprehensive Income | - | *1 3,378 |
| (Breakdown) | | |
| Comprehensive income attributable to the shareholders of the parent company | - | 3,378 |
| Comprehensive income attributable to minority shareholders | - | - |

(iii) Consolidated statements of changes in net assets

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Shareholders' equity | | |
| Common stock | | |
| Balance at end of previous fiscal year | 10,599 | 10,599 |
| Change during the fiscal year | | |
| Total change during the fiscal year | - | - |
| Balance at end of the fiscal year | 10,599 | 10,599 |
| Capital surplus | | |
| Balance at end of previous fiscal year | 4,138 | 4,151 |
| Change during the fiscal year | | |
| Disposal of treasury stock | 12 | 6 |
| Total change during the fiscal year | 12 | 6 |
| Balance at end of the fiscal year | 4,151 | 4,157 |
| Retained earnings | | |
| Balance at end of previous fiscal year | 5,373 | 4,791 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -244 | 2,837 |
| Total change during the fiscal year | -582 | 2,171 |
| Balance at end of the fiscal year | 4,791 | 6,962 |
| Treasury stock | | |
| Balance at end of previous fiscal year | -92 | -207 |
| Change during the fiscal year | | |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 16 | 27 |
| Total change during the fiscal year | -115 | -564 |
| Balance at end of the fiscal year | -207 | -771 |
| Total shareholders' equity | | |
| Balance at end of previous fiscal year | 20,019 | 19,334 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -244 | 2,837 |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 29 | 33 |
| Total change during the fiscal year | -685 | 1,613 |
| Balance at end of the fiscal year | 19,334 | 20,947 |

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Accumulated other comprehensive income | | |
| Unrealized gains on marketable securities | | |
| Balance at end of previous fiscal year | -508 | 463 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 971 | 529 |
| Total change during the fiscal year | 971 | 529 |
| Balance at end of the fiscal year | 463 | 993 |
| Deferred gains (losses) on hedges | | |
| Balance at end of previous fiscal year | - | -99 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | -99 | 104 |
| Total change during the fiscal year | -99 | 104 |
| Balance at end of the fiscal year | -99 | 5 |
| Translation adjustments | | |
| Balance at end of previous fiscal year | 20 | -20 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | -41 | -93 |
| Total change during the fiscal year | -41 | -93 |
| Balance at end of the fiscal year | -20 | -114 |
| Total accumulated other comprehensive income | | |
| Balance at end of previous fiscal year | -487 | 343 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 831 | 540 |
| Total change during the fiscal year | 831 | 540 |
| Balance at end of the fiscal year | 343 | 884 |
| Subscription rights to shares | | |
| Balance at end of previous fiscal year | 187 | 204 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 17 | 86 |
| Total change during the fiscal year | 17 | 86 |
| Balance at end of the fiscal year | 204 | 290 |
| Total net assets | | |
| Balance at end of previous fiscal year | 19,718 | 19,882 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -244 | 2,837 |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 29 | 33 |
| Changes in items other than shareholders' equity during the fiscal year (net) | 849 | 626 |
| Total change during the fiscal year | 163 | 2,239 |
| Balance at end of the fiscal year | 19,882 | 22,122 |

(iv) Consolidated statements of cash flows

(Million yen)

| | Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Cash flows from operating activities | | |
| Income (loss) before taxes and other adjustments | -119 | 3,244 |
| Depreciation and amortization expenses | 750 | 738 |
| Loss (gain) on devaluation of investment securities | - | 179 |
| Increase (decrease) in allowance for doubtful accounts | -56 | 12 |
| Increase (decrease) in reserve for retirement benefits | 13 | -46 |
| Interest and dividends received | -26 | -83 |
| Interest paid | 21 | 76 |
| Loss (gain) on sales of fixed assets | 1 | 4 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | - | 11 |
| Decrease (increase) in trade notes and accounts receivable | -2,880 | -383 |
| Decrease (increase) in inventories | -63 | -2,571 |
| Increase (decrease) in trade notes and accounts payable | 4,878 | 1,242 |
| Other cash flows | -177 | 80 |
| Sub total | 2,341 | 2,504 |
| Interest and dividends received | 26 | 29 |
| Interest paid | -21 | -77 |
| Corporate and other taxes paid | -47 | -161 |
| Cash flows from operating activities | 2,299 | 2,295 |
| Cash flows from investing activities | | |
| Payments into time deposits | -70 | -70 |
| Refund of time deposits | 70 | 70 |
| Expenditure for acquisition of tangible fixed assets | -306 | -1,127 |
| Income from disposal of tangible fixed assets | 10 | 5 |
| Expenditure for acquisition of investment securities | -1,081 | -1 |
| Income from disposal of investments securities | - | 33 |
| Payment for investment in affiliates | - | -443 |
| Income from recovery of loans receivable | 24 | 15 |
| Other cash flows | -5 | -80 |
| Cash flows from investing activities | -1,358 | -1,599 |
| Cash flows from financing activities | | |
| Short-term borrowings | 1,808 | 3,480 |
| Repayment of short-term borrowings | -1,300 | -2,350 |
| Income from disposal of treasury stocks | 0 | 0 |
| Redemption of corporate bonds | -300 | -300 |
| Expenditure for acquisition of treasury stocks | -131 | -592 |
| Dividends paid | -338 | -666 |
| Repayments of lease obligations | -6 | -9 |
| Cash flows from financing activities | -268 | -437 |
| Translation differences for cash and cash equivalents | -17 | -40 |
| Net increase (decrease) in cash and cash equivalents | 654 | 218 |
| Cash and cash equivalents at the beginning of the term | 3,188 | 3,842 |
| Cash and cash equivalents at the end of the term | 3,842 | 4,061 |

Important Matters that Become Basis of Presenting Consolidated Financial Statements

| Item | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|---|---|
| 1. Scope of consolidation | <p>(1) Number of consolidated subsidiaries: 4 Tsugami Machinery Co., Ltd. Tsugami Precision Co., Ltd. Tsugami General Service Co., Ltd. Precision Tsugami (China) Corporation</p> <p>(2) Names of non-consolidated subsidiaries: Tsugami (Thai) Co., Ltd. Tsugami GmbH. Tsugami Korea Co., Ltd.</p> <p>(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.</p> | <p>(1) Same as at left</p> <p>(2) Names of non-consolidated subsidiaries: Tsugami (Thai) Co., Ltd. Tsugami GmbH. Tsugami Korea Co., Ltd. Shinagawa Precision Machinery (Zhejiang) Co., Ltd.</p> <p>(Reason for non-consolidation) Same as at left</p> |
| 2. Application of equity method | <p>(1) Companies to which the equity method is applicable: 0</p> <p>(2) The non-consolidated subsidiaries (Tsugami (Thai) Co., Ltd., Tsugami GmbH and Tsugami Korea Co., Ltd.) as well as the affiliates (Fastener Kohan, K.K. and Rem Sales LLC, have little material effect on the consolidated net income or loss and the consolidated retained earnings, and further, have small significance in the Group as a whole. For the above reason, the equity method is not applied on these companies.</p> | <p>(1) Same as at left</p> <p>(2) The non-consolidated subsidiaries (Tsugami (Thai) Co., Ltd., Tsugami GmbH, Tsugami Korea Co., Ltd. and Shinagawa Precision Machinery (Zhejiang) Co., Ltd.) as well as the affiliates (Fastener Kohan, K.K. and Rem Sales LLC, have little material effect on the consolidated net income or loss and the consolidated retained earnings, and further, have small significance in the Group as a whole. For the above reason, the equity method is not applied on these companies.</p> |
| 3. Matters Concerning fiscal year of consolidated subsidiaries, etc. | <p>Among the consolidated subsidiaries, the balance sheet date of Precision Tsugami (China) Corporation is December 31. When preparing the consolidated financial statements, the Company uses the financial statements of Precision Tsugami (China) Corporation, as of that date and makes necessary adjustments for important transactions between December 31 and the consolidated book-closing date.</p> | <p>Same as at left</p> |

| Item | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|--|--|
| <p>4. Matters concerning significant accounting policies</p> <p>(1) Valuation standard and valuation method of major assets</p> <p>(2) Depreciation and amortization methods used for material depreciable and amortizable assets</p> | <p>(i) Securities 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</p> <p>(ii) Derivatives Market value method.</p> <p>(iii) 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.).</p> <p>(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, equipment, and foreign subsidiary, are depreciated on a straight-line basis. The significant service lives are summarized as follows: Buildings and structures: 15-38 years Machinery and transportation vehicle: 9 years</p> <p>(ii) Intangible fixed assets (excluding leased assets) Intangible fixed assets are amortized using the straight-line method. However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.</p> <p>(iii) Leased assets 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.</p> <p>(iv) Long-term prepaid expenses This is computed using the straight-line method.</p> <p>(iv) Long-term prepaid expenses This is computed using the straight-line method.</p> | <p>(i) Securities Other securities Securities with fair market value: Same as at left</p> <p>Securities without fair market value: Same as at left</p> <p>(ii) Derivatives Same as at left</p> <p>(iii) Inventories: Same as at left</p> <p>(i) Property, plant and equipment (excluding leased assets) Same as at left</p> <p>(ii) Intangible fixed assets (excluding leased assets) Same as at left</p> <p>(iii) Leased assets Same as at left</p> <p>(iv) Long-term prepaid expenses Same as at left</p> <p>(iv) Long-term prepaid expenses Same as at left</p> |

| Item | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|---|---|
| (3) Accounting standards for major deferred assets | Corporate bonds issuance expenses This is amortized using the straight-line method during the period required for maturity of corporate bonds (5 years). | Corporate bonds issuance expenses Same as at left |
| (4) Accounting standards for significant allowances | <p>(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 collectability of certain doubtful accounts.</p> <p>(ii) Allowance for employees' bonuses To provide for the payment of employees' bonuses, the Company and its domestic subsidiaries provide accrued bonuses for employees based on the projected amount for the current consolidated fiscal year.</p> <p>(iii) Allowance for directors' bonuses To provide for the payment of director's bonuses, the Company and its domestic subsidiaries accrue bonuses for directors based on the projected amount for the current consolidated fiscal year. However, since the Company was unable to reasonably project the amount at the end of the consolidated fiscal year under review, this was not posted.</p> <p>(iv) Allowance for retirement benefits To prepare for the payment of employee retirement benefits, the Company and its domestic consolidated subsidiaries provide accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at the consolidated fiscal year-end. In addition, any difference arising as a result of the change of accounting standards (2,180 million yen) is expensed equally, mainly over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (5 years) of employees at the time of the accrual using the straight-line method. (Changes in accounting policies) The Company and its domestic consolidated subsidiaries began applying "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) to the accounting of their allowances in the consolidated fiscal year under review. The change produced no effect on consolidated operating income, ordinary loss and net loss before taxes and other adjustments. (Additional information) The Company and some of its domestic consolidated subsidiaries made a switch from a qualified pension system to a defined benefit corporate pension system with the introduction of the Defined-Benefit Corporate Pension Act in January 2010. The change had a minor effect on consolidated operating income, ordinary loss and net loss before taxes and other adjustments.</p> | <p>(i) Allowance for doubtful accounts Same as at left</p> <p>(ii) Allowance for employees' bonuses Same as at left</p> <p>(iii) Allowance for directors' bonuses Same as at left</p> <p>(iv) Allowance for retirement benefits Same as at left</p> |

| Item | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|------|--|---|
| | <p>(iv) Allowance for retirement benefits To prepare for the payment of employee retirement benefits, the Company and its domestic consolidated subsidiaries provide accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at the consolidated fiscal year-end. In addition, any difference arising as a result of the change of accounting standards (2,180 million yen) is expensed equally, mainly over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over an average remaining service period (5 years) of employees at the time of the accrual using the straight-line method. (Changes in accounting policies) The Company and its domestic consolidated subsidiaries began applying “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No. 19 issued on July 31, 2008) to the accounting of their allowances in the consolidated fiscal year under review. The change produced no effect on consolidated operating income, ordinary loss and net loss before taxes and other adjustments. (Additional information) The Company and some of its domestic consolidated subsidiaries made a switch from a qualified pension system to a defined benefit corporate pension system with the introduction of the Defined-Benefit Corporate Pension Act in January 2010. The change had a minor effect on consolidated operating income, ordinary loss and net loss before taxes and other adjustments.</p> <p>(v) 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.</p> <p>(vi) 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.</p> | <p>(iv) Allowance for retirement benefits Same as at left</p> <p>_____</p> <p>_____</p> <p>(v) Allowance for directors’ retirement benefits Same as at left</p> <p>(vi) Allowance for product warranties Same as at left</p> |

| Item | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|--|---|
| (5) Accounting 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. |
| (6) Significant hedge accounting method | <p>(i) Hedge accounting method Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where requirements for using the method were fulfilled.</p> <p>(ii) Hedging instrument and hedged item Hedge accounting was applied to the following hedging instrument and hedged item during the consolidated fiscal year under review. Hedging instrument: exchange contracts Hedged item: foreign currency receivables</p> <p>(iii) Hedging policy Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.</p> <p>(iv) 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.</p> | <p>(i) Hedge accounting method Same as at left</p> <p>(ii) Hedging instrument and hedged item Same as at left</p> <p>(iii) Hedging policy Same as at left</p> <p>(iv) Method for assessing hedging effectiveness Same as at left</p> |
| (7) Scope of Funds in Consolidated Cash Flow Statements | ————— | Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less at the date of acquisition that can easily be converted into cash and that have only minor risks of changes in value. |
| (8) Other important matters for the preparation of consolidated financial statements | Accounting method for consumption taxes The tax-exclusion method is used for the calculation of consumption tax and local consumption tax. | Accounting method for consumption taxes Same as at left |
| 5. Matters relating to valuation method for assets and liabilities of consolidated subsidiaries | All assets and liabilities of consolidated subsidiaries are valued using the full fair value method. | ————— |
| 6. Scope of funds in consolidated cash flow statements | Funds in consolidated cash flow statements consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments with maturity within three months that have high fluidity, easy cash convertibility, and little risk of a fluctuation in value. | ————— |

Changes in Important Matters that Become Basis of Presenting Consolidated Financial Statements

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|---|
| | <p>(Application of the Accounting Standard for Asset Retirement Obligations)</p> <p>The Group began applying the “Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18 issued on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21 issued on March 31, 2008) in the consolidated fiscal year under review.</p> <p>The effect of the application on operating income, ordinary income, and income before taxes and other adjustments was minor.</p> |

Changes in Presentation

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|---|
| <p>(Consolidated Statements of Income)</p> <p>Since foreign exchange losses, which were included in other non-operating expenses until the preceding fiscal year, exceeded 10% of total non-operating expenses, they were posted as an independent item.</p> <p>Foreign exchange losses at the end of the preceding fiscal year were 18 million yen.</p> | <p>(Consolidated statements of income)</p> <p>The Group began applying the “Cabinet Office Ordinance Revising the Regulations on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5 issued on March 24, 2009) under the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on December 26, 2008) in the consolidated fiscal year under review and included the accounting item “Income before minority interests.”</p> <p>“Rent received” that had been posted as a separate item until the previous consolidated fiscal year (5 million yen for the fiscal year under review) accounted for 10% or less of the non-operating income in the consolidated fiscal year under review and was included in “Other non-operating income.”</p> |

Others

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|--|
| | <p>The Group began applying the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25 issued on June 30, 2010) in the consolidated fiscal year under review. “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the previous consolidated fiscal year are “Valuation and translation adjustments” and “Total valuation and translation adjustments” respectively.</p> |

Notes

Consolidated Balance Sheet

(Million yen)

| Previous consolidated fiscal year (As of March 31, 2010) | Consolidated fiscal year under review (As of March 31, 2011) |
|--|--|
| *1. Shares of non-consolidated subsidiaries and affiliates Investment securities (stocks): 16 | *1. Shares of non-consolidated subsidiaries and affiliates Investment securities (stocks): 16 |
| 2. Amount of discount for bills receivable: 476 Amount of discount for export bills receivable: 831 | 2. Amount of discount for bills receivable: 526 Amount of discount for export bills receivable: 2,584 |
| 3. Amount of allowance for doubtful accounts that is directly deducted from the amount of assets Investments and other assets: 189 | 3. Amount of allowance for doubtful accounts that is directly deducted from the amount of assets Investments and other assets: 147 |

(Consolidated Income Statement)

(Million yen)

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|---|
| *1. Inventories at the end of the year are an amount following the write-down of their book value based on a decline in profitability. The cost of sales includes the following loss on devaluation of inventories. <div style="text-align: right;">68</div> | *1. Inventories at the end of the year are an amount following the write-down of their book value based on a decline in profitability. The cost of sales includes the following loss on devaluation of inventories. <div style="text-align: right;">45</div> |
| *2. Total R&D expenses R&D expenses included in selling, general and administrative expenses and manufacturing cost for the term: <div style="text-align: right;">752</div> | *2. Total R&D expenses R&D expenses included in selling, general and administrative expenses, and manufacturing cost for the term <div style="text-align: right;">751</div> |
| *3. Dormant expenses are expenses required for suspending the operations of the Company and its consolidated subsidiaries. Their breakdown is as follows: Labor costs: <div style="text-align: right;">244</div> Depreciation and amortization expenses: <div style="text-align: right;">70</div> Others: <div style="text-align: right; border-bottom: 1px solid black;">6</div> Total <div style="text-align: right;">321</div> | 3. _____ |
| 4. _____ | *4. Breakdown of gain on sales of fixed assets: Machinery and Equipment <div style="text-align: right;">0</div> |
| 5. _____ | *5. Breakdown of loss on retirement of fixed assets: Buildings <div style="text-align: right;">7</div> Machinery and Equipment <div style="text-align: right;">1</div> Others <div style="text-align: right;">0</div> Total <div style="text-align: right;">9</div> |
| *6. Breakdown of loss on sale of fixed assets Machinery and equipment: <div style="text-align: right;">1</div> | *6. Breakdown of the loss on sales of fixed assets: Machinery and equipment <div style="text-align: right;">4</div> |

(Consolidated Statements of Comprehensive Income)

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

| | | |
|----|---|-----------------|
| *1 | Comprehensive income in the fiscal year immediately preceding the consolidated fiscal year under review | |
| | Comprehensive income attributable to the shareholders of the parent company | 586 million yen |
| | <u>Comprehensive income attributable to minority shareholders</u> | <u>—</u> |
| | Total | 586 |
| *2 | Other comprehensive income in the fiscal year immediately preceding the consolidated fiscal year under review | |
| | Unrealized gains on marketable securities | 971 million yen |
| | Deferred gains (losses) on hedges | -99 |
| | <u>Translation adjustments</u> | <u>-41</u> |
| | Total | 831 |

(Consolidated Statements of Changes in Net Assets)

Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010)

1. Matters relating to type and number of outstanding shares and treasury stock

(Thousand shares)

| | Number of shares at the end of the previous consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year |
|--------------------|--|--|--|---|
| Outstanding shares | | | | |
| Common shares | 68,019 | — | — | 68,019 |
| Total | 68,019 | — | — | 68,019 |
| Treasury stock | | | | |
| Common shares | 453 | 786 | 85 | 1,154 |
| Total | 453 | 786 | 85 | 1,154 |

- (Note) 1. The increase in common shares of treasury stock by 786 thousand shares reflected an increase of 7 thousand shares due to the purchase of odd-lot shares, and the purchase of 779 thousand shares of treasury stock.
2. The decrease in treasury stock of 85 thousand shares was due to the exercise of stock options.

2. Matters concerning subscription rights to shares and subscription rights to shares for treasury stock

| Category | Description of subscription rights to shares | Type of shares to be issued under subscription rights to shares | Number of shares to be issued under subscription rights to shares | | | | Outstanding balance at the end of the consolidated fiscal year (million yen) |
|-------------------------------------|--|---|--|--|--|---|--|
| | | | Number of shares at the end of the previous consolidated fiscal year | Increase in shares in the consolidated fiscal year | Decrease in shares in the consolidated fiscal year | Number of shares at the end of the consolidated fiscal year | |
| Submitting company (parent company) | Subscription rights to shares as stock options | — | — | — | — | — | 204 |
| Total | | — | — | — | — | — | 204 |

3. Matters relating to dividends

(1) Dividends paid

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|--------------------------|----------------|----------------|
| Board of directors meeting held on May 14, 2009 | Common shares | 337 | 5.00 | March 31, 2009 | June 2, 2009 |

(2) Dividends with a record date in the fiscal year but an effective date in the following fiscal year

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Funds for dividends | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|---------------------|--------------------------|----------------|----------------|
| Board of directors meeting held on May 13, 2010 | Common shares | 334 | Retained earnings | 5.00 | March 31, 2010 | June 1, 2010 |

Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011)

1. Matters relating to type and number of outstanding shares and treasury stock (Thousand shares)

| | Number of shares at the end of the previous 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 |
|--------------------|--|---|---|--|
| Outstanding shares | | | | |
| Common shares | 68,019 | — | — | 68,019 |
| Total | 68,019 | — | — | 68,019 |
| Treasury stock | | | | |
| Common shares | 1,154 | 1,103 | 117 | 2,140 |
| Total | 1,154 | 1,103 | 117 | 2,140 |

(Note) 1. The increase in common shares of treasury stock of 1,103 thousand shares reflected an increase of 7 thousand shares due to the purchase of odd-lot shares, and the purchase of 1,096 thousand shares of treasury stock.
2. The decrease in treasury stock of 117 thousand shares was due to the exercise of stock options.

2. Matters concerning subscription rights to shares and subscription rights to shares for treasury stock

| Category | Description of subscription rights to shares | Type of shares to be issued under subscription rights to shares | Number of shares to be issued under subscription rights to shares | | | | Outstanding balance at the end of the consolidated fiscal year under review (million yen) |
|-------------------------------------|--|---|--|---|---|--|---|
| | | | Number of shares at the end of the previous 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 | |
| Submitting company (parent company) | Subscription rights to shares as stock options | — | — | — | — | — | 290 |
| Total | | — | — | — | — | — | 290 |

3. Matters relating to dividends

(1) Dividends paid

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|--|--------------------------|--------------------|-------------------|
| Board of directors meeting held on May 13, 2010 | Common shares | 334 | 5.00 | March 31, 2010 | June 1, 2010 |
| Board of directors meeting held on November 12, 2010 | Common shares | 332 | 5.00 | September 30, 2010 | November 29, 2010 |

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

| (Resolution) | Type of shares | Total amount of dividend (million yen) | Funds for dividends | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|---------------------|--------------------------|----------------|----------------|
| Board of directors meeting held on May 12, 2011 | Common shares | 329 | Retained earnings | 5.00 | March 31, 2011 | March 31, 2011 |

(Consolidated Statements of Cash Flows)

(Million yen)

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|--|
| 1. Relationship between the ending balance of cash and cash equivalents and the accounts and their amounts on the Consolidated Balance Sheet | 1. Relationship between the ending balance of cash and cash equivalents and the accounts and their amounts on the Consolidated Balance Sheet |
| Cash and cash accounts 3,892 | Cash and cash accounts 4,111 |
| Time deposits with maturity of more than 3 months -50 | Time deposits with maturity of more than 3 months -50 |
| Cash and cash equivalents <u>3,842</u> | Cash and cash equivalents <u>4,061</u> |

(Lease Transactions)

(Million yen)

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | | | | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------------|-------------------------------------|--|---|-----------------------------------|----|---|---|-----------------------|----|----|---|-------|----|----|---|---------------|---|--------------------|---|-------|---|-----------------|---|-------------------------|---|--|--|--|--|--|-----------------------------|-------------------------------------|--|-----------------------------------|----|----|---|-----------------------|----|----|---|-------|----|----|---|---------------|---|--------------------|---|-------|---|-----------------|---|-------------------------|---|
| <p>Finance lease transactions (lessee)</p> <p>Finance lease transactions without the transfer of ownership</p> <p>(i) Leased assets</p> <p>a. Tangible fixed assets Primary tools, equipment and fixtures in the machine tool business and the specialized machines and other businesses</p> <p>b. Intangible fixed assets Software</p> <p>(ii) Depreciation and amortization methods for leased assets The methods described in Important Matters that Become the Basis of Presenting Consolidated Financial Statements, 4. Matters concerning significant accounting policies, (2) Depreciation and amortization methods used for material depreciable and amortizable assets apply.</p> <p>Of finance lease transactions without the transfer of ownership, the lease transactions whose start dates are before March 31, 2008, are accounted for by the method for ordinary lease transactions. Details of the transactions are as follows:</p> <p>(1) Acquisition cost equivalent, accumulated depreciation equivalent, and fiscal year-end outstanding balance equivalent of leased assets</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Acquisition cost equivalent</th> <th style="text-align: center;">Accumulated depreciation equivalent</th> <th style="text-align: center;">Fiscal year-end outstanding balance equivalent</th> </tr> </thead> <tbody> <tr> <td>Machinery, equipment and vehicles</td> <td style="text-align: center;">10</td> <td style="text-align: center;">8</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Tangible fixed assets</td> <td style="text-align: center;">37</td> <td style="text-align: center;">32</td> <td style="text-align: center;">4</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">48</td> <td style="text-align: center;">40</td> <td style="text-align: center;">7</td> </tr> </tbody> </table> <p>Since the rate of unexpired lease fees at the end of the fiscal year to the tangible fixed assets at the end of the fiscal year is low, interest expense is included in the calculation of the acquisition cost equivalent.</p> <p>(2) Equivalent of unexpired lease fees at end of fiscal year</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 80%;">Within a year</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Longer than a year</td> <td style="text-align: right;">1</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">7</td> </tr> </tbody> </table> <p>Since the ratio of the unexpired lease fees at the end of the fiscal year to tangible fixed assets at the end of the fiscal year is low, interest expense is included in the calculation of the equivalent of unexpired lease fees at the end of the fiscal year.</p> <p>(3) Lease fees paid and depreciation equivalent</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 80%;">Lease fees paid</td> <td style="text-align: right;">8</td> </tr> <tr> <td>Depreciation equivalent</td> <td style="text-align: right;">8</td> </tr> </tbody> </table> <p>(4) Method of calculating depreciation equivalent The depreciation equivalent is calculated using the straight-line method over the lease terms as service lives, assuming no residual value.</p> | | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent | Machinery, equipment and vehicles | 10 | 8 | 2 | Tangible fixed assets | 37 | 32 | 4 | Total | 48 | 40 | 7 | Within a year | 5 | Longer than a year | 1 | Total | 7 | Lease fees paid | 8 | Depreciation equivalent | 8 | | | | <p>Finance lease transactions (lessee)</p> <p>Finance lease transactions without the transfer of ownership</p> <p>(i) Leased assets</p> <p>a. Tangible fixed assets Primary tools, furniture and fixtures business in Japan</p> <p>b. Intangible fixed assets Software</p> <p>(ii) Depreciation and amortization methods for leased assets Same as at left</p> <p style="text-align: center;">Same as at left</p> <p>(1) Acquisition cost equivalent, accumulated depreciation equivalent, and fiscal year-end outstanding balance equivalent of leased assets</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Acquisition cost equivalent</th> <th style="text-align: center;">Accumulated depreciation equivalent</th> <th style="text-align: center;">Fiscal year-end outstanding balance equivalent</th> </tr> </thead> <tbody> <tr> <td>Machinery, equipment and vehicles</td> <td style="text-align: center;">10</td> <td style="text-align: center;">10</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Tangible fixed assets</td> <td style="text-align: center;">37</td> <td style="text-align: center;">36</td> <td style="text-align: center;">0</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: center;">48</td> <td style="text-align: center;">46</td> <td style="text-align: center;">1</td> </tr> </tbody> </table> <p style="text-align: center;">Same as at left</p> <p>(2) Equivalent of unexpired lease fees at end of fiscal year</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 80%;">Within a year</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Longer than a year</td> <td style="text-align: right;">—</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">1</td> </tr> </tbody> </table> <p style="text-align: center;">Same as at left</p> <p>(3) Lease fees paid and depreciation equivalent</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 80%;">Lease fees paid</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Depreciation equivalent</td> <td style="text-align: right;">5</td> </tr> </tbody> </table> <p>(4) Method of calculating depreciation equivalent Same as at left</p> | | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent | Machinery, equipment and vehicles | 10 | 10 | 0 | Tangible fixed assets | 37 | 36 | 0 | Total | 48 | 46 | 1 | Within a year | 1 | Longer than a year | — | Total | 1 | Lease fees paid | 5 | Depreciation equivalent | 5 |
| | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Machinery, equipment and vehicles | 10 | 8 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tangible fixed assets | 37 | 32 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 48 | 40 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Within a year | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Longer than a year | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lease fees paid | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Depreciation equivalent | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Machinery, equipment and vehicles | 10 | 10 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tangible fixed assets | 37 | 36 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 48 | 46 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Within a year | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Longer than a year | — | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lease fees paid | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Depreciation equivalent | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(Financial Instruments)

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

1. Situation of financial instruments

(1) Policy for financial instruments

The Group raises funds needed for performing operations in Japan and abroad primarily through bank loans. The Group uses derivatives to avoid the risks described below and will not carry out speculative transactions.

(2) Financial instruments, risks associated with them, and risk management for them

Trade notes and accounts receivable, operating receivables, are exposed to the credit risks of customers. Foreign currency operating receivables that are generated in overseas operations are exposed to exchange fluctuation risks but hedged by exchange forward contracts.

Investment securities are primarily shares in companies with which the Company has business relationships and are exposed to the risks of market price fluctuation. The due dates of most trade notes and accounts payable, which are operating payables, are within four months.

The primary purpose of borrowings, bonds, and lease obligations relating to finance lease transactions is raising operating funds, and the redemption date is a maximum of four years after the closing date.

The derivatives are exchange forward contracts whose purpose is hedging exchange fluctuation risks relating to foreign currency operating receivables. The departments in charge of derivatives trading carry out and manage derivatives trading with the approval of deciding officers and in accordance with internal rules.

Please refer to 4. Matters concerning significant accounting policies, (6) Significant hedge accounting method of “Important Matters that Becomes Basis of Presenting Consolidated Financial Statements” to find out information about the hedging instruments, hedged items, hedging policy, and method of valuating the effectiveness of hedging.

Operating payables and borrowings are exposed to liquidity risks. The Group manages the liquidity risk by the departments in charge of funds working out monthly cash management plans.

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments are values based on market values, or if there are no market values, values reasonably calculated. Since variables are included in the calculation of fair values, they may change depending on assumptions. The values of contracts relating to derivatives trading stated in the notes to derivatives trading do not show market risks relating to derivatives trading by themselves.

2. Matters relating to fair values of financial instruments

The table below shows the balance sheet amounts and fair values of financial instruments, and the difference between them as of March 31, 2010. Financial instruments whose fair values are very difficult to estimate are not included in the table. (Please refer to Note 2.)

| | Consolidated balance sheet amount (million yen) | Fair value (million yen) | Difference (million yen) |
|---|---|--------------------------|--------------------------|
| (1) Cash and deposits | 3,892 | 3,892 | — |
| (2) Trade notes and accounts receivable | 7,541 | 7,541 | — |
| (3) Investment securities | 4,264 | 4,264 | — |
| Total assets | 15,699 | 15,699 | — |
| (1) Trade notes and accounts payable | 6,946 | 6,946 | — |
| (2) Short-term borrowings | 1,008 | 1,008 | — |
| (3) Corporate bonds due to redemption within one year | 300 | 300 | — |
| (4) Corporate bonds | 900 | 908 | -8 |
| Total liabilities | 9,154 | 9,162 | -8 |
| Derivatives* | 99 | 99 | — |

* Net receivables or payables generated in derivatives trading are shown in the table. Figures in parentheses show net payables.

(Note) 1. Methods used for estimating the fair values of financial instruments and matters relating to securities and derivatives trading

Assets

(1) Cash and deposits and (2) Trade notes and accounts receivable

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

(3) Investment securities

The fair values of investment securities are determined by reference to quoted market prices on the stock exchanges.

Liabilities

(1) Trade notes and accounts payable and (2) Short-term borrowings

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

(3) Corporate bonds due for redemption within one year and (4) Corporate bonds

The corporate bonds issued by the Company are private placement bonds and do not have market prices. The fair value is estimated by discounting the principal and interest, using a rate that takes the remaining term of the bond and the credit risk into consideration.

Derivatives

Please refer to the notes to derivatives trading.

2. Financial instruments whose fair values are very difficult to estimate

| Classification | Consolidated balance sheet amount (million yen) |
|----------------------|---|
| Unlisted shares | 2 |
| Shares in affiliates | 16 |

Since these financial instruments do not have any market prices, and their fair values are very difficult to estimate, they are not included in (3) Investment securities.

3. Scheduled redemption amounts of monetary receivables after the consolidated closing date

| | Within one year (million yen) | Longer than one year, within five years (million yen) | Longer than five years, within ten years (million yen) | Over ten years (million yen) |
|--|----------------------------------|---|--|---------------------------------|
| Cash and deposits* | 3,882 | — | — | — |
| Trade notes and accounts receivable | 7,541 | — | — | — |
| Total | 11,424 | — | — | — |

*Cash is excluded.

4. Scheduled repayment of corporate bonds and lease obligations after the consolidated closing date

Please refer to consolidated supplementary schedules: schedule of bonds and schedule of borrowings.

(Additional information)

Starting the fiscal year under review, the Company is applying the Accounting Standard for Financial Instruments (Accounting Standards Board of Japan Statement No. 10 issued on March 10, 2008) and the Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 issued on March 10, 2008).

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

1. Situation of financial instruments

(1) Policy for financial instruments

The Group raises funds needed for performing operations in Japan and abroad primarily through bank loans. The Group uses derivatives to avoid the risks described below and will not carry out speculative transactions.

(2) Financial instruments, risks associated with them, and risk management for them

Trade notes and accounts receivable, operating receivables, are exposed to the credit risks of customers. Foreign currency operating receivables that are generated in overseas operations are exposed to exchange fluctuation risks but hedged by exchange forward contracts.

Investment securities are primarily shares in companies with which the Company has business relationships and are exposed to the risks of market price fluctuation. The due dates of most trade notes and accounts payable, which are operating payables, are within four months.

The primary purpose of borrowings, bonds, and lease obligations relating to finance lease transactions is raising operating funds, and the redemption date is a maximum of four years after the closing date.

The derivatives are exchange forward contracts whose purpose is hedging exchange fluctuation risks relating to foreign currency operating receivables. The departments in charge of derivatives trading carry out and manage derivatives trading with the approval of deciding officers and in accordance with internal rules.

Please refer to 4. Matters concerning significant accounting policies, (6) Significant hedge accounting method of “Important Matters that Becomes Basis of Presenting Consolidated Financial Statements” to find out information about the hedging instruments, hedged items, hedging policy, and method of valuating the effectiveness of hedging.

Operating payables and borrowings are exposed to liquidity risks. The Group manages the liquidity risk by the departments in charge of funds working out monthly cash management plans.

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments are values based on market values, or if there are no market values, values reasonably calculated. Since variables are included in the calculation of fair values, they may change depending on assumptions. The values of contracts relating to derivatives trading stated in the notes to derivatives trading do not show market risks relating to derivatives trading by themselves.

2. Matters relating to fair values of financial instruments

The table below shows the balance sheet amounts and fair values of financial instruments, and the difference between them as of March 31, 2011. Financial instruments whose fair values are very difficult to estimate are not included in the table. (Please refer to Note 2.)

| | Consolidated balance sheet amount (million yen) | Fair value (million yen) | Difference (million yen) |
|---|---|--------------------------|--------------------------|
| (1) Cash and deposits | 4,111 | 4,111 | — |
| (2) Trade notes and accounts receivable | 7,729 | 7,729 | — |
| (3) Investment securities | 4,909 | 4,909 | — |
| Total assets | 16,749 | 16,749 | — |
| (1) Trade notes and accounts payable | 8,011 | 8,011 | — |
| (2) Short-term borrowings | 2,089 | 2,089 | — |
| (3) Corporate bonds due to redemption within one year | 300 | 306 | -6 |
| (4) Corporate bonds | 600 | 598 | 1 |
| Total liabilities | 11,000 | 11,006 | -5 |
| Derivatives* | 8 | 8 | — |

* Net receivables or payables generated in derivatives trading are shown in the table. Figures in parentheses show net payables.

(Note) 1. Methods used for estimating the fair values of financial instruments and matters relating to securities and derivatives trading

Assets

(1) Cash and deposits and (2) Trade notes and accounts receivable

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

(3) Investment securities

The fair values of investment securities are determined by reference to quoted market prices on the stock exchanges.

Liabilities

(1) Trade notes and accounts payable and (2) Short-term borrowings

These financial instruments are settled in the short term, and their fair values approximate their book value. The fair values are therefore deemed equal to their book values.

(3) Corporate bonds due for redemption within one year and (4) Corporate bonds

The corporate bonds issued by the Company are private placement bonds and do not have market prices. The fair value is estimated by discounting the principal and interest, using a rate that takes the remaining term of the bond and the credit risk into consideration.

Derivatives

Please refer to the notes to derivatives trading.

2. Financial instruments whose fair values are very difficult to estimate

| Classification | Consolidated balance sheet amount (million yen) |
|----------------------|---|
| Unlisted shares | 2 |
| Shares in affiliates | 16 |

Since these financial instruments do not have any market prices, and their fair values are very difficult to estimate, they are not included in (3) Investment securities.

3. Scheduled redemption amounts of monetary receivables after the consolidated closing date

| | Within one year (million yen) | Longer than one year, within five years (million yen) | Longer than five years, within ten years (million yen) | Over ten years (million yen) |
|-------------------------------------|-------------------------------|---|--|------------------------------|
| Cash and deposits* | 4,101 | — | — | — |
| Trade notes and accounts receivable | 7,729 | — | — | — |
| Total | 11,831 | — | — | — |

*Cash is excluded.

4. Scheduled repayment of corporate bonds and lease obligations after the consolidated closing date

Please refer to consolidated supplementary schedules: schedule of bonds and schedule of borrowings.

(Securities)

Previous consolidated fiscal year (As of March 31, 2010)

1. Other securities with market value

(Million yen)

| | Classification | Acquisition cost | Carrying amount on the consolidated balance sheet | Difference |
|---|--------------------|------------------|---|------------|
| Carrying amounts on the consolidated balance sheet exceeding the acquisition cost | (1) Shares | 3,783 | 2,721 | 1,061 |
| | (2) Corporate bond | — | — | — |
| | (3) Others | — | — | — |
| | Subtotal | 3,783 | 2,721 | 1,061 |
| Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost | (1) Shares | 481 | 665 | -183 |
| | (2) Corporate bond | — | — | — |
| | (3) Others | — | — | — |
| | Subtotal | 481 | 665 | -183 |
| Total | | 4,264 | 3,387 | 877 |

(Note) Since unlisted stocks (whose consolidated balance sheet amount is 2 million yen) have no market prices, and their fair values are very difficult to estimate, they are not included in other securities with market value. If the fair value at the end of the fiscal year declines 50% or more from the acquisition cost, impairment accounting is applied.

If, among other securities, the fair value of stocks having fair value declines 30% to around 50%, the Company estimates the recoverability of each stock and determines whether impairment accounting is needed or not. Impairment accounting was not applied to any stocks with or without market value of other securities.

2. Other securities sold during the consolidated fiscal year

Not applicable.

Consolidated fiscal year under review (As of March 31, 2011)

1. Other securities with market value

(Million yen)

| | Classification | Acquisition cost | Carrying amount on the consolidated balance sheet | Difference |
|---|--------------------|------------------|---|------------|
| Carrying amounts on the consolidated balance sheet exceeding the acquisition cost | (1) Shares | 4,589 | 2,863 | 1,725 |
| | (2) Corporate bond | — | — | — |
| | (3) Others | — | — | — |
| | Subtotal | 4,589 | 2,863 | 1,725 |
| Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost | (1) Shares | 319 | 372 | -52 |
| | (2) Corporate bond | — | — | — |
| | (3) Others | — | — | — |
| | Subtotal | 319 | 372 | -52 |
| Total | | 4,909 | 3,235 | 1,673 |

(Note) Since unlisted stocks (whose consolidated balance sheet amount is 2 million yen) have no market prices, and their fair values are very difficult to estimate, they are not included in other securities with market value.

Impairment losses of 179 million yen are recorded for other securities with market value.

If the fair value at the end of the fiscal year declines 50% or more from the acquisition cost, impairment accounting is applied.

If the fair value at the end of the fiscal year declines 30% to around 50%, the Company estimates the recoverability of each stock and determines whether impairment accounting is needed or not.

2. Other securities sold during the consolidated fiscal year under review

| Amount of sale (million yen) | Total profit on sale (million yen) | Total loss on sale (million yen) |
|---------------------------------|---------------------------------------|-------------------------------------|
| 27 | 5 | — |

(Derivatives Trading)

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

(1) Derivatives trading to which hedge accounting is not applied

Not applicable.

(2) Derivatives trading to which hedge accounting is applied

(i) Currencies

| Hedge accounting method | Trading type | Major hedged item | Previous consolidated fiscal year (As of March 31, 2010) | | |
|---|---|---------------------------|--|--|--------------------------|
| | | | Amount of contracts (million yen) (thousand US dollars) | Amount of contracts for more than one year (million yen) (thousand US dollars) | Fair value (million yen) |
| Appropriation method for exchange forward contracts | Exchange forward contracts Selling position (US dollars) | Trade accounts receivable | 3,048 (33,879) | — — | 99 |

(Note) Method used for estimating fair value: The fair value is determined based on prices presented by financial trading institutions.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

(1) Derivatives trading to which hedge accounting is not applied

Not applicable.

(2) Derivatives trading to which hedge accounting is applied

(i) Currencies

| Hedge accounting method | Trading type | Major hedged item | Consolidated fiscal year under review (As of March 31, 2011) | | |
|---|---|---------------------------|--|--|--------------------------|
| | | | Amount of contracts (million yen) (thousand US dollars) | Amount of contracts for more than one year (million yen) (thousand US dollars) | Fair value (million yen) |
| Appropriation method for exchange forward contracts | Exchange forward contracts Selling position (US dollars) | Trade accounts receivable | 89 (971) | — — | 8 |

(Note) Method used for estimating fair value: The fair value is determined based on prices presented by financial trading institutions.

(Pension and Severance Cost)

1. Outline of retirement and severance benefits plans adopted by the companies

The Group adopts retirement lump-sum grant plans and defined-benefit corporate pension plans. With the enforcement of the Defined-Benefit Corporate Pension Act, the Company and certain domestic consolidated subsidiaries changed their pension plans from qualified pension plans to defined-benefit corporate pension plans in January 2010.

2. Projected benefit obligations and their breakdowns

(Million yen)

| | Previous consolidated fiscal year (As of March 31, 2010) | Consolidated fiscal year under review (As of March 31, 2011) |
|---|---|---|
| (1) Projected benefit obligations | -2,304 | -2,217 |
| (2) Pension assets | 778 | 837 |
| (3) Unfunded obligations for retirement and severance benefits (1)+(2) | -1,525 | -1,380 |
| (4) Unsettled difference at change of accounting principle | 696 | 557 |
| (5) Unrecognized actuarial gain or loss | -7 | 32 |
| (6) Unrecognized prior service cost | - | - |
| (7) Net accrued retirement benefits reflected in consolidated balance sheets (3)+(4)+(5)+(6) | -837 | -791 |
| (8) Prepaid pension cost | - | - |
| (9) Allowance for retirement benefits (7)-(8) | -837 | -791 |

(Note) The consolidated subsidiaries with retirement benefits systems use the simplified method to calculate projected benefit obligations.

3. Breakdown of retirement benefit expenses

(Million yen)

| | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|--|---|
| Retirement benefit expenses | 356 | 278 |
| (1) Service cost | 125 | 110 |
| (2) Interest cost | 34 | 33 |
| (3) Expected return on pension assets | -12 | -15 |
| (4) Unsettled difference at change of accounting principle | 139 | 139 |
| (5) Recognized actuarial gain or loss | 69 | 10 |
| (6) Others | - | - |

(Note) Net retirement benefit costs of consolidated subsidiaries using the simplified method are accounted for as (1) "Service costs."

4. Matters relating to the basis of calculation for projected benefit obligations

| | Previous consolidated fiscal year (As of March 31, 2010) | Consolidated fiscal year under review (As of March 31, 2011) |
|--|--|--|
| (1) Periodic allocation method for projected benefits | Periodic straight-line base | Same as at left |
| (2) Discount rates (%) | 1.5 | 1.5 |
| (3) Expected return on assets (%) | 2.0 | 2.0 |
| (4) Years during which the prior service cost is amortized | - | - |
| (5) Method and years during which an actuarial gain or loss is amortized | Five years from the consolidated fiscal year following the consolidated fiscal year in which the gain or loss occurred | Five years from the consolidated fiscal year following the consolidated fiscal year in which the gain or loss occurred |
| (6) Years during which unsettled differences at change of accounting principles were accounted for | 15 | 15 |

(Stock Options)

Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010)

1. Expenses posted in relation to stock options in the fiscal year under review

| | |
|--|----------------|
| Cost of sales | 3 million yen |
| Selling, general and administrative expenses | 43 million yen |

2. Description and change in the scale of stock options

(1) Description of stock options

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 4 Statutory auditors 4 Employees of the Company 7 | The Company's directors 4 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 220,000 shares | Common shares 78,000 shares |
| Grant date | July 1, 2005 | July 20, 2006 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 1, 2005 to June 30, 2025 | July 21, 2006 to July 20, 2026 |

| | 2006 Stock compensation-type stock options Plan B | 2007 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 8 Employees with similar positions 3 | The Company's directors 4 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 72,000 shares | Common shares 101,000 shares |
| Grant date | July 20, 2006 | July 9, 2007 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 21, 2006 to July 20, 2026 | July 10, 2007 to July 9, 2027 |

| | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 11 Employee of the Company 1 | The Company's directors 7 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 89,000 shares | Common shares 100,000 shares |
| Grant date | July 9, 2007 | July 7, 2008 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 10, 2007 to July 9, 2027 | July 8, 2008 to July 7, 2028 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 18 | The Company's directors 5 Statutory auditors 1 Employees of the Company 123 Directors of subsidiaries of the Company 7 |
| Number of stock options by share type (Note 1) | Common shares 51,000 shares | Common shares 800,000 shares |
| Grant date | July 7, 2008 | July 6, 2009 |
| Vesting conditions | (Note 2) | Not applicable |
| Target period of service | Not applicable | July 6, 2009 to July 6, 2011 |
| Exercise period | July 8, 2008 to July 7, 2028 | July 7, 2011 to June 30, 2014 |

| | 2009 Stock compensation-type stock options Plan A | 2009 Stock compensation-type stock options Plan B |
|--|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 7 Statutory auditors 4 | Titled executive officers and employees with similar positions 14 |
| Number of stock options by share type (Note 1) | Common shares 191,000 shares | Common shares 111,000 shares |
| Grant date | July 6, 2009 | July 6, 2009 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2009 to July 6, 2029 | July 7, 2009 to July 6, 2029 |

(Note) 1. The number of stock options is converted to the number of shares.

2. In principle, a holder of subscription rights to shares may exercise them 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.

(2) Change in the scale of stock options

The stock options that existed in the previous fiscal year ended March 31, 2010 are counted. The number of stock options is converted to the number of shares.

(i) Number of stock options

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A | 2006 Stock compensation-type stock options Plan B |
|------------------------------|--|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | — | — | — |
| Granted | — | — | — |
| Lapsed | — | — | — |
| Vested | — | — | — |
| Non-vested | — | — | — |
| After vesting date (shares) | | | |
| End of previous fiscal year | 144,000 | 66,000 | 51,000 |
| Vested | — | — | — |
| Exercised | 25,000 | 15,000 | 5,000 |
| Lapsed | — | — | — |
| Unexercised | 119,000 | 51,000 | 46,000 |

| | 2007 Stock compensation-type stock options Plan A | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|------------------------------|---|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | — | — | — |
| Granted | — | — | — |
| Lapsed | — | — | — |
| Vested | — | — | — |
| Non-vested | — | — | — |
| After vesting date (shares) | | | |
| End of previous fiscal year | 88,000 | 77,000 | 100,000 |
| Vested | — | — | — |
| Exercised | 21,000 | 5,000 | 14,000 |
| Lapsed | — | — | 3,000 |
| Unexercised | 67,000 | 72,000 | 83,000 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares | 2009 Stock compensation-type stock options Plan A |
|------------------------------|---|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | – | – | – |
| Granted | – | 800,000 | 191,000 |
| Lapsed | – | – | – |
| Vested | – | – | 191,000 |
| Non-vested | – | 800,000 | – |
| After vesting date (shares) | | | |
| End of previous fiscal year | 51,000 | – | – |
| Vested | – | – | 191,000 |
| Exercised | – | – | – |
| Lapsed | – | – | – |
| Unexercised | 51,000 | – | 191,000 |

| | 2009 Stock compensation-type stock options Plan B |
|------------------------------|---|
| Before vesting date (shares) | |
| End of previous fiscal year | – |
| Granted | 111,000 |
| Lapsed | – |
| Vested | 111,000 |
| Non-vested | – |
| After vesting date (shares) | |
| End of previous fiscal year | – |
| Vested | 111,000 |
| Exercised | – |
| Lapsed | – |
| Unexercised | 111,000 |

(ii) Unit price information

(Yen)

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A | 2006 Stock compensation-type stock options Plan B |
|--|--|---|---|
| Exercise price | 1 | 1 | 1 |
| Average stock price at the time of exercise | 162 | 162 | 165 |
| Fair valuation of unit price (grant date) | – | 608 | 608 |

| | 2007 Stock compensation-type stock options Plan A | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|--|---|---|---|
| Exercise price | 1 | 1 | 1 |
| Average stock price at the time of exercise | 161 | 165 | 168 |
| Fair valuation of unit price (grant date) | 513 | 513 | 279 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares | 2009 Stock compensation-type stock options Plan A |
|--|---|---|---|
| Exercise price | 1 | 225 | 1 |
| Average stock price at the time of exercise | – | – | – |
| Fair valuation of unit price (grant date) | 279 | 31 | 123 |

| | 2009 Stock compensation-type stock options Plan B |
|--|---|
| Exercise price | 1 |
| Average stock price at the time of exercise | – |
| Fair valuation of unit price (grant date) | 123 |

3. Method of estimating a fair unit price of stock options

The following is the method of estimating a fair unit price of the 2009 stock options granted in the fiscal year:

(i) Valuation technique used Black-Scholes method

(ii) Major fundamental figures and estimation method

| | 2009 General-type subscription rights to shares | 2009 Compensation-type subscription rights to shares Plan A and Plan B |
|------------------------------------|---|---|
| Stock price volatility (Note 1) | 37.044% | 43.780% |
| Expected remaining period (Note 2) | 3.5 years | 10.0 years |
| Projected dividend (Note 3) | 10.00 yen per share | 10.00 yen per share |
| Risk-free interest rate (Note 4) | 0.448% | 1.306% |

(Note) 1. The stock price volatility for the 2009 general-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 3.5 years (from January 2006 to June 2009). The stock price volatility for the 2009 Plan A and Plan B compensation-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 10 years (from June 1999 to June 2009).

- Since accumulated data is insufficient, reasonably estimating a remaining period is difficult. We thus estimate a period based on the assumption that stock options will be exercised at the mid-point of the exercise period.
- The projected dividend is based on the actual dividend for the fiscal year ended March 31, 2009.

4. The rate is the yield of the government bond for the expected remaining period.

4. Method of estimating the number of vested stock options

Estimating the number of lapsed stock options is basically difficult. The Company has thus applied a method that reflects only the number of actually lapsed stock options.

Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011)

1. Expenses posted in relation to stock options in the fiscal year under review

| | |
|--|----------------|
| Cost of sales | 22 million yen |
| Selling, general and administrative expenses | 96 million yen |

2. Description and change in the scale of stock options

(1) Description of stock options

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 4 Statutory auditors 4 Employees of the Company 7 | The Company's directors 4 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 220,000 shares | Common shares 78,000 shares |
| Grant date | July 1, 2005 | July 20, 2006 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 1, 2005 to June 30, 2025 | July 21, 2006 to July 20, 2026 |

| | 2006 Stock compensation-type stock options Plan B | 2007 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 8 Employees with similar positions 3 | The Company's directors 4 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 72,000 shares | Common shares 101,000 shares |
| Grant date | July 20, 2006 | July 9, 2007 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 21, 2006 to July 20, 2026 | July 10, 2007 to July 9, 2027 |

| | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 11 Employee of the Company 1 | The Company's directors 7 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 89,000 shares | Common shares 100,000 shares |
| Grant date | July 9, 2007 | July 7, 2008 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 10, 2007 to July 9, 2027 | July 8, 2008 to July 7, 2028 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares |
|--|---|---|
| Positions and numbers of officers to receive stock options | Titled executive officers 18 | The Company's directors 5 Statutory auditors 1 Employees of the Company 123 Directors of subsidiaries of the Company 7 |
| Number of stock options by share type (Note 1) | Common shares 51,000 shares | Common shares 800,000 shares |
| Grant date | July 7, 2008 | July 6, 2009 |
| Vesting conditions | (Note 2) | Not applicable |
| Target period of service | Not applicable | July 6, 2009 to July 6, 2011 |
| Exercise period | July 8, 2008 to July 7, 2028 | July 7, 2011 to June 30, 2014 |

| | 2009 Stock compensation-type stock options Plan A | 2009 Stock compensation-type stock options Plan B |
|--|---|---|
| Positions and numbers of officers to receive stock options | The Company's directors 7 Statutory auditors 4 | Titled executive officers and employees with similar positions 14 |
| Number of stock options by share type (Note 1) | Common shares 191,000 shares | Common shares 111,000 shares |
| Grant date | July 6, 2009 | July 6, 2009 |
| Vesting conditions | (Note 2) | (Note 2) |
| Target period of service | Not applicable | Not applicable |
| Exercise period | July 7, 2009 to July 6, 2029 | July 7, 2009 to July 6, 2029 |

| | 2010 Seventh general-type subscription rights to shares | 2010 Stock compensation-type stock options Plan A |
|--|---|---|
| Positions and numbers of officers to receive stock options | Employees of the Company 63 Directors of subsidiaries of the Company 7 | The Company's directors 7 Statutory auditors 4 |
| Number of stock options by share type (Note 1) | Common shares 350,000 shares | Common shares 101,000 shares |
| Grant date | July 5, 2010 | July 5, 2010 |
| Vesting conditions | Not applicable | (Note 2) |
| Target period of service | July 5, 2010 to July 5, 2012 | Not applicable |
| Exercise period | July 6, 2012 to June 30, 2015 | July 6, 2010 to July 5, 2030 |

| | 2010 Stock compensation-type stock options Plan B |
|--|---|
| Positions and numbers of officers to receive stock options | Titled executive officers and employees with similar positions 20 |
| Number of stock options by share type (Note 1) | Common shares 100,000 shares |
| Grant date | July 5, 2010 |
| Vesting conditions | (Note 2) |
| Target period of service | Not applicable |
| Exercise period | July 6, 2010 to July 5, 2030 |

(Note) 1. The number of stock options is converted to the number of shares.

2. In principle, a holder of subscription rights to shares may exercise them 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.

(2) Change in the scale of stock options

The stock options that existed in the fiscal year ended March 31, 2011 are counted. The number of stock options is converted to the number of shares.

(i) Number of stock options

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A | 2006 Stock compensation-type stock options Plan B |
|------------------------------|--|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | – | – | – |
| Granted | – | – | – |
| Lapsed | – | – | – |
| Vested | – | – | – |
| Non-vested | – | – | – |
| After vesting date (shares) | | | |
| End of previous fiscal year | 119,000 | 51,000 | 46,000 |
| Vested | – | – | – |
| Exercised | 10,000 | 6,000 | 8,000 |
| Lapsed | – | – | – |
| Unexercised | 109,000 | 45,000 | 38,000 |

| | 2007 Stock compensation-type stock options Plan A | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|------------------------------|---|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | – | – | – |
| Granted | – | – | – |
| Lapsed | – | – | – |
| Vested | – | – | – |
| Non-vested | – | – | – |
| After vesting date (shares) | | | |
| End of previous fiscal year | 67,000 | 72,000 | 83,000 |
| Vested | – | – | – |
| Exercised | 8,000 | 12,000 | 21,000 |
| Lapsed | – | – | – |
| Unexercised | 59,000 | 60,000 | 62,000 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares | 2009 Stock compensation-type stock options Plan A |
|------------------------------|---|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | – | 800,000 | – |
| Granted | – | – | – |
| Lapsed | – | – | – |
| Vested | – | – | – |
| Non-vested | – | 800,000 | – |
| After vesting date (shares) | | | |
| End of previous fiscal year | 51,000 | – | 191,000 |
| Vested | – | – | – |
| Exercised | 4,000 | – | 39,000 |
| Lapsed | – | – | – |
| Unexercised | 47,000 | – | 152,000 |

| | 2009 Stock compensation-type stock options Plan B | 2010 Seventh general-type subscription rights to shares | 2010 Stock compensation-type stock options Plan A |
|------------------------------|---|---|---|
| Before vesting date (shares) | | | |
| End of previous fiscal year | – | – | – |
| Granted | – | 350,000 | 101,000 |
| Lapsed | – | – | – |
| Vested | – | – | 101,000 |
| Non-vested | – | 350,000 | – |
| After vesting date (shares) | | | |
| End of previous fiscal year | 111,000 | – | – |
| Vested | – | – | 101,000 |
| Exercised | 5,000 | – | – |
| Lapsed | 1,000 | – | 4,000 |
| Unexercised | 105,000 | – | 97,000 |

| | 2010 Stock compensation-type stock options Plan B |
|------------------------------|---|
| Before vesting date (shares) | |
| End of previous fiscal year | – |
| Granted | 100,000 |
| Lapsed | – |
| Vested | 100,000 |
| Non-vested | – |
| After vesting date (shares) | |
| End of previous fiscal year | – |
| Vested | 100,000 |
| Exercised | 4,000 |
| Lapsed | 11,000 |
| Unexercised | 85,000 |

(ii) Unit price information

(Yen)

| | 2005 First compensation-type subscription rights to shares | 2006 Stock compensation-type stock options Plan A | 2006 Stock compensation-type stock options Plan B |
|--|--|---|---|
| Exercise price | 1 | 1 | 1 |
| Average stock price at the time of exercise | 723 | 723 | 528 |
| Fair valuation of unit price (grant date) | – | 608 | 608 |

| | 2007 Stock compensation-type stock options Plan A | 2007 Stock compensation-type stock options Plan B | 2008 Stock compensation-type stock options Plan A |
|--|---|---|---|
| Exercise price | 1 | 1 | 1 |
| Average stock price at the time of exercise | 723 | 528 | 602 |
| Fair valuation of unit price (grant date) | 513 | 513 | 279 |

| | 2008 Stock compensation-type stock options Plan B | 2009 Sixth general-type subscription rights to shares | 2009 Stock compensation-type stock options Plan A |
|--|---|---|---|
| Exercise price | 1 | 225 | 1 |
| Average stock price at the time of exercise | 592 | – | 598 |
| Fair valuation of unit price (grant date) | 279 | 31 | 123 |

| | 2009 Stock compensation-type stock options Plan B | 2010 Seventh general-type subscription rights to shares | 2010 Stock compensation-type stock options Plan A |
|--|---|---|---|
| Exercise price | 1 | 667 | 1 |
| Average stock price at the time of exercise | 592 | – | – |
| Fair valuation of unit price (grant date) | 123 | 182 | 532 |

| | 2010 Stock compensation-type stock options Plan B |
|--|---|
| Exercise price | 1 |
| Average stock price at the time of exercise | 528 |
| Fair valuation of unit price (grant date) | 532 |

3. Method of estimating a fair unit price of stock options

The following is the method of estimating a fair unit price of the 2010 stock options granted in the fiscal year:

(i) Valuation technique used Black-Scholes method

(ii) Major fundamental figures and estimation method

| | 2010 General-type subscription rights to shares | 2010 Compensation-type subscription rights to shares Plan A and Plan B |
|------------------------------------|--|---|
| Stock price volatility (Note 1) | 52.001% | 44.536% |
| Expected remaining period (Note 2) | 3.5 years | 10.0 years |
| Projected dividend (Note 3) | 5.00 yen per share | 5.00 yen per share |
| Risk-free interest rate (Note 4) | 0.187% | 1.093% |

- (Note)
1. The stock price volatility for the 2010 general-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 3.5 years (from January 2007 to June 2010). The stock price volatility for the 2008 Plan A and Plan B compensation-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 10 years (from June 2000 to June 2010).
 2. Since accumulated data is insufficient, reasonably estimating a remaining period is difficult. We thus estimate a period based on the assumption that stock options will be exercised at the mid point of the exercise period.
 3. The projected dividend is based on the actual dividend for the fiscal year ended March 31, 2010.
 4. The rate is the yield of the government bond for the expected remaining period.

4. Method of estimating the number of vested stock options

Estimating the number of lapsed stock options is basically difficult. The Company has thus applied a method that reflects only the number of actually lapsed stock options.

(Deferred Tax Accounting)

(Million yen)

| Previous consolidated fiscal year (As of March 31, 2010) | Consolidated fiscal year under review (As of March 31, 2011) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|----------------------------|---------------------------|---------------|---------------------------------|-------------------------------------|--------------------------------|---|--|---|------------------------------------|--|-----------------|--|--------------------------|---|----------------------------------|--|--------------------------|-------|-------|--|------------------------------|-------|-------------------|--------|---------------------------|-----|---|------|---|-----|--------------------------------|------|-------------------------|---|--|---------------------------------|----|---------------------------|----|---------------------------------|-----|--------------------------------|----|--|-----|------------------------------------|----|-----------------|----|--------------------------|----|----------------------------------|----|-------|----|------------------------------|-----|-------------------|------|---------------------------|-----|---|------|---|------|-------|----|--------------------------------|------|-------------------------|------|
| <p>1. Breakdown of deferred tax assets and deferred tax liabilities by major cause</p> <p>(Deferred tax assets)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Allowance for doubtful accounts</td><td style="text-align: right;">92</td></tr> <tr><td>Reserve for bonus payment</td><td style="text-align: right;">76</td></tr> <tr><td>Reserve for retirement benefits</td><td style="text-align: right;">340</td></tr> <tr><td>Reserve for product warranties</td><td style="text-align: right;">21</td></tr> <tr><td>Loss on devaluation of investment securities</td><td style="text-align: right;">89</td></tr> <tr><td>Loss on devaluation of inventories</td><td style="text-align: right;">68</td></tr> <tr><td>Impairment loss</td><td style="text-align: right;">48</td></tr> <tr><td>Accrued enterprise taxes</td><td style="text-align: right;">3</td></tr> <tr><td>Stock-based compensation expense</td><td style="text-align: right;">64</td></tr> <tr><td>Net loss carried forward</td><td style="text-align: right;">766</td></tr> <tr><td>Other</td><td style="text-align: right;">52</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax assets subtotal</td><td style="text-align: right; border-top: 1px solid black;">1,619</td></tr> <tr><td>Valuation reserve</td><td style="text-align: right;">-1,147</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax assets total</td><td style="text-align: right; border-top: 1px solid black;">472</td></tr> </table> <p>(Deferred tax liabilities)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Unrealized gains on marketable securities</td><td style="text-align: right;">-414</td></tr> <tr><td>Reserve profit of overseas subsidiaries</td><td style="text-align: right;">-51</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax liabilities total</td><td style="text-align: right; border-top: 1px solid black;">-465</td></tr> <tr><td style="border-top: 1px solid black;">Net deferred tax assets</td><td style="text-align: right; border-top: 1px solid black;">7</td></tr> </table> | Allowance for doubtful accounts | 92 | Reserve for bonus payment | 76 | Reserve for retirement benefits | 340 | Reserve for product warranties | 21 | Loss on devaluation of investment securities | 89 | Loss on devaluation of inventories | 68 | Impairment loss | 48 | Accrued enterprise taxes | 3 | Stock-based compensation expense | 64 | Net loss carried forward | 766 | Other | 52 | Deferred tax assets subtotal | 1,619 | Valuation reserve | -1,147 | Deferred tax assets total | 472 | Unrealized gains on marketable securities | -414 | Reserve profit of overseas subsidiaries | -51 | Deferred tax liabilities total | -465 | Net deferred tax assets | 7 | <p>1. Breakdown of deferred tax assets and deferred tax liabilities by major cause</p> <p>(Deferred tax assets)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Allowance for doubtful accounts</td><td style="text-align: right;">94</td></tr> <tr><td>Reserve for bonus payment</td><td style="text-align: right;">97</td></tr> <tr><td>Reserve for retirement benefits</td><td style="text-align: right;">322</td></tr> <tr><td>Reserve for product warranties</td><td style="text-align: right;">38</td></tr> <tr><td>Loss on devaluation of investment securities</td><td style="text-align: right;">144</td></tr> <tr><td>Loss on devaluation of inventories</td><td style="text-align: right;">67</td></tr> <tr><td>Impairment loss</td><td style="text-align: right;">48</td></tr> <tr><td>Accrued enterprise taxes</td><td style="text-align: right;">17</td></tr> <tr><td>Stock-based compensation expense</td><td style="text-align: right;">85</td></tr> <tr><td>Other</td><td style="text-align: right;">84</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax assets subtotal</td><td style="text-align: right; border-top: 1px solid black;">999</td></tr> <tr><td>Valuation reserve</td><td style="text-align: right;">-386</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax assets total</td><td style="text-align: right; border-top: 1px solid black;">613</td></tr> </table> <p>(Deferred tax liabilities)</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Unrealized gains on marketable securities</td><td style="text-align: right;">-680</td></tr> <tr><td>Reserve profit of overseas subsidiaries</td><td style="text-align: right;">-118</td></tr> <tr><td>Other</td><td style="text-align: right;">-3</td></tr> <tr><td style="border-top: 1px solid black;">Deferred tax liabilities total</td><td style="text-align: right; border-top: 1px solid black;">-802</td></tr> <tr><td style="border-top: 1px solid black;">Net deferred tax assets</td><td style="text-align: right; border-top: 1px solid black;">-189</td></tr> </table> | Allowance for doubtful accounts | 94 | Reserve for bonus payment | 97 | Reserve for retirement benefits | 322 | Reserve for product warranties | 38 | Loss on devaluation of investment securities | 144 | Loss on devaluation of inventories | 67 | Impairment loss | 48 | Accrued enterprise taxes | 17 | Stock-based compensation expense | 85 | Other | 84 | Deferred tax assets subtotal | 999 | Valuation reserve | -386 | Deferred tax assets total | 613 | Unrealized gains on marketable securities | -680 | Reserve profit of overseas subsidiaries | -118 | Other | -3 | Deferred tax liabilities total | -802 | Net deferred tax assets | -189 |
| Allowance for doubtful accounts | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for bonus payment | 76 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for retirement benefits | 340 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for product warranties | 21 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on devaluation of investment securities | 89 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on devaluation of inventories | 68 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Impairment loss | 48 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrued enterprise taxes | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Stock-based compensation expense | 64 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net loss carried forward | 766 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | 52 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax assets subtotal | 1,619 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Valuation reserve | -1,147 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax assets total | 472 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unrealized gains on marketable securities | -414 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve profit of overseas subsidiaries | -51 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax liabilities total | -465 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net deferred tax assets | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Allowance for doubtful accounts | 94 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for bonus payment | 97 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for retirement benefits | 322 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve for product warranties | 38 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on devaluation of investment securities | 144 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on devaluation of inventories | 67 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Impairment loss | 48 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrued enterprise taxes | 17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Stock-based compensation expense | 85 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | 84 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax assets subtotal | 999 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Valuation reserve | -386 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax assets total | 613 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unrealized gains on marketable securities | -680 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve profit of overseas subsidiaries | -118 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | -3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax liabilities total | -802 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net deferred tax assets | -189 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause</p> <p>Since a net loss before taxes and other adjustments was posted in the fiscal year, notes are omitted.</p> | <p>2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>Legally effective tax rate</td><td style="text-align: right;">40.7%</td></tr> <tr><td>(Adjustments)</td><td></td></tr> <tr><td>Residence tax on a per capita basis</td><td style="text-align: right;">0.6%</td></tr> <tr><td>Differences from applicable tax rates for overseas subsidiaries</td><td style="text-align: right;">-5.6%</td></tr> <tr><td>Special deduction of experiment and research expenses</td><td style="text-align: right;">-2.3%</td></tr> <tr><td>Items permanently excluded from nontaxable expenses, including entertainment costs</td><td style="text-align: right;">0.2%</td></tr> <tr><td>Items permanently excluded from gross revenue including dividends received</td><td style="text-align: right;">-0.2%</td></tr> <tr><td>Use of net loss carried forward for tax reasons</td><td style="text-align: right;">-25.5%</td></tr> <tr><td>Increase (decrease) in valuation reserve</td><td style="text-align: right;">1.8%</td></tr> <tr><td>Other</td><td style="text-align: right;">2.9%</td></tr> <tr><td style="border-top: 1px solid black;">Actual effective tax rate after applying tax effect accounting</td><td style="text-align: right; border-top: 1px solid black;">12.5%</td></tr> </table> | Legally effective tax rate | 40.7% | (Adjustments) | | Residence tax on a per capita basis | 0.6% | Differences from applicable tax rates for overseas subsidiaries | -5.6% | Special deduction of experiment and research expenses | -2.3% | Items permanently excluded from nontaxable expenses, including entertainment costs | 0.2% | Items permanently excluded from gross revenue including dividends received | -0.2% | Use of net loss carried forward for tax reasons | -25.5% | Increase (decrease) in valuation reserve | 1.8% | Other | 2.9% | Actual effective tax rate after applying tax effect accounting | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Legally effective tax rate | 40.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (Adjustments) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Residence tax on a per capita basis | 0.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Differences from applicable tax rates for overseas subsidiaries | -5.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special deduction of experiment and research expenses | -2.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Items permanently excluded from nontaxable expenses, including entertainment costs | 0.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Items permanently excluded from gross revenue including dividends received | -0.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Use of net loss carried forward for tax reasons | -25.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Increase (decrease) in valuation reserve | 1.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | 2.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actual effective tax rate after applying tax effect accounting | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(Business Combination)

Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010)

Not applicable.

Consolidated fiscal year under review (From April 1, 2010 to March 31, 2011)

Not applicable.

(Asset Retirement Obligations)

Consolidated fiscal year under review (As of March 31, 2011)

Not stated because of the insignificant amount in the fiscal year under review.

(Segment Information)

Information by business segment

Previous consolidated fiscal year (From April 1, 2009 to March 31, 2010)

(Million yen)

| | Machine tool business | Specialized machines and other businesses | Total | Elimination or corporate | Consolidated |
|--|-----------------------|---|--------|--------------------------|--------------|
| I. Net sales and Operating income/loss | | | | | |
| Net sales | | | | | |
| (1) Net sales to external customers | 15,084 | 514 | 15,598 | — | 15,598 |
| (2) Intersegment net sales or transfer to other accounts | — | — | — | — | — |
| Total | 15,084 | 514 | 15,598 | — | 15,598 |
| Operating expenses | 15,082 | 430 | 15,513 | — | 15,513 |
| Operating income | 1 | 83 | 84 | — | 84 |
| II. Assets, depreciation and capital expenditures | | | | | |
| Assets | 22,643 | 1,112 | 23,756 | 7,391 | 31,147 |
| Depreciation | 633 | 116 | 750 | — | 750 |
| Capital expenditures | 381 | — | 381 | — | 381 |

(Note) 1. Business segments are based on product classifications.

2. Major products in each segment

- (1) Machine tool business: CNC high-precision automatic lathes, CNC high-precision cylindrical grinding machines, machining centers, rolling machines
- (2) Specialized machines and other segments: specialized machines, gauge blocks, roll dies and screw inserts

3. Change in the method of allocating operating expenses

There were no non-allocatable operating expenses included in elimination and corporate in the consolidated fiscal year under review.

Up to the previous fiscal year, expenses in connection with the General Affairs Division and other administration divisions at the Company's head office were included in elimination or corporate as non-allocatable expenses. However, to show earnings by segment more clearly, the Company is allocating operating expenses to each segment under reasonable allocation standards, considering the attributes of each expense, from the first quarter of the fiscal year under review.

In association with the change, operating expenses in the machine tool business and the specialized machines and other businesses rose 598 million yen and 21 million yen, respectively, and operating income in the segments declined by the same amounts.

4. Group assets included in elimination or corporate amounted to 7,391 million yen. Funds for managing surplus funds (cash, deposits and marketable securities) and assets in connection with administration divisions at the Company's head office accounted for a large portion of such assets.

5. Depreciation and amortization expenses and capital expenditures include depreciation for and an increase in long-term prepaid expenses.

Information by geographic segment

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

(Million yen)

| | Japan | China | Total | Elimination or corporate | Consolidated |
|--|--------|-------|--------|--------------------------|--------------|
| I. Net sales and Operating income/loss | | | | | |
| Net sales | | | | | |
| (1) Net sales to external customers | 12,062 | 3,536 | 15,598 | – | 15,598 |
| (2) Intersegment net sales or transfer to other accounts | 2,969 | 1,140 | 4,109 | (4,109) | – |
| Total | 15,031 | 4,676 | 19,708 | (4,109) | 15,598 |
| Operating expenses | 15,317 | 4,319 | 19,637 | (4,123) | 15,513 |
| Operating income (loss) | -286 | 357 | 71 | 13 | 84 |
| II. Assets | 22,527 | 5,413 | 27,941 | 3,205 | 31,147 |

(Note) 1. Regional classifications are based on the independence of operations in each region.

2. Change in the method of allocating operating expenses:

There were no non-allocatable operating expenses included in elimination or corporate in the consolidated fiscal year under review. Up to the previous fiscal year, expenses in connection with the General Affairs Division and other administration divisions at the Company's head office were included in elimination or corporate as non-allocatable expenses. However, as management by geographic segment has become more important, the Company is allocating operating expenses to each geographic segment under reasonable allocation standards from the first quarter of the fiscal year under review, considering the attributes of each expense, to show earnings by segment more clearly. With the change, operating expenses and the operating loss in Japan each increased 620 million yen.

3. Group assets included in elimination or corporate amounted to 7,391 million yen. Funds for managing surplus funds (cash, deposits and marketable securities) and assets in connection with administration divisions at the Company's head office accounted for a large portion of such assets.

Overseas net sales

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

(Million yen)

| | Asia | America | Europe | Total |
|---|--------|---------|--------|--------|
| I Overseas net sales | 10,234 | 638 | 378 | 11,251 |
| II Consolidated net sales | | | | 15,598 |
| III Ratio of overseas net sales to consolidated net sales (%) | 65.6 | 4.1 | 2.4 | 72.1 |

(Note) 1. National or regional classifications are based on geographic proximity.

2. Major countries or regions in each classification

- (1) Asia Taiwan, Thailand, Hong Kong, Singapore, China, South Korea, India and the Philippines
- (2) America The United States
- (3) Europe Germany, Switzerland, Italy and France

3. Overseas net sales refer to net sales achieved by the Company and its consolidated subsidiaries in countries or regions other than Japan.

Segment Information

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

1. Summary of reportable segments

The Company's reportable segments are its constituent units that disclose financial information separately. They fall under the scope of periodic reviews the Company's Board of Directors performs to determine the distribution of its management resources and to assess its operating results.

The Group manufactures and sells machine tools in Japan and abroad. The Group consists of geographic segments based on its manufacturing and sales organizations. The Company's reportable segments are Japan and China, which are the areas where Group companies are located.

2. Basis of calculating net sales, income or loss, assets, and other items by reportable segment

The accounting methods for the reportable segments are the same as those described in "Important Matters that Become Basis of Presenting Consolidated Financial Statements."

Segment income is based on operating income for each reportable segment.

Intersegment revenue and transfers are based on market prices.

3. Information relating to net sales, income and assets by reportable segment

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

(Million yen)

| | Reportable segment | | | Adjustment (Note) 1 (Note) 2 (Note) 3 | Consolidated financial statement amount (Note) 4 |
|--|--------------------|-------|--------|--|--|
| | Japan | China | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 12,062 | 3,536 | 15,598 | – | 15,598 |
| Intersegment net sales or transfers to other accounts | 2,969 | 1,140 | 4,109 | 4,109 | – |
| Total | 15,031 | 4,676 | 19,708 | -4,109 | 15,598 |
| Segment income | -286 | 357 | 71 | 13 | 84 |
| Segment assets | 22,527 | 5,413 | 27,941 | 3,205 | 31,147 |
| Other items | | | | | |
| Depreciation and amortization | 688 | 61 | 750 | 0 | 750 |
| Increases in tangible fixed assets and intangible fixed assets | 144 | 246 | 391 | -9 | 381 |

(Note) 1. "Adjustment" of segment income of 13 million yen is the elimination of unrealized income.

2. "Adjustment" of segment assets of 3,205 million yen includes Company-wide assets of 7,391 million yen and an effect of intersegment adjustments of minus 4,185 million yen.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

3. "Adjustment" of increases in tangible fixed assets and intangible fixed assets of minus 9 million yen is the effect of intersegment adjustments.

4. Segment income or loss is adjusted in accordance with operating income on the consolidated financial statements.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

(Million yen)

| | Reportable segment | | | Adjustment (Note) 1 (Note) 2 (Note) 3 | Consolidated financial statement amount (Note) 4 |
|--|--------------------|-------|--------|--|--|
| | Japan | China | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 28,438 | 7,494 | 35,932 | - | 35,932 |
| Intersegment net sales or transfers to other accounts | 6,927 | 2,438 | 9,365 | -9,365 | - |
| Total | 35,366 | 9,932 | 45,298 | -9,365 | 35,932 |
| Segment income | 2,882 | 902 | 3,784 | -52 | 3,732 |
| Segment assets | 24,175 | 6,918 | 31,093 | 4,766 | 35,860 |
| Other items | | | | | |
| Depreciation and amortization | 643 | 95 | 738 | 0 | 738 |
| Increases in tangible fixed assets and intangible fixed assets | 425 | 742 | 1,167 | -43 | 1,124 |

(Note) 1. "Adjustment" of segment income of minus 52 million yen is the elimination of unrealized income.

2. "Adjustment" of segment assets of 4,766 million yen includes Company-wide assets of 8,592 million yen and an effect of intersegment adjustments of minus 3,826 million yen.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

3. "Adjustment" of increases in tangible fixed assets and intangible fixed assets of minus 43 million yen is the effect of intersegment adjustments.

4. Segment income is adjusted in accordance with operating income on the consolidated financial statements.

Related information

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

1. Information by product and service

Not stated because sales of machine tools to external customers exceeded 90% of net sales on the consolidated statements of income.

2. Information by area

(1) Net sales

Not stated because similar information is stated in the segment information.

(2)

3. Information by major customer

| Name | Net Sales | Related Business Segment |
|--------------------|-----------|--------------------------|
| Keiaisha Co., Ltd. | 4,544 | Japan |

Information on impairment loss on fixed assets by reportable segment

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

No corresponding item existed

Information on the amortization of goodwill and unamortized balance by reportable segment

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

No corresponding item existed

Information on gain on negative goodwill by reportable segment

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

No corresponding item existed

(Additional information)

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

The Group began applying the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 on March 27, 2009) and the Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20 on March 21, 2008) to its accounting treatment in the fiscal year under review.

(Related party information)

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

Transaction with directors and major shareholders

| Class | Name | Capital or investments | Business or job | Ownership of voting rights in percentage | Relationship with the party | Transactions | Transaction amount (million yen) | Account | Balance at end of year (million yen) |
|----------|---------------|------------------------|--|---|---|---------------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| Director | Kunimasa Ohta | - | Statutory auditor of the Company Representative Director of Tokyo Seimitsu Co., Ltd. | (Owning) Direct: 2.50% (Owned) Direct: 6.75% | Sales of the Company's products and purchase of Tokyo Seimitsu's products | Sales of the Company's products | 3 | | |
| | | | | | | Purchase of Tokyo Seimitsu's products | 29 | Trade notes and accounts payable | 17 |
| | | | | | | Underwriting of newly issued shares | 999 | | |

(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.

Underwriting of newly issued shares means the Company underwriting all 968,000 shares for ¥1,033 per share in a capital increase through private placement by Tokyo Seimitsu Co., Ltd. on December 3, 2009. The underwriting price was determined based on the average closing price (¥1,135) on the Tokyo Stock Exchange during a month until the day before the day of the resolution for the capital increase at the Board of Directors meeting.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

Transaction with directors and major shareholders

| Class | Name | Capital or investments | Business or job | Ownership of voting rights in percentage | Relationship with the party | Transactions | Transaction amount (million yen) | Account | Balance at end of year (million yen) |
|----------|----------------|------------------------|--|---|---|---|----------------------------------|-------------------------------------|--------------------------------------|
| Director | Nakagawa Takeo | - | Director of Company, CEO of Fine Tech Corporation | - | Sales of the Company's product and purchase of Fine Tech's products | Sales of the Company's products | 43 | Trade notes and accounts receivable | 43 |
| Director | Kunimasa Ohta | - | Statutory auditor of the Company Representative Director of Tokyo Seimitsu Co., Ltd. | (Owning) Direct: 2.50% (Owned) Direct: 7.01% | Sales of the Company's products and purchase of Tokyo Seimitsu's products | Sales of the Company's products | 5 | Trade notes and accounts receivable | 0 |
| | | | | | | Purchase of Tokyo Seimitsu's products | 75 | Trade notes and accounts payable | 38 |
| | | | | | | Purchase of Tokyo Seimitsu's fixed assets | 9 | Accounts payable | 5 |

(Note) 1. The transaction values stated above do not include consumption taxes. Meanwhile, year-end balances presented above include such taxes.

2. Transaction terms and the policy for their decision, etc.

Terms for the sales of the Company's products, purchases of Tokyo Seimitsu Co., Ltd.'s products, Fine Tech Corporation's products and the like are decided on the basis of market value.

(Per Share Information)

| Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) | |
|--|------------|---|------------|
| Net assets per share | 294.29 yen | Net assets per share | 331.39 yen |
| Net loss per share | -3.65 yen | Net income per share | 42.72 yen |
| Net income per share after residual equity adjustment is not stated in spite of the presence of residual equity, because of the net loss per share posted. | | Net income per share after residual equity adjustment | 41.89 yen |

(Note) The table below shows the foundations for the calculation of the net income or loss per share and net income per share after residual equity adjustment.

| | Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010) | Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|--|--|
| Net income/loss per share | | |
| Net income/loss (million yen) | -244 | 2,837 |
| Net income that does not belong to common shareholders (million yen) | - | - |
| Net income/loss on common shares (million yen) | -244 | 2,837 |
| Average number of shares during the period (thousand shares) | 67,020 | 66,431 |
| Net income per share after residual equity adjustment | | |
| Adjustment in net income (million yen) | - | - |
| Increase in common shares (thousand shares) | - | 2,009 |
| (Stock option) (thousand shares) | (-) | (2,009) |
| Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect | | Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 18, 2010 (Number of shares: 350,000) |

(Important Post-Balance Sheet Events)

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

Resolution on stock option

The submitting company resolved to issue subscription rights to shares at the 107th annual shareholders meeting held on June 18, 2010.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 10. Stock options based on a resolution at the annual shareholders meeting held on June 18, 2010.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

Resolution on stock option

The submitting company resolved to issue subscription rights to shares at the 108th annual shareholders meeting held on June 17, 2011.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 12. Stock options based on a resolution at the annual shareholders meeting held on June 17, 2011.

(v) Consolidated supplementary schedule

Schedule of bonds

| Corporate name | Issue | Issue date | Balance at end of previous fiscal year (million yen) | Balance at end of fiscal year under review (million yen) | Interest rate (%) | Collateral | Maturity period |
|---------------------|------------------------------------|-------------------|--|--|-------------------|------------|-------------------|
| Tsugami Corporation | First unsecured bond Notes 1 and 2 | December 29, 2008 | 1,200 (300) | 900 (300) | 0.98 | None | December 27, 2013 |
| Total | — | — | 1,200 (300) | 900 (300) | — | — | — |

(Note) 1. Numbers in parentheses are redemption amounts scheduled within a year.

2. The table below shows scheduled redemption amounts in the five years after the consolidated closing date.

(Million yen)

| Within a year | More than 1 year, within 2 years | More than 2 years, within 3 years | More than 3 years, within 4 years | More than 4 years, within 5 years |
|---------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| 300 | 300 | 300 | — | — |

Schedule of borrowings

| Classification | Balance at end of previous fiscal year (million yen) | Balance at end of fiscal year under review (million yen) | Average interest rate (%) | Repayment term |
|--|--|--|---------------------------|-------------------|
| Short-term borrowings | 1,008 | 2,089 | 2.48 | — |
| Lease obligations to be repaid within a year | 9 | 9 | — | — |
| Lease obligations (excluding those to be repaid within a year) | 31 | 22 | — | From 2012 to 2015 |
| Total | 1,050 | 2,121 | — | — |

(Note) 1. The average interest rate is the weighted average rate for the borrowings at the end of the term.

2. The average interest rate of lease obligations is omitted, since lease obligations before the subtraction of the equivalent of interest included in total lease fees are posted in the consolidated balance sheets.

3. The table below shows scheduled repayments of lease obligations (excluding those to be repaid within a year) with five years of the consolidated closing date.

(Million yen)

| | More than 1 year, within 2 years | More than 2 years, within 3 years | More than 3 years, within 4 years | More than 4 years, within 5 years |
|-------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Lease obligations | 9 | 8 | 4 | — |

Schedule of asset retirement obligations

Not stated under the provision of Article 92-2 of the Regulations for Consolidated Financial Statements, since asset retirement obligations are a hundredth or less of the sum of liabilities and net assets at the end of the fiscal year under review.

(2) Other

Quarterly information for the fiscal year under review

| | First quarter From April 1, 2010 to June 30, 2010 | Second quarter From July 1, 2010 to September 30, 2010 | Third quarter From October 1, 2010 to December 31, 2010 | Fourth quarter From January 1, 2011 to March 31, 2011 |
|---|---|--|---|---|
| Net sales (million yen) | 9,264 | 11,001 | 8,145 | 7,521 |
| Income before taxes and other adjustments (million yen) | 868 | 1,321 | 688 | 366 |
| Net income (million yen) | 871 | 1,167 | 507 | 290 |
| Net income per share (yen) | 13.04 | 17.54 | 7.66 | 4.40 |

2. Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

(i) Non-consolidated balance sheets

(Million yen)

| | Figures at the end of the previous fiscal year (As of March 31, 2010) | Figures at the end of the fiscal year under review (As of March 31, 2011) |
|-------------------------------------|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,145 | 3,491 |
| Trade notes receivable | *1 166 | *1 235 |
| Accounts receivable | *1 7,066 | *1 8,172 |
| Products and other commodities | 984 | 1,926 |
| Goods in process | 4,563 | 4,796 |
| Raw materials and supplies | 1,658 | 1,790 |
| Prepaid expenses | 61 | 36 |
| Short-term loans to affiliates | 573 | 952 |
| Deferred tax assets | 135 | 262 |
| Advance paid | 14 | 13 |
| Accounts due | 269 | 611 |
| Other current assets | 115 | 16 |
| Allowance for doubtful accounts | -61 | -82 |
| Total current assets | 18,691 | 22,224 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | 6,652 | 6,662 |
| Accumulated depreciation | -3,455 | -3,638 |
| Buildings (net) | 3,197 | 3,023 |
| Structures | 477 | 479 |
| Accumulated depreciation | -348 | -370 |
| Structures (net) | 128 | 109 |
| Machinery and equipment | 8,235 | 7,693 |
| Accumulated depreciation | -7,084 | -6,772 |
| Machinery, equipment (net) | 1,151 | 921 |
| Vehicles | 51 | 53 |
| Accumulated depreciation | -42 | -46 |
| Vehicles (net) | 8 | 6 |
| Tools, furniture and fixtures | 749 | 914 |
| Accumulated depreciation | -589 | -688 |
| Tools, furniture and fixtures (net) | 159 | 225 |
| Land | 591 | 591 |
| Leased assets | 31 | 31 |
| Accumulated depreciation | -8 | -14 |
| Leased assets (net) | 22 | 17 |
| Total tangible fixed assets | 5,260 | 4,895 |
| Intangible fixed assets | | |
| Software | 11 | 87 |
| Telephone subscription rights | 10 | 10 |
| Leased assets | 16 | 13 |
| Total intangible fixed assets | 38 | 110 |

(Million yen)

| | Figures at the end of the previous fiscal year (As of March 31, 2010) | Figures at the end of the fiscal year under review (As of March 31, 2011) |
|--|---|---|
| Investments and other assets | | |
| Investment securities | 4,267 | 4,911 |
| Shares in affiliates | 136 | 136 |
| Investments in affiliates | 1,209 | 1,722 |
| Long-term loans to employees | 2 | 1 |
| Long-term prepaid expenses | 2 | 2 |
| Other intangible fixed assets | 137 | 67 |
| Total investments and other assets | 5,755 | 6,842 |
| Total fixed assets | 11,054 | 11,848 |
| Deferred assets | | |
| Bond issuance expenses | 25 | 18 |
| Total deferred assets | 25 | 18 |
| Total assets | 29,771 | 34,091 |
| Liabilities | | |
| Current liabilities | | |
| Trade notes payable | 5,004 | 6,214 |
| Trade accounts payable | *1 1,849 | *1 1,657 |
| Short-term borrowings | 300 | 1,500 |
| Corporate bonds due for redemption within one year | 300 | 300 |
| Lease obligations | 9 | 9 |
| Accounts payable | 351 | 375 |
| Accrued expenses payable | 187 | 210 |
| Accrued income tax | 44 | 324 |
| Advance received | 32 | 49 |
| Deposits received | 71 | 38 |
| Reserve for bonus payment | 171 | 215 |
| Trade notes payable related to facilities | 67 | 6 |
| Reserve for product warranties | 53 | 93 |
| Other current liabilities | 110 | 23 |
| Total current liabilities | 8,552 | 11,019 |
| Long-term liabilities | | |
| Corporate bonds | 900 | 600 |
| Lease obligations | 31 | 22 |
| Deferred tax liabilities | 77 | 361 |
| Reserve for retirement benefits | 829 | 785 |
| Deposits received for guarantee | 14 | 14 |
| Other long-term liabilities | 46 | 46 |
| Total long-term liabilities | 1,899 | 1,829 |
| Total liabilities | 10,451 | 12,849 |

(Million yen)

| | Figures at the end of the previous fiscal year (As of March 31, 2010) | Figures at the end of the fiscal year under review (As of March 31, 2011) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 10,599 | 10,599 |
| Capital surplus | | |
| Capital legal reserve | 4,138 | 4,138 |
| Other capital surplus | 12 | 18 |
| Total capital surplus | 4,151 | 4,157 |
| Retained earnings | | |
| Other retained earnings | | |
| Deferred retained earnings | 4,207 | 5,967 |
| Total retained earnings | 4,207 | 5,967 |
| Treasury stock | -207 | -771 |
| Total shareholders' equity | 18,750 | 19,952 |
| Valuation and translation adjustments | | |
| Unrealized gains on marketable securities | 463 | 993 |
| Deferred gains (losses) on hedges | -99 | 5 |
| Total valuation and translation adjustments | 364 | 998 |
| Subscription rights to shares | 204 | 290 |
| Total net assets | 19,319 | 21,241 |
| Total liabilities and net assets | 29,771 | 34,091 |

(ii) Non-consolidated statements of income

(Million yen)

| | Previous fiscal year (From April 1, 2009 to March 31, 2010) | Fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Net sales | | |
| Net sales of goods | 1,046 | *4 1,807 |
| Net sales of finished goods | *4 13,772 | *4 33,339 |
| Total net sales | 14,818 | 35,146 |
| Cost of sales | | |
| Cost of goods sold | | |
| Beginning inventories | 1 | 28 |
| Cost of purchased goods | 893 | 1,358 |
| Total | 895 | 1,387 |
| Ending inventories | 28 | 10 |
| Cost of goods sold | 866 | 1,377 |
| Cost of finished goods sold | | |
| Beginning finished goods | 1,020 | 955 |
| Cost of products manufactured | 11,592 | 28,815 |
| Total | 12,613 | 29,771 |
| Ending finished goods | 955 | 1,916 |
| Transfer to other account | *1 4 | *1 10 |
| Cost of finished goods sold | *2 11,652 | *2 27,844 |
| Total cost of sales | 12,519 | 29,221 |
| Gross profit | 2,299 | 5,925 |
| Selling, general and administrative expenses | | |
| Packing and transportation expenses | 49 | 96 |
| Advertising expenses | 146 | 192 |
| Salaries for directors | 137 | 203 |
| Salaries and allowances | 493 | 636 |
| Provision for reserve for bonus payment | 26 | 38 |
| Retirement benefit expenses | 100 | 68 |
| Rent paid | 76 | 70 |
| Traveling expenses | 115 | 139 |
| Insurance premiums | 79 | 96 |
| Research and development expenses | *3 754 | *3 752 |
| Depreciation and amortization expenses | 17 | 17 |
| Provision for allowance for doubtful accounts | 28 | 68 |
| Provision for reserve for product warranties | 53 | 93 |
| Other selling, general and administrative expenses | 585 | 718 |
| Total selling, general and administrative expenses | 2,664 | 3,193 |
| Operating income/loss | -365 | 2,732 |

Million yen)

| | Previous fiscal year (From April 1, 2009 to March 31, 2010) | Fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Non-operating income | | |
| Interest received | 0 | 11 |
| Dividends received | *4 106 | *4 213 |
| Rent received | *4 11 | *4 12 |
| Insurance benefits received | 41 | 43 |
| Subsidy income | 119 | — |
| Other non-operating income | 119 | 41 |
| Total non-operating income | 399 | 322 |
| Non-operating expenses | | |
| Interest paid | 8 | 7 |
| Interest on bonds | 13 | 10 |
| Leased asset expenses | 9 | 10 |
| Foreign exchange losses | — | 73 |
| Amortization of bond issuance cost | 6 | 6 |
| Sales discount | 10 | 2 |
| Loss on sales of trade notes | 40 | 45 |
| Dormant expenses | *5 310 | — |
| Other non-operating expenses | 28 | 29 |
| Total non-operating expenses | 426 | 187 |
| Ordinary income | -393 | 2,867 |
| Extraordinary income | | |
| Gain on sales of fixed assets | *6 1 | *6 46 |
| Gain on sales of investment securities | — | 5 |
| Total extraordinary income | 1 | 52 |
| Extraordinary expenses | | |
| Loss on retirement of fixed assets | 0 | *7 1 |
| Loss on sales of fixed assets | — | *8 4 |
| Loss on devaluation of investment securities | — | 179 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | — | 11 |
| Settlement Package | — | 60 |
| Other extraordinary expenses | — | 1 |
| Total extraordinary expenses | 0 | 258 |
| Income/loss before taxes and other adjustments | -392 | 2,661 |
| Corporate, inhabitant and enterprise taxes | 19 | 347 |
| Income taxes for prior periods | 17 | — |
| Deferred taxes | -21 | -113 |
| Total corporate and other taxes | 16 | 234 |
| Net income/loss | -408 | 2,426 |

Schedule of cost of products manufactured

(Million yen)

| Classification | | Previous fiscal year (From April 1, 2009 to March 31, 2010) | | Fiscal year under review (From April 1, 2010 to March 31, 2011) | |
|----------------|---|---|------------------------|---|------------------------|
| | | Amount | Component ratio (%) | Amount | Component ratio (%) |
| I | Material cost | 8,158 | 65.2 | 21,744 | 72.4 |
| II | Labor cost | 2,141 | 17.1 | 3,105 | 10.4 |
| III | Expenses | 2,218 | 17.7 | 5,153 | 17.2 |
| | (Depreciation and amortization expenses) | (578) | | (598) | |
| | (Amount paid to subcontractors) | (616) | | (2,645) | |
| | Total production costs | 12,518 | 100.0 | 30,004 | 100.0 |
| | Beginning work in process | 4,605 | | 4,563 | |
| | Total | 17,124 | | 34,567 | |
| | Ending work in process | 4,563 | | 4,796 | |
| | Transfer to other account | *1 968 | | 955 | |
| | Cost of products manufactured | 11,592 | | 28,815 | |

(Million yen)

| Previous fiscal year (From April 1, 2009 to March 31, 2010) | Fiscal year under review (From April 1, 2010 to March 31, 2011) |
|---|--|
| Cost accounting method Real cost accounting is applied. Job order cost accounting is applied to machine tools and measurement instruments, and process costing is applied to prototypes and tools. Part of planned processing cost is calculated. The difference between the planned cost and actual cost is allocated to inventories and the cost of sales. | Cost accounting method Same as at left |
| *1. Transfer to other account | *1. Transfer to other account |
| To fixed assets 41 | To fixed assets 151 |
| To selling, general and administrative expenses 921 | To selling, general and administrative expenses 802 |
| Other 4 | Other 1 |
| 968 | 955 |

(iii) Non-consolidated statements of changes in net assets

(Million yen)

| | Previous fiscal year (From April 1, 2009 to March 31, 2010) | Fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Shareholders' equity | | |
| Common stock | | |
| Balance at end of previous fiscal year | 10,599 | 10,599 |
| Change during the fiscal year | | |
| Total change during the fiscal year | — | — |
| Balance at end of the fiscal year | 10,599 | 10,599 |
| Capital surplus | | |
| Capital legal reserve | | |
| Balance at end of previous fiscal year | 4,138 | 4,138 |
| Change during the fiscal year | | |
| Total change during the fiscal year | — | — |
| Balance at end of the fiscal year | 4,138 | 4,138 |
| Other capital surplus | | |
| Balance at end of previous fiscal year | — | 12 |
| Change during the fiscal year | | |
| Disposal of treasury stock | 12 | 6 |
| Total change during the fiscal year | 12 | 6 |
| Balance at end of the fiscal year | 12 | 18 |
| Total capital surplus | | |
| Balance at end of previous fiscal year | 4,138 | 4,151 |
| Change during the fiscal year | | |
| Disposal of treasury stock | 12 | 6 |
| Total change during the fiscal year | 12 | 6 |
| Balance at end of the fiscal year | 4,151 | 4,157 |
| Retained earnings | | |
| Other retained earnings | | |
| Deferred retained earnings | | |
| Balance at end of previous fiscal year | 4,954 | 4,207 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -408 | 2,426 |
| Total change during the fiscal year | -746 | 1,759 |
| Balance at end of the fiscal year | 4,207 | 5,967 |
| Treasury stock | | |
| Balance at end of previous fiscal year | -92 | -207 |
| Change during the fiscal year | | |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 16 | 27 |
| Total change during the fiscal year | -115 | -564 |
| Balance at end of the fiscal year | -207 | -771 |

(Million yen)

| | Previous fiscal year (From April 1, 2009 to March 31, 2010) | Fiscal year under review (From April 1, 2010 to March 31, 2011) |
|--|---|---|
| Total shareholders' equity | | |
| Balance at end of previous fiscal year | 19,599 | 18,750 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -408 | 2,426 |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 29 | 33 |
| Total change during the fiscal year | -848 | 1,201 |
| Balance at end of the fiscal year | 18,750 | 19,952 |
| Valuation and translation adjustments | | |
| Unrealized gains on marketable securities | | |
| Balance at end of previous fiscal year | -508 | 463 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 971 | 529 |
| Total change during the fiscal year | 971 | 529 |
| Balance at end of the fiscal year | 463 | 993 |
| Deferred gains (losses) on hedges | | |
| Balance at end of previous fiscal year | — | -99 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | -99 | 104 |
| Total change during the fiscal year | -99 | 104 |
| Balance at end of the fiscal year | -99 | 5 |
| Total valuation and translation adjustments | | |
| Balance at end of previous fiscal year | -508 | 364 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 872 | 634 |
| Total change during the fiscal year | 872 | 634 |
| Balance at end of the fiscal year | 364 | 998 |
| Subscription rights to shares | | |
| Balance at end of previous fiscal year | 187 | 204 |
| Change during the fiscal year | | |
| Changes in items other than shareholders' equity during the fiscal year (net) | 17 | 86 |
| Total change during the fiscal year | 17 | 86 |
| Balance at end of the fiscal year | 204 | 290 |
| Total net assets | | |
| Balance at end of previous fiscal year | 19,277 | 19,319 |
| Change during the fiscal year | | |
| Cash dividends paid | -337 | -666 |
| Net income/loss | -408 | 2,426 |
| Purchase of treasury stock | -131 | -591 |
| Disposal of treasury stock | 29 | 33 |
| Changes in items other than shareholders' equity during the fiscal year (net) | 890 | 720 |
| Total change during the fiscal year | 41 | 1,922 |
| Balance at end of the fiscal year | 19,319 | 21,241 |

Significant accounting policies

| Item | Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|--|--|
| 1. Valuation standards for securities | <p>(1) Stocks of subsidiaries and affiliates Cost accounting method using the moving average method</p> <p>(2) 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</p> | <p>(1) Stocks of subsidiaries and affiliates Same as at left</p> <p>(2) Other securities Securities with fair market value: Same as at left</p> <p>Securities without fair market value: Same as at left</p> |
| 2. Valuation standard and method for derivatives | <p>Derivatives Market value method</p> | <p>Derivatives Same as at left</p> |
| 3. Valuation standard and method for inventories | <p>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.).</p> | <p>Same as at left</p> |
| 4. Depreciation method for fixed assets | <p>(1) 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: 15-38 years Machinery and equipment: 9 years Tools, furniture and fixtures: 5 years</p> <p>(2) Intangible fixed assets (excluding leased assets) Intangible fixed assets are amortized using the straight-line method. However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.</p> <p>(3) Leased assets 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.</p> <p>(4) Long-term prepaid expenses This is computed using the straight-line method.</p> | <p>(1) Property, plant and equipment (excluding leased assets) Same as at left</p> <p>(2) Intangible fixed assets (excluding leased assets) Same as at left</p> <p>(3) Leased assets Same as at left</p> <p>(4) Long-term prepaid expenses Same as at left</p> |
| 5. Accounting standards for major deferred assets | <p>Expenses for issuing corporate bonds This is amortized using the straight-line method during the period required for maturity of corporate bonds (five years).</p> | <p>Expenses for issuing corporate bonds Same as at left</p> |

| Item | Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|--|--|
| 6. Accounting standards for allowances | <p>(1) 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 collectability of certain doubtful accounts.</p> <p>(2) Allowance for employees' bonuses To provide for the payment of employees' bonuses, the Company provides accrued bonuses for employees based on the projected amount for the fiscal year.</p> <p>(3) Allowance for directors' bonuses To provide for the payment of director's bonuses, the Company accrues bonuses for directors based on the projected amount for the fiscal year.</p> <p>(4) 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.</p> <p>(5) Allowance for retirement benefits To prepare for the payment of employee retirement benefits, the Company provides accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at the fiscal year-end. 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 an average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.</p> <p>(Changes in accounting policies) Starting the fiscal year under review, the Company is applying the Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (Accounting Standards Board of Japan Statement No. 19 issued on July 31, 2008). The change did not affect the operating income, ordinary loss, and net loss before taxes and other adjustments.</p> <p>(Additional information) With the enforcement of the Defined-Benefit Corporation Pension Act, the Company changed its pension plan from a qualified pension plan to a defined-benefit corporate pension plan in January 2010. The effect of the change on the operating loss, ordinary loss, and net loss before taxes and other adjustments was minor.</p> | <p>(1) Allowance for doubtful accounts Same as at left</p> <p>(2) Allowance for employees' bonuses Same as at left</p> <p>(3) Allowance for directors' bonuses Same as at left</p> <p>(4) Allowance for product warranties Same as at left</p> <p>(5) Allowance for retirement benefits Same as at left</p> <p>_____</p> <p>_____</p> |

| Item | Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|---|---|
| 7. Hedge accounting method | <p>(i) Hedge accounting method Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where requirements for using the method were fulfilled.</p> <p>(ii) Hedging instruments and hedged items Hedge accounting was applied to the following hedging instrument and hedged item during the consolidated fiscal year under review. Hedging instrument: exchange contracts Hedged item: foreign currency receivables</p> <p>(iii) Hedging policy Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.</p> <p>(iv) Method of 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.</p> | <p>(i) Hedge accounting method Same as at left</p> <p>(ii) Hedging instruments and hedged items Same as at left</p> <p>(iii) Hedging policy Same as at left</p> <p>(iv) Method of assessing hedging effectiveness Same as at left</p> |
| 8. Other important matters 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. | Accounting method for consumption taxes Same as at left |

Changes in accounting practices

| Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|--|---|
| — | <p>(Application of the Accounting Standard for Asset Retirement Obligations)</p> <p>The Group began applying the “Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18 issued on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21 issued on March 31, 2008) in the consolidated fiscal year under review.</p> <p>The effect of the application on operating income, ordinary income, and income before taxes and other adjustments was minor.</p> |

Notes

(Non-Consolidated Balance Sheet)

(Million yen)

| Previous fiscal year (As of March 31, 2010) | | | Fiscal year under review (As of March 31, 2011) | | | | | | | | | | | | | | |
|---|----------------------|-----------------|--|----------------------|-----------------|---------------------------------------|-----|----------------|---|--|--|-------------------------------|----------------------|-----------------|---------------------------------------|-----|----------------|
| *1. Notes relating to subsidiaries and affiliates The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items: Trade notes receivable: 91 Trade accounts receivable: 3,164 Trade accounts payable: 139 | | | *1. Notes relating to subsidiaries and affiliates The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items: Trade notes receivable: 35 Trade accounts receivable: 3,275 Trade accounts payable: 79 | | | | | | | | | | | | | | |
| 2. Debt guarantee: The Company has provided a debt guarantee of borrowings from a financial institution for the affiliate shown below. | | | 2. Debt guarantee: The Company has provided a debt guarantee of borrowings from a financial institution for the affiliate shown below. | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th>Company obtaining a guarantee</th> <th>Amount (million yen)</th> <th>Guaranteed item</th> </tr> </thead> <tbody> <tr> <td>Precision Tsugami (China) Corporation</td> <td>708</td> <td>Borrowed money</td> </tr> </tbody> </table> | | | Company obtaining a guarantee | Amount (million yen) | Guaranteed item | Precision Tsugami (China) Corporation | 708 | Borrowed money | <table border="1"> <thead> <tr> <th>Company obtaining a guarantee</th> <th>Amount (million yen)</th> <th>Guaranteed item</th> </tr> </thead> <tbody> <tr> <td>Precision Tsugami (China) Corporation</td> <td>589</td> <td>Borrowed money</td> </tr> </tbody> </table> | | | Company obtaining a guarantee | Amount (million yen) | Guaranteed item | Precision Tsugami (China) Corporation | 589 | Borrowed money |
| Company obtaining a guarantee | Amount (million yen) | Guaranteed item | | | | | | | | | | | | | | | |
| Precision Tsugami (China) Corporation | 708 | Borrowed money | | | | | | | | | | | | | | | |
| Company obtaining a guarantee | Amount (million yen) | Guaranteed item | | | | | | | | | | | | | | | |
| Precision Tsugami (China) Corporation | 589 | Borrowed money | | | | | | | | | | | | | | | |
| 3. Amount of discount for bills receivable: 476 Amount of discount for export bills receivable: 831 | | | 3. Amount of discount for bills receivable: 526 Amount of discount for export bills receivable: 2,584 | | | | | | | | | | | | | | |
| 4. Amount of allowance for doubtful accounts that is directly deducted from the amount of assets Investments and other assets 181 | | | 4. Amount of allowance for doubtful accounts that is directly deducted from the amount of assets Investments and other assets 145 | | | | | | | | | | | | | | |

(Non-Consolidated Income Statement)

(Million yen)

| Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|---|
| *1. Transfer to other account To fixed assets 4 | *1. Transfer to other account To fixed assets 10 |
| *2. Inventories at the end of the term are the amount after a book-value write-down associated with the decline of profitability. The following loss on devaluation of inventories is included in the cost of sales: 68 | *2. Inventories at the end of the term are the amount after a book-value write-down associated with the decline of profitability. The following loss on devaluation of inventories is included in the cost of sales: 45 |
| *3. Total R&D expenses R&D expenses included in selling, general and administrative expenses and manufacturing cost for the term: 754 | *3. Total R&D expenses R&D expenses included in selling, general and administrative expenses and manufacturing cost for the term: 752 |
| *4. Dividends received and rent received in relation to transactions with subsidiaries and affiliates Net sales: 4,753 Dividends received: 80 Rent received: 7 | *4. Dividends received and rent received in relation to transactions with subsidiaries and affiliates Net sales: 10,423 Dividends received: 130 Rent received: 6 |
| *5. Dormant expense is expense related to idled operations in plants due to declining orders. The following is a breakdown of the expense: Labor costs: 233 Depreciation and amortization expenses: 70 Others: <u>6</u> Total 310 | 5. _____ |
| *6. Breakdown of gain on sale of fixed assets Machinery and equipment: 1 | *6. Breakdown of gain on sale of fixed assets Machinery and equipment: 46 Tools, furniture and fixtures <u>0</u> Total 46 |
| 7. _____ | *7. Breakdown of loss on retirement of fixed assets Machinery and equipment: 1 Tools, furniture and fixtures <u>0</u> Total 1 |
| 8. _____ | *8. Breakdown of loss on sale of fixed assets Machinery and equipment: 4 |

(Non-Consolidated Statements of Changes in Net Assets)

Previous fiscal year (From April 1, 2009 to March 31, 2010)

Matters relating to type and number of treasury stock

(Thousand shares)

| | Number of shares at the end of the previous fiscal year | Increase in shares in the fiscal year | Decrease in shares in the fiscal year | Number of shares at the end of the fiscal year |
|---------------|---|--|--|--|
| Common shares | 453 | 786 | 85 | 1,154 |
| Total | 453 | 786 | 85 | 1,154 |

(Note) 1. The increase in common shares of treasury stock of 786 thousand shares reflected an increase of 7 thousand shares due to the purchase of odd-lot shares, and the purchase of 779 thousand shares of treasury stock by the Company by resolution of the Board of Directors.

2. The decrease in treasury stock of 85 thousand shares was due to the exercise of stock options.

Fiscal year under review (From April 1, 2010 to March 31, 2011)

Matters relating to type and number of treasury stock

(Thousand shares)

| | Number of shares at the end of the previous 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 | 1,154 | 1,103 | 117 | 2,140 |
| Total | 1,154 | 1,103 | 117 | 2,140 |

(Note) 1. The increase in common shares of treasury stock of 1,103 thousand shares reflected an increase of 7 thousand shares due to the purchase of odd-lot shares, and the purchase of 1,096 thousand shares of treasury stock by the Company by resolution of the Board of Directors.

2. The decrease in treasury stock of 117 thousand shares was due to the exercise of stock options.

(Lease Transactions)

(Million yen)

| Previous fiscal year (from April 1, 2009 to March 31, 2010) | | | | Fiscal year under review (from April 1, 2010 to March 31, 2011) | | | |
|---|-----------------------------|-------------------------------------|--|---|-----------------------------|-------------------------------------|--|
| Finance lease transactions (lessee) | | | | Finance lease transactions (lessee) | | | |
| Finance lease transactions without the transfer of ownership | | | | Finance lease transactions without the transfer of ownership | | | |
| (i) Leased assets | | | | (i) Leased assets | | | |
| a. Tangible fixed assets | | | | a. Tangible fixed assets | | | |
| Primary tools, equipment and fixtures in the machine tool business and the specialized machines and other businesses | | | | Primary tools, furniture and fixtures business in Japan | | | |
| b. Intangible fixed assets | | | | b. Intangible fixed assets | | | |
| Software | | | | Software | | | |
| (ii) Depreciation and amortization methods for leased assets | | | | (ii) Depreciation and amortization methods for leased assets | | | |
| The methods described in Significant accounting policies, 4. | | | | Same as at left | | | |
| Depreciation method for fixed assets apply. | | | | Same as at left | | | |
| Of finance lease transactions without the transfer of ownership, the lease transactions whose start dates are before March 31, 2008, are accounted for by the method for ordinary lease transactions. Details of the transactions are as follows: | | | | | | | |
| (1) Acquisition cost equivalent, accumulated depreciation equivalent, and fiscal year-end outstanding balance equivalent of leased assets | | | | (1) Acquisition cost equivalent, accumulated depreciation equivalent, and fiscal year-end outstanding balance equivalent of leased assets | | | |
| | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent | | Acquisition cost equivalent | Accumulated depreciation equivalent | Fiscal year-end outstanding balance equivalent |
| Machinery and equipment | 7 | 5 | 1 | Machinery and equipment | — | — | — |
| Vehicles | 3 | 2 | 0 | Vehicles | 10 | 10 | 0 |
| Tools, furniture and fixtures | 21 | 17 | 4 | Tools, furniture and fixtures | 21 | 20 | 0 |
| Total | 32 | 25 | 6 | Total | 32 | 30 | 1 |
| Since the rate of unexpired lease fees at the end of the fiscal year to the tangible fixed assets at the end of the fiscal year is low, interest expense is included in the calculation of the acquisition cost equivalent. | | | | Same as at left | | | |
| (2) Equivalent of unexpired lease fees at end of fiscal year | | | | (2) Equivalent of unexpired lease fees at end of fiscal year | | | |
| Within a year | | | | Within a year | | | |
| Longer than a year | | | | Longer than a year | | | |
| Total | | | | Total | | | |
| Since the ratio of the unexpired lease fees at the end of the fiscal year to tangible fixed assets at the end of the fiscal year is low, interest expense is included in the calculation of the equivalent of unexpired lease fees at the end of the fiscal year. | | | | Same as at left | | | |
| (3) Lease fees paid and depreciation equivalent | | | | (3) Lease fees paid and depreciation equivalent | | | |
| Lease fees paid | | | | Lease fees paid | | | |
| Depreciation equivalent | | | | Depreciation equivalent | | | |
| (4) Method of calculating depreciation equivalent | | | | (4) Method of calculating depreciation equivalent | | | |
| The depreciation equivalent is calculated using the straight-line method over the lease terms as service lives, assuming no residual value. | | | | Same as at left | | | |

(Securities)

Previous consolidated fiscal year (from April 1, 2009 to March 31, 2010)

Shares in subsidiaries (whose balance sheet amount is 120 million yen) and shares in affiliates (whose balance sheet amount is 16 million yen) do not have any market prices, and determining their fair values is considered very difficult. They are therefore omitted.

Consolidated fiscal year under review (from April 1, 2010 to March 31, 2011)

Shares in subsidiaries (whose balance sheet amount is 120 million yen) and shares in affiliates (whose balance sheet amount is 16 million yen) do not have any market prices, and determining their fair values is considered very difficult. They are therefore omitted.

(Deferred Tax Accounting)

(Million yen)

| Previous fiscal year (As of March 31, 2010) | Fiscal year under review (As of March 31, 2011) |
|---|---|
| 1. Breakdown of deferred tax assets and deferred tax liabilities by major cause (Deferred tax assets) | 1. Breakdown of deferred tax assets and deferred tax liabilities by major cause (Deferred tax assets) |
| Allowance for doubtful accounts 99 | Allowance for doubtful accounts 92 |
| Reserve for bonus payment 69 | Reserve for bonus payment 87 |
| Reserve for retirement benefits 337 | Reserve for retirement benefits 319 |
| Reserve for product warranties 21 | Reserve for product warranties 38 |
| Loss on devaluation of investment securities 89 | Loss on devaluation of investment securities 144 |
| Loss on valuation of shares of subsidiaries and affiliates 9 | Loss on valuation of shares of subsidiaries and affiliates 9 |
| Loss on devaluation of inventories 68 | Loss on devaluation of inventories 67 |
| Impairment loss 48 | Impairment loss 48 |
| Accrued enterprise taxes 2 | Accrued enterprise taxes 15 |
| Stock-based compensation expense 64 | Stock-based compensation expense 85 |
| Net loss carried forward 766 | Other 57 |
| Other 41 | Deferred tax assets subtotal 967 |
| Deferred tax assets subtotal 1,619 | Valuation reserve -381 |
| Valuation reserve -1,147 | Deferred tax assets total 585 |
| Deferred tax assets total 472 | (Deferred tax liabilities) |
| (Deferred tax liabilities) | Unrealized gains on marketable securities -680 |
| Unrealized gains on marketable securities -414 | Other -3 |
| Deferred tax liabilities total -414 | Deferred tax liabilities total -683 |
| Net deferred tax assets 58 | Net deferred tax assets -98 |
| 2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause Since a net loss before taxes and other adjustments was posted in the fiscal year under review, notes are omitted. | 2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause |
| | Legally effective tax rate 40.7% |
| | (Adjustments) |
| | Residence tax on a per capita basis 0.7% |
| | Special deduction of experiment and research expenses -2.8% |
| | Items permanently excluded from nontaxable expenses, including entertainment costs 0.2% |
| | Items permanently excluded from gross revenue including dividends received -2.2% |
| | Use of net loss carried forward for tax reasons -30.7% |
| | Increase (decrease) in valuation reserve 2.2% |
| | Other 0.7% |
| | Actual effective tax rate after applying tax effect accounting 8.8% |

(Business Combination)

Previous fiscal year (From April 1, 2009 to March 31, 2010)

Not applicable.

Fiscal year under review (From April 1, 2010 to March 31, 2011)

Not applicable.

(Asset Retirement Obligations)

Consolidated fiscal year under review (As of March 31, 2011)

Not stated because of the insignificant amount in the fiscal year under review.

(Per Share Information)

| Previous fiscal year (from April 1, 2009 to March 31, 2010) | | Fiscal year under review (from April 1, 2010 to March 31, 2011) | |
|--|------------|--|------------|
| Net assets per share | 285.88 yen | Net assets per share | 318.02 yen |
| Net loss per share | 6.09 yen | Net income per share | 36.53 yen |
| Net income per share after residual equity adjustment is not stated in spite of the presence of residual equity, because of the net loss per share posted. | | Net income per share after residual equity adjustment | 35.82 yen |

(Note) The table below shows the foundations for the calculation of the net income or loss per share and net income per share after residual equity adjustment.

| | Previous fiscal year (from April 1, 2009 to March 31, 2010) | Fiscal year under review (from April 1, 2010 to March 31, 2011) |
|---|---|---|
| Net income/loss per share | | |
| Net income/loss (million yen) | -408 | 2,426 |
| Net income that does not belong to common share holders (million yen) | — | — |
| Net income/loss on common shares (million yen) | -408 | 2,426 |
| Average number of shares during the period (thousand shares) | 67,020 | 66,431 |
| | | |
| Net income per share after residual equity adjustment | | |
| Adjustment in net income (million yen) | — | — |
| Increase in common shares (thousand shares) | — | 2,009 |
| (Stock option) (thousand shares) | (—) | (2,009) |
| Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect | — | Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 18, 2010 (Number of shares: 350,000) |

(Important Post-Balance Sheet Events)

Previous fiscal year (from April 1, 2009 to March 31, 2010)

Resolution on stock option

The submitting company resolved to issue subscription rights to shares at the 107th annual shareholders meeting held on June 18, 2010.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 10. Stock options based on a resolution at the annual shareholders meeting held on June 18, 2010.

Fiscal year under review (From April 1, 2010 to March 31, 2011)

Resolution on stock option

The submitting company resolved to issue subscription rights to shares at the 108th annual shareholders meeting held on June 17, 2011.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (9) Stock option system, 12. Stock options based on a resolution at the annual shareholders meeting held on June 17, 2011.

(iv) Supplementary schedule

Schedule of securities

Shares

| | | Issue | Number of shares | Carrying amount on the balance sheet (million yen) |
|-----------------------|------------------|--------------------------|------------------|--|
| Investment securities | Other securities | Tornos Holdings | 1,463,813 | 1,723 |
| | | Tokyo Seimitsu Co., Ltd. | 1,033,000 | 1,537 |
| | | Fanuc Ltd. | 50,000 | 629 |
| | | Yamazen Corporation | 500,000 | 242 |
| | | THK Co., Ltd. | 59,000 | 123 |
| | | Yuasa Trading Co., Ltd. | 1,000,000 | 105 |
| | | Mori Seiki Co., Ltd. | 100,000 | 98 |
| | | The Hachijuni Bank, Ltd. | 196,000 | 93 |
| | | The Hokuetsu Bank, Ltd. | 491,892 | 93 |
| | | The Daishi Bank, Ltd. | 241,000 | 66 |
| | | Others (13 issues) | 1,386,909 | 197 |
| | | Total | 6,521,614 | 4,911 |

Schedule of tangible fixed assets and other assets

(Million yen)

| | Assets at end of previous fiscal year | Increase in fiscal year under review | Decrease in fiscal year under review | Assets at end of fiscal year under review | Accumulated depreciation or amortization at end of fiscal year under review | Depreciation or amortization in fiscal year under review | Assets less accumulated depreciation at end of fiscal year under review |
|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---|---|--|---|
| Tangible fixed assets | | | | | | | |
| Buildings | 6,652 | 9 | — | 6,662 | 3,638 | 183 | 3,023 |
| Structures | 477 | 2 | — | 479 | 370 | 21 | 109 |
| Machinery and equipment | 8,235 | 149 | 691 | 7,693 | 6,772 | 303 | 921 |
| Vehicles | 51 | 1 | — | 53 | 46 | 3 | 6 |
| Tools, furniture and fixtures | 749 | 169 | 4 | 914 | 688 | 103 | 225 |
| Land | 591 | — | — | 591 | — | — | 591 |
| Leased assets | 31 | — | — | 31 | 14 | 5 | 17 |
| Construction in progress | — | 2 | 2 | — | — | — | — |
| Total tangible fixed assets | 16,789 | 335 | 698 | 16,426 | 11,531 | 621 | 4,895 |
| Intangible fixed assets | | | | | | | |
| Software | — | — | — | 109 | 21 | 14 | 87 |
| Telephone subscription rights | — | — | — | 10 | — | — | 10 |
| Leased assets | — | — | — | 17 | 4 | 3 | 13 |
| Total intangible fixed assets | — | — | — | 136 | 26 | 18 | 110 |
| Long-term prepaid expenses | 7 | — | — | 7 | 4 | 0 | (0) 2 |
| Deferred assets | | | | | | | |
| Bond issuance expenses | 33 | — | — | 33 | 15 | 6 | 18 |
| Total deferred assets | 33 | — | — | 33 | 15 | 6 | 18 |

(Note) 1. The following is major items that were added in the fiscal year under review: (Million yen)

| | | | |
|-------------------------------|-----------------|--|-----|
| Machinery and equipment | Nagaoka factory | Machine tool manufacturing equipment | 138 |
| Tools, furniture and fixtures | Nagaoka factory | Machine tool manufacturing tools, etc. | 152 |
| Tools, furniture and fixtures | Shinshu factory | Machine tool manufacturing tools, etc. | 5 |

2. The following is major items that were reduced in the fiscal year under review: (Million yen)

| | | | |
|-------------------------|-----------------|--------------------------|-----|
| Machinery and equipment | Nagaoka factory | Decrease from sale | 228 |
| Machinery and equipment | Nagaoka factory | Decrease from retirement | 97 |
| Machinery and equipment | Shinshu factory | Decrease from sale | 365 |

3. The figure in parentheses in the amount of long-term prepaid expenses at the end of the fiscal year under review column is the amount written off within a year, and is included in current assets and prepaid expenses.

4. Since the amount of intangible fixed assets was 1% or less of the total assets, the amount at the end of the preceding fiscal year, the increase during the fiscal year under review, and the decrease during the fiscal year under review are omitted.

Schedule of allowances

(Million yen)

| Classification | Assets at end of previous fiscal year | Increase in fiscal year under review | Decrease in fiscal year under review (used for the purpose) | Decrease in fiscal year under review (other reasons) | Assets at end of fiscal year under review |
|---------------------------------|---------------------------------------|--------------------------------------|---|--|---|
| Allowance for doubtful accounts | 243 | 228 | 106 | 136 | 228 |
| Reserve for product warranties | 171 | 215 | 171 | — | 215 |
| Reserve for bonus payment | 53 | 93 | 53 | — | 93 |

(Note) A decrease in allowance for doubtful accounts during the term under review of 136 million yen is a reversal of the reserve after revaluation.

Of the allowance for doubtful accounts at the end of the fiscal year under review, an allowance of doubtful accounts relating to investments and other assets of 145 million yen is directly reduced from assets.

(2) Details of major items in assets and liabilities

(i) Current assets

(A) Cash and deposits

| Classification | Amount (million yen) |
|--------------------------|----------------------|
| Cash | 6 |
| Deposits | |
| Current account | 3,153 |
| Ordinary account | 72 |
| Time deposit | 40 |
| Separate deposit | 22 |
| Foreign currency deposit | 197 |
| Subtotal | 3,485 |
| Total | 3,491 |

(B) Trade notes receivable

Breakdown by trading partner

| Partner | Amount (million yen) |
|------------------------------|----------------------|
| Tsugami Machinery Co., Ltd. | 47 |
| Taiyo Shokai Corporation | 43 |
| YAMAZEN CORPORATION | 36 |
| FUSO Machine Tools Co., Ltd. | 26 |
| SANSHO ENGINEERING Co., Ltd. | 12 |
| Others | 69 |
| Total | 235 |

Breakdown by due date

| Due date | Amount (million yen) |
|-------------|----------------------|
| April 2011 | 17 |
| May 2011 | 43 |
| June 2011 | 46 |
| July 2011 | 10 |
| August 2011 | 117 |
| Total | 235 |

(C) Trade accounts receivable

Breakdown by debtor

| Debtor | Amount (million yen) |
|---------------------------------------|----------------------|
| Precision Tsugami (China) Corporation | 2,591 |
| Keiaisha Co., Ltd. | 392 |
| Seiwa Engineering Co., Ltd. | 325 |
| TSUGAMI GmbH | 280 |
| Tsugami Machinery Co., Ltd. | 261 |
| Other | 4,320 |
| Total | 8,172 |

Occurrence, collection, and retention of trade accounts receivable

| Amount carried forward from previous term (million yen) | Amount accrued during the term under review (million yen) | Amount collected during the term under review (million yen) | Amount carried forward to following term (million yen) | Collection rate (%) | Retention period (days) |
|---|---|---|--|--------------------------------------|--|
| (A) | (B) | (C) | (D) | $\frac{(C)}{(A) + (B)} \times 100\%$ | $\frac{(A) + (D)}{2}$ $\frac{(B)}{365}$ |
| 7,066 | 36,001 | 34,895 | 8,172 | 81.0 | 77.2 |

(Note) The amount accrued during the term under review includes consumption tax.

(D) Commodities and products

| Type | Amount (million yen) |
|------------------------|----------------------|
| Commodities | |
| Machine tool parts | 10 |
| Products | |
| Machine tools | |
| Automatic lathes | 1,551 |
| Grinding machines | 139 |
| Machining centers | 125 |
| Rolling machines, etc. | 43 |
| Other | 56 |
| Total | 1,926 |

(E) Goods in process

| Type | Amount (million yen) |
|------------------------|----------------------|
| Machine tools | |
| Automatic lathes | 3,483 |
| Grinding machines | 546 |
| Machining centers | 422 |
| Rolling machines, etc. | 295 |
| Other | 48 |
| Total | 4,796 |

(F) Raw materials and supplies

| Type | Amount (million yen) |
|-----------------|----------------------|
| Raw materials | |
| Main materials | |
| Steel | 12 |
| Castings | 5 |
| Parts | |
| Purchased parts | 1,753 |
| Outside parts | 13 |
| Supplies | |
| Consumables | 6 |
| Total | 1,790 |

(G) Investments in affiliates

| Creditor | Amount (million yen) |
|---------------------------------------|----------------------|
| Precision Tsugami (China) Corporation | 1,495 |
| REM SALES LLC | 209 |
| TSUGAMBI GmbH | 9 |
| TSUGAMI KOREA CO., Ltd. | 8 |
| Total | 1,722 |

(ii) Current liabilities

(A) Trade notes payable

Breakdown by trading partner

| Creditor | Amount (million yen) |
|-----------------------|----------------------|
| Fanuc Ltd. | 1,309 |
| Kantoh, Ltd. | 289 |
| ALPSTOOL CO., LTD. | 190 |
| THK Co., Ltd. | 187 |
| Ikura Seiki Co., Ltd. | 180 |
| Other | 4,057 |
| Total | 6,214 |

Breakdown by due date

| Due date | Amount (million yen) |
|----------------|----------------------|
| April 2011 | 1,795 |
| May 2011 | 1,487 |
| June 2011 | 1,252 |
| July 2011 | 1,270 |
| August 2011 | 198 |
| September 2011 | 209 |
| Total | 6,214 |

(B) Trade accounts payable

| Creditor | Amount (million yen) |
|---------------------------------------|----------------------|
| Fanuc Ltd. | 387 |
| ALPSTOOL CO., LTD. | 76 |
| Ikura Seiki Co., Ltd. | 68 |
| Precision Tsugami (China) Corporation | 66 |
| THK Co., Ltd. | 52 |
| Other | 1,005 |
| Total | 1,657 |

(3) Other

Not applicable.

Section 6. Outline of Stock-Related Administration of Submitting Company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Annual shareholders meeting | In June |
| Record date | March 31 |
| Record dates for dividends | September 30 March 31 |
| Number of shares per unit | 1,000 shares |
| Fractional share repurchase Handling place | (Special purpose account) Securities Transfer Department, Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo |
| Administrator of shareholders' list | (Special purpose account) Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo |
| Contact place Repurchase fee | Amount specified separately that is equivalent to brokerage commissions for stock trading |
| Publication of announcements | Notices will be posted in electric format. However, notices will be published in the <i>Kanpou</i> (Government Newsletter) when it is impossible to make electric notification for unavoidable reasons. |
| Benefits to shareholders | None |

(Note) Under the Articles of Incorporation, holders of shares less than one unit do not have any rights other than the rights stipulated in each item of Paragraph 2 of Article 189 of the Company Law, the right to demand specified in Article 166, Paragraph 1 of the Company Law, and the right to receive allotments of shares for subscription and invitation to subscription in accordance with the number of shares owned by each shareholder.

Section 7. Reference Information on Submitting Company

1. Information on the parent company of the submitting company

The Company does not have any parent company stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

The Company has submitted the following documents from the beginning of the fiscal year under review to the date of submission of the annual securities report:

(1) Annual securities report, and its attached documents and confirmation documents

107th fiscal year (from April 1, 2009 to March 31, 2010) Submitted to the director general of the Kanto Finance Bureau on June 21, 2010

(2) Internal control report and its attached documents

Submitted to the director general of the Kanto Finance Bureau on June 21, 2010

(3) Quarterly reports and confirmation documents

1st quarter of the 108th fiscal year (from April 1, 2010 to June 30, 2010) Submitted to the director general of the Kanto Finance Bureau on August 12, 2010

2nd quarter of the 108th fiscal year (from July 1, 2010 to September 30, 2010) Submitted to the director general of the Kanto Finance Bureau on November 12, 2010

3rd quarter of the 108th fiscal year (from October 1, 2010 to December 31, 2010) Submitted to the director general of the Kanto Finance Bureau on February 10, 2011

(4) Extraordinary report

Submitted to the director general of the Kanto Finance Bureau on June 22, 2010

An extraordinary report under Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act, and Article 19, Paragraph 1 and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc.

Submitted to the director general of the Kanto Finance Bureau on June 22, 2010

An extraordinary report under Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act, and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc.

Submitted to the director general of the Kanto Finance Bureau on September 16, 2010

An extraordinary report under Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act, and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc.

(5) Reissued extraordinary report

Submitted to the director general of the Kanto Finance Bureau on July 7, 2010

A reissued report relating to the extraordinary report (Issuing of Subscription rights to shares) submitted on June 22, 2010

(6) Report on state of purchase of treasury stock

Reporting period (from June 1, 2010 to June 30, 2010) Submitted to Director General of Kanto Finance Bureau on July 14, 2010

Reporting period (from July 1, 2010 to July 31, 2010) Submitted to Director General of Kanto Finance Bureau on August 12, 2010

Reporting period (from August 1, 2010 to August 31, 2010) Submitted to Director General of Kanto Finance Bureau on September 13, 2010

Reporting period (from September 1, 2010 to September 30, 2010) Submitted to Director General of Kanto Finance Bureau on October 14, 2010

Reporting period (from October 1, 2010 to October 31, 2010) Submitted to Director General of Kanto Finance Bureau on November 12, 2010

Reporting period (from November 1, 2010 to November 30, 2010) Submitted to Director General of Kanto Finance Bureau on December 14, 2010

Reporting period (from December 1, 2010 to December 31, 2010) Submitted to Director General of Kanto Finance Bureau on

January 13, 2011

Reporting period (from January 1, 2011 to January 31, 2011) Submitted to Director General of Kanto Finance Bureau on February 14, 2011

Reporting period (from February 1, 2011 to February 28, 2011) Submitted to Director General of Kanto Finance Bureau on March 14, 2011

Reporting period (from March 1, 2011 to March 31, 2011) Submitted to Director General of Kanto Finance Bureau on April 14, 2011

Chapter 2. Information on the Guarantee Company of the Submitting Company

Not applicable.

Audit Report and Internal Control Audit Report of Independent Auditor

June 18, 2010

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability
Certified public accountant Michiaki Miyajima

Designated and engagement partner with limited liability
Certified public accountant Akira Igarashi

Designated and engagement partner with limited liability
Certified public accountant Naoki Nomoto

(Financial statements audit)

We have audited the consolidated financial statements—balance sheets, statements of income, statements of changes in net assets, statements of cash flows, and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2009 to March 31, 2010, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, the method by which they are applied, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsugami Corporation and subsidiaries as of March 31, 2010 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

(Internal control audit)

We have audited the internal control report of Tsugami Corporation as of March 31, 2010 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act. The development and operation of internal control over financial reporting and the preparation of an internal control report are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the internal control report based on our audit. The internal control over financial reporting might not be able to prevent or detect misstatements in financial reporting completely.

We conducted our internal control audit in accordance with auditing standards generally accepted in Japan concerning internal control over financial reporting. The standards for the audit of internal control over financial reporting require that we plan and perform the audit to obtain reasonable assurance about whether the internal control report is free of material misstatements. The internal control audit includes examining, on a test basis, the statements made by management about the scope of the assessment of internal control over financial reporting, assessment procedure, and assessment results, as well as evaluating the overall internal control report presentation. We believe that our internal control audit provide a reasonable basis for our opinion.

In our opinion, the internal control report in which Tsugami Corporation states that the internal control over financial reporting as of March 31, 2010 is valid presents fairly, in all material respects, the Company's evaluation of its internal control over financial reporting, in conformity with standards for assessment concerning internal control over financial reporting generally accepted in Japan.

The Company, the auditing corporation, and the engagement partners have no interests between them that should be stated under the provisions of the Certified Public Accountants Act.

1. The reports above are an electronic presentation of the original audit report. The Company (company submitting the annual securities report) keeps the original separately.
2. XBRL data are not included in the scope of consolidated financial statements.

Audit Report and Internal Control Audit Report of Independent Auditor

June 17, 2011

Board of Directors
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability
Certified public accountant Akira Igarashi

Designated and engagement partner with limited liability
Certified public accountant Naoki Nomoto

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Independent Auditor's Report

June 18, 2010

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2. XBRL data are not included in the scope of financial statements.

| | |
|----------------------------------|--|
| Document submitted | Internal Control Report |
| Applicable law clause | 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act |
| Destination | Director General of the Kanto Finance Bureau |
| Date of submission | June 20, 2011 |
| Corporate name | Tsugami Corporation |
| Name and title of representative | Takao Nishijima, Chairman and CEO |
| Name and title of CFO | Not applicable |
| Address of home office | 1-9-10, Horidome-cho, Nihonbashi, Chuo-ku, Tokyo |
| Place for public inspection | Tokyo Stock Exchange, Inc. (2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo) |

1. Basic Framework for Internal Controls Over Financial Reporting

Takao Nishijima, chairman and CEO of Tsugami Corporation, is responsible for the development and operation of internal controls over financial reporting for Tsugami Corporation and its consolidated subsidiaries (hereinafter “the Group”). He ensures the appropriateness and reliability of the financial reporting of the Group by developing and operating internal controls under the basic framework for internal controls stipulated in the report, “On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” (Business Accounting Council; February 15, 2007).

Internal controls have inherent limitations: They might not function effectively because of misjudgments, carelessness, or conspiracies on the part of those responsible, and might not necessarily respond to unexpected changes in environments inside and outside the organization and atypical transactions. Thus it does not always achieve its goal and might not prevent or detect misstatements in financial reporting completely.

2. Evaluation Scope, Base Date, and Procedure

Chairman and CEO Takao Nishijima evaluated the Group’s internal control over financial reporting as of March 31, 2011 in accordance with generally accepted evaluation standards.

The scope of evaluation was that necessary in terms of the significance of the effects on the reliability of the financial reporting of the Group.

Internal controls significantly affecting overall financial reporting (hereinafter “Company-Wide Internal Controls”) and business processes relating to book-closing and financial reporting deemed suitable for evaluation from a Company-wide perspective were evaluated at all business units. The chairman and CEO understood and analyzed all internal controls within the scope appropriately and undertook procedures including interviews with relevant staff and checks of records to evaluate the status of development and operation of internal controls and the effect of this status on internal controls relating to business processes.

To evaluate process-level controls, the chairman and CEO chose business units that accounted for about two-thirds of consolidated sales as significant business units, considering the significance of their quantitative and qualitative influence on financial reporting and based on the results of the evaluation of the Company-Wide Internal Controls. Business processes associated with accounts closely related to the business purpose of the Group—net sales, trade accounts receivable, and inventories—in significant business units were evaluated. In addition to the business processes, other business processes that had material influences on financial reporting were individually added to the scope of evaluation. Each business process in the scope of evaluation was analyzed, and the principal process-level controls that would significantly affect the reliability of financial reporting were chosen. The status of the development and operation of the main process-level controls was then evaluated through procedures including a perusal of related documents, questioning of appropriate internal control officers, observation of operations, and examination of records on the implementation of the internal controls.

3. Evaluation Results

As a result of the evaluation above, Chairman and CEO Takao Nishijima has determined that internal control over the financial reporting of the Group was effective as of March 31, 2011.

4. Additional Statement

There have been no subsequent events that significantly affect the evaluation of the effectiveness of internal control over financial reporting.

5. Special Comments

There are no special comments.