

Stock code: 6101  
May 28, 2012

To our shareholders,

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

### **Notice of the 109<sup>th</sup> Annual Shareholders Meeting**

You are cordially invited to attend the 109<sup>th</sup> Annual Shareholders Meeting of TSUGAMI CORPORATION (the “Company”), to be held as set forth below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing. Please review the attached reference materials and exercise your vote by indicating “for” or “against” for each agenda item listed on the enclosed proxy card, affix your seal and return it to us no later than 5:30 p.m. on Thursday, June 14, 2012.

#### **Meeting Details**

- 1. Date & Time** 10:00 am, Friday, June 15, 2012
- 2. Venue** Conference Room at the Company’s Nagaoka Factory at 1-1-1 Higashizao, Nagaoka-shi, Niigata Prefecture. (Please refer to the attached map.)

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

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

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Corporate Auditors for the 109<sup>th</sup> term, from April 1, 2011 to March 31, 2012, will be reported at the meeting.
2. The Non-Consolidated Financial Statements for the 109<sup>th</sup> term, from April 1, 2011 to March 31, 2012, will be reported at the meeting.

**Items to be resolved**

**Item 1:** Appointment of Nine Directors

**Item 2:** Appointment of One Reserve Statutory Auditor

**Item 3:** Revision of the Maximum Amount of Compensation for Directors

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

**Item 5:** Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

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If attending the meeting in person, please present the enclosed proxy card at the reception desk.

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

(Attachment)

## **Business Report**

(From April 1, 2011 to March 31, 2012)

### **I. Current Status of the Group**

#### **(1) Business Performance for the Fiscal Year Ended March 31, 2012**

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

During the consolidated fiscal year under review, production activities in Japan, which had declined after the Great East Japan Earthquake, began to recover. However, the economy continued to face a challenging situation, reflecting the prolonged strength of the yen, a slowdown in the Chinese economy, which had been supported exports from Japan, and the effect of economic instability in Europe and the United States.

In the machine tool industry, demand from abroad grew, especially from China and other emerging countries in Asia, and there were signs of a recovery in domestic demand. Nonetheless, future uncertainty remained given the persistent economic insecurity.

In this environment, Tsugami Corporation (the “Company”) and its affiliates (the “Group”) launched new products and raised the local content ratio, thereby reducing costs, to deal with the prolonged strength of the yen and make the Group’s products more price competitive. Meanwhile, the Group raised production at Chinese factories in preparation for entering the smartphone market, which took place in the third quarter. The market entry and orders for products for the reconstruction from the flood in Thailand contributed to sales in the late fourth quarter.

To increase the capacity of the Chinese factories and to secure funds for a strong balance sheet, the Group increased capital through a public offering and a third-party allotment in the fourth quarter.

Consolidated net sales for the fiscal year under review decreased 0.5% year on year, to 35,739 million yen.

Consolidated net sales in Japan increased 15.7% year on year, to 11,035 million yen. Consolidated exports decreased 6.4% year on year, to 24,703 million yen. The export ratio decreased from 73.4% for the previous fiscal year, to 69.1%.

Looking at net sales by model, consolidated net sales for flagship automatic lathes decreased 6.3% year on year, to 28,030 million yen. Consolidated net sales for grinding machines increased 27.7% year on year, to 2,932 million yen. Consolidated net sales for machining centers decreased 27.4% year on year, to 1,039 million yen. Consolidated net sales for rolling machines and specialized machines increased 85.2% year on year, to 2,989 million yen.

As a result of changes described above, consolidated operating income increased 9.5% year on year, to 4,086 million yen. Consolidated ordinary income increased 10.6% year on year, to 3,875 million yen and consolidated net income decreased 19.6% year on year, to 2,281 million yen for the fiscal year under review.

(ii) Capital Investments Activities

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

Nagaoka Factory	Additional installation of equipment for producing machine tools
Precision Tsugami (China) Corporation	Additional installation of equipment for producing machine tools

Total investments amounted to 1,571 million yen, funded through the Company's own reserve and funds by issuing new shares.

(iii) Financing Activities

The Company raised 3,491 million yen by issuing new shares during the fiscal year under review (6,000,000 shares by capital increase through public offering and 900,000 shares by capital increase through third-party allotment)

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

(Million yen)

Category	106 <sup>th</sup> term ended March 31, 2009	107 <sup>th</sup> term ended March 31, 2010	108 <sup>th</sup> term ended March 31, 2011	109 <sup>th</sup> term ended March 31, 2012
Net sales	22,687	15,598	35,932	35,739
Ordinary income (loss)	626	-117	3,504	3,875
Net income (loss)	-873	-244	2,837	2,281
Net income (loss) per share	-12.88 yen	-3.65 yen	42.72 yen	33.88 yen
Total assets	25,703	31,147	35,860	50,757
Net assets	19,718	19,882	22,122	27,717

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

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
Tsugami Machinery Co., Ltd.	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
Tsugami General Service Co., Ltd.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations
Tsugami Precision Co., Ltd.	10 million yen	100.0%	Manufacturing of measuring equipment and prototype standard
Precision Tsugami (China) Corporation	258 million yuan	100.0%	Manufacturing and sales of machine tools

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

(Challenges in the medium to long term)

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

(i) Introduction of new products targeting growth fields

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

(ii) Business strategies targeting growth regions

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

(iii) Management streamlining and customer satisfaction enhancement

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

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

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

#### **(5) Principal Businesses (as of March 31, 2012)**

Manufacturing and sale of precision machine tools and precision tools

#### **(6) Main Offices and Factories (as of March 31, 2012)**

(i) Tsugami Corporation

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

(ii) Subsidiaries

Name	Address
Tsugami Machinery Co., Ltd.	Kawasaki City, Kanagawa Prefecture
Tsugami General Service Co., Ltd.	Nagaoka City, Niigata Prefecture
Tsugami Precision Co., Ltd.	Chuo-ku, Tokyo
Precision Tsugami (China) Corporation	Zhejiang, China

**(7) Employees (as of March 31, 2012)****(i) Employees of the Tsugami Group**

Number of employees	Change from the end of the previous term
1,733 (179)	Up 834 (Down 13)

(Note) The number of employees consists of full-time workers excluding part-time and temporary workers. The annual average number of part-time and temporary workers is presented in brackets. The number of employees rose 834 from the end of the previous fiscal year because of a significant increase in production at PRECISION TSUGAMI (China) CORPORATION in the fiscal year under review.

**(ii) Employees of Tsugami Corporation**

Number of employees	Change from the end of the previous term	Average age	Average service years
475 (163)	Down 36 (Down 14)	42.9 years old	17.8 years

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

**(8) Principal Lenders (as of March 31, 2012)**

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	0 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600 million yen
The Hokuetsu Bank, Ltd	800 million yen
Sumitomo Mitsui Banking Corporation (China) Limited	202 million yen (15 million yuan)
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	202 million yen (15 million yuan)
Mizuho Corporate Bank (China), Ltd.	202 million yen (15 million yuan)

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

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

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

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

The Company has decided to pay an annual dividend of ¥10 per share, an interim dividend of ¥5, and a year-end dividend of ¥5, as planned in the fiscal year ended March 31, 2012.

The Company plans to pay an annual dividend of ¥12 per share, an interim dividend of ¥6 and a year-end dividend of ¥6, in the fiscal year ending March 31, 2013.

## II. Current Status of the Company

### (1) Shares (as of March 31, 2012)

(i) Number of authorized shares:	320,000,000
(ii) Number of shares outstanding:	74,919,379
(iii) Number of shareholders:	10,402
(iv) Major shareholders (top 10 shareholders)	

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	4,956	6.73
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	6.24
Morgan Stanley and Company LLC. (Standing agency: Morgan Stanley MUFG Securities Co., Ltd.)	3,188	4.33
The Master Trust Bank of Japan, Ltd. (trust account)	2,940	3.99
SSBT OD05 OMUNIBUS ACCOUNT- TREATY CLIENTS (Standing agency: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch)	2,348	3.19
Mori Seiki Co., Ltd.	2,200	2.99
The Dai-ichi Life Insurance Company, Limited	2,100	2.85
Goldman Sachs International (Standing agency: Goldman Sachs Japan Co., Ltd.)	2,023	2.75
Nomura International PLC account Japan Flow (Standing agency: Nomura Securities Co., Ltd.)	1,704	2.31
Sumitomo Mitsui Banking Corporation	1,516	2.06

- Notes
1. In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
  2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.50% of the stock).
  3. Although the Company holds 1,382 thousand shares of treasury stock, it is excluded from the list of major shareholders.

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

**(i) Subscription rights to shares held by directors (as of March 31, 2012)**

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of subscription rights to shares		71	22
Type and number of shares underlying subscription rights to shares		Common shares: 71,000 (1,000 shares per subscription rights to share)	Common shares: 22,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	608 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000	Number of holders: 1 Number of subscription rights to shares held: 22 Number of shares to be issued: 22,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		25	29
Type and number of shares underlying subscription rights to shares		Common shares: 25,000 (1,000 shares per subscription rights to share)	Common shares: 29,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 13 Number of shares to be issued: 13,000	Number of holders: 1 Number of subscription rights to shares held: 29 Number of shares to be issued: 29,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -



Date of relevant resolution		June 22, 2007	June 20, 2008
Number of subscription rights to shares		54	37
Type and number of shares underlying subscription rights to shares		Common shares: 54,000 (1,000 shares per subscription rights to share)	Common shares: 37,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	279 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 18 Number of shares to be issued: 18,000	Number of holders: 2 Number of subscription rights to shares held: 28 Number of shares to be issued: 28,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 20, 2008	June 19, 2009
Number of subscription rights to shares		43	298
Type and number of shares underlying subscription rights to shares		Common shares: 43,000 (1,000 shares per subscription rights to share)	Common shares: 298,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	225 yen per share
Exercise period		From July 8, 2008 to July 7, 2028	From July 7, 2011 to June 30, 2014
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Conditions are specified by resolutions of the Board of Directors of the Company and Subscription Rights to Shares Allocation Agreements between the Company and persons to receive subscription rights to shares based on the resolutions.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 5 Number of shares to be issued: 5,000	Number of holders: 2 Number of subscription rights to shares held: 80 Number of shares to be issued: 80,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 19, 2009		June 19, 2009	
Number of subscription rights to shares		93		87	
Type and number of shares underlying subscription rights to shares		Common shares: 93,000 (1,000 shares per subscription rights to share)		Common shares: 87,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		123 yen		Gratuitous	
Amount to be paid for the exercise of subscription rights to shares		One yen per share		One yen per share	
Exercise period		From July 7, 2009 to July 6, 2029		From July 7, 2009 to July 6, 2029	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 70 Number of shares to be issued: 70,000	Number of holders: 2 Number of subscription rights to shares held: 21 Number of shares to be issued: 21,000		
	Outside directors	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 16 Number of shares to be issued: 16,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		
Date of relevant resolution		June 18, 2010		June 18, 2010	
Number of subscription rights to shares		62		68	
Type and number of shares underlying subscription rights to shares		Common shares: 62,000 (1,000 shares per subscription rights to share)		Common shares: 68,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		532 yen		Gratuitous	
Amount to be paid for the exercise of subscription rights to shares		One yen per share		One yen per share	
Exercise period		From July 6, 2010 to July 5, 2030		From July 6, 2010 to July 5, 2030	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000		
	Outside directors	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		
	Auditors	Number of holders: 2 Number of subscription rights to shares held: 11 Number of shares to be issued: 11,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		

Date of relevant resolution		June 17, 2011
Number of subscription rights to shares		149
Type and number of shares underlying subscription rights to shares		Common shares: 149,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		408 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share
Exercise period		From July 5, 2011 to July 4, 2031
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 5 Number of subscription rights to shares held: 115 Number of shares to be issued: 115,000
	Outside directors	Number of holders: 2 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000
	Auditors	Number of holders: 3 Number of subscription rights to shares held: 22 Number of shares to be issued: 22,000

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

Subscription rights to shares associated with resolution by annual shareholders meeting held on June 17, 2011

- Number of subscription rights to shares  
350 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
350,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
481,000 yen per unit (481 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 644 yen  
Amount per share to be credited to capital: 322 yen
- Period during which subscription rights to shares can be exercised  
From July 5, 2013 to June 30, 2016
- Conditions for exercise of subscription rights to shares  
Conditions for the exercise of the subscription rights to shares shall be as set out in the “Subscription Rights to Shares Allocation Agreement,” resolved by a meeting of the Company’s Board of Directors, and entered into between the Company and individuals receiving the subscription rights to shares in accordance with the above resolution.
- Status of subscription rights to shares held by the Company’s employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	350	350,000	81

Subscription rights to shares resolved by the annual shareholders meeting held on June 17, 2011

- Number of subscription rights to shares  
100 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
100,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
1,000 yen per unit (1 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 409 yen  
Amount per share to be credited to capital: 205 yen
- Period during which subscription rights to shares can be exercised  
From July 5, 2011 to July 4, 2031
- Conditions for the exercise of the subscription rights to shares
  - (i) In principle, a person having new subscription rights to shares may exercise them only if he or she relinquishes all positions of director, statutory auditor, executive officer, and employee similar to these positions. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
  - (ii) Any conditions for the exercise of subscription rights to shares other than the above shall be approved by the Board of Directors.
- Status of subscription rights to shares held by the Company's employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	100	100,000	14

### (3) Officers

#### (i) Directors and Statutory Auditors (as of March 31, 2012)

Names	Position, responsibility and important concurrent post
Takao Nishijima	Representative Director (Chairman and CEO)
Toshiharu Nijima	Representative Director (Senior Executive Officer)
Kiyoshi Tauchi	Director (Senior Executive Officer)
Yoshihiro Miura	Director (Senior Executive Officer)
Donglei Tang	Director (Senior Executive Officer)
Takeo Nakagawa	Director, CEO of Fine Tech Corporation
Kunio Shimada	Director, Representative partner at Shimada Hamba & Osajima
Toshio Honma	Standing Statutory Auditor
Yoshifumi Miyata	Statutory Auditor
Hiroaki Tamai	Statutory Auditor
Ryuichi Kimura	Statutory Auditor, Representative Director of the Semiconductor Company of Tokyo Seimitsu Co. Ltd.

- Notes
1. Directors Mr. Takeo Nakagawa and Mr. Kunio Shimada are outside directors.
  2. Mr. Yoshifumi Miyata, Mr. Hiroaki Tamai and Mr. Ryuichi Kimura, the Statutory Auditors, are outside auditors.
  3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors, and Statutory Auditors Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai as independent auditors.

#### (ii) Changes in directors and statutory auditors in the fiscal year under review

Directors Mr. Yoshiharu Kikuchi, Mr. Toshio Honma and Mr. Mitsuhiro Masumi retired at the end of the 108th annual shareholders meeting held on June 17, 2011. Director Mr. Toshio Honma assumed office as statutory auditor after resigning as director on the same day. Mr. Makoto Kuniyoshi assumed office as director at the time of the 108th annual shareholders meeting held on June 17, 2011 but resigned on September 30, 2011. Statutory Auditors Mr. Ikuo Oomiya and Mr. Kunimasa Ohta resigned at the end of the 108th annual shareholders meeting held on June 17, 2011.

#### (iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	11 (3)	219 million yen (16 million yen)
Statutory Auditors (Outside Statutory Auditors included)	6 (4)	44 million yen (22 million yen)
Total (Outside Officers included)	17 (7)	264 million yen (39 million yen)

- (Notes)
1. The above figures include two directors and one outside director who retired at the end of the 108th annual shareholders meeting held on June 17, 2011, one director who resigned on September 30, 2011, and one statutory auditor and one outside statutory auditor who resigned at the end of the 108th annual shareholders meeting held on June 17, 2011. With respect to the number of officers and the amount of compensation, as Director Mr. Toshio Honma assumed office as statutory auditor after resigning as director at the end of the 108th annual shareholders meeting, his term of office as director is included in those for directors and his term of office as statutory auditor is included in those for statutory auditors.
  2. The total amount of compensation, etc. for directors does not include salaries paid to employees concurrently holding a position as director.

3. The maximum amount of compensation, etc. for directors was resolved to be not more than cash compensation of 200 million yen per annum by the 103<sup>rd</sup> annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 60 million yen per annum by the 104<sup>th</sup> annual shareholders meeting.
4. The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103<sup>rd</sup> annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104<sup>th</sup> annual shareholders meeting.
5. The total amount of compensation, etc. included the following compensation.
  - Compensation in the form of stock options
 

11 directors:	50 million yen	(including 4 million yen for 3 outside directors)
6 statutory auditors:	9 million yen	(including 4 million yen for 4 outside statutory auditors)

(iv) Matters concerning out officers

- a. Posts held concurrently by outside officers (in the case of the executing persons of other companies) and relationships between the Company and other relevant companies
  - Mr. Takeo Nakagawa, Director, concurrently holds the position of Director; CEO of Fine Tech Corporation. The Company has trading relationships, including sales of products, with Fine Tech Corporation.
  - Mr. Kunio Shimada, Director, concurrently holds the position of Representative partner at Shimada Hamba & Osajima.
  - Mr. Yoshifumi Miyata, Statutory Auditor, retired from the position of Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited on March 31, 2012 and assumed office as a member of the Board of Directors at Trust & Custody Services Bank, Ltd. on April 1, 2012.
  - Mr. Hiroaki Tamai, Statutory Auditor, holds the position of Senior Managing Director of Mori Seiki Co., Ltd.
  - Mr. Ryuichi Kimura, Statutory Auditor, holds the position of Representative Director of the Semiconductor Company of Tokyo Seimitsu Co. Ltd. The Company has trading relationships, including sales of products, with Tokyo Seimitsu Co. Ltd.
- b. Concurrent post in other companies (e.g. outside officer in another company) and the relationship between the Company and the other company
  - Mr. Takeo Nakagawa, the Director, concurrently holds the position of Outside Statutory Auditor of FANUC Ltd. and the position of Outside Director of Nippon Pillar Packing Co., Ltd. The Company has trading relationships, including sales of products, with FANUC Ltd.

c. Major activities in the fiscal year under review

Names	Major activities
Takeo Nakagawa, Director	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed based on his insight into the entire manufacturing industry, from the viewpoint of an experienced corporate manager.
Kunio Shimada Director	He attended 9 of the 10 meetings of the Board of Directors meetings that were held after he took office on June 17, 2011 and made remarks as needed, primarily from the viewpoint of an experienced lawyer.
Yoshifumi Miyata, Statutory Auditor	He attended 10 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hiroaki Tamai, Statutory Auditor	He attended 12 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Ryuichi Kimura Statutory Auditor	He attended 9 of the 10 meetings of the Board of Directors and 4 of the 4 Board of Statutory Auditors meetings that were held after he took office on June 17, 2011 and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.

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

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

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



#### (4) Status of Independent Auditor

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

(ii) Amount of Compensation

	Amount to be paid
Compensation to be paid to independent auditors for the fiscal year under review	31 million yen
The total amount of cash and other assets to be paid by the Company and subsidiaries to independent auditors	32 million yen

- Notes
1. The auditing contract between the Company and the independent auditor makes no distinction between auditing services based on the Company Law and auditing services based on the Financial Instruments and Exchange Law. Since no real distinction can be made in practice, the amount of compensation to be paid for the fiscal year under review represents the total amount.
  2. Financial statements of Precision Tsugami (China) Corporation is audited by a certified public accountant, not the independent auditor.

(iii) Details of non-audit services

The Company pays fees to the accounting auditor for its work to prepare a letter to a managing underwriter from an auditor and a report of research on financial information other than financial statements pertaining to capital increase through the public offering and third-party allotment.

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

The Company's Board of Statutory Auditors may dismiss an independent auditor based on its unanimous approval, when the items stipulated in the items of Paragraph 1 of Article 340 of the Company Law are deemed to be applicable to the relevant independent auditor. In this case, the statutory auditor elected by the Board of Statutory Auditors will present details and reasons for the dismissal of the independent auditor at the first annual shareholders meeting held after the dismissal.

The Board of Statutory Auditors determines whether or not to reappoint an independent auditor by taking into account comprehensive aspects, including the efficiency and costs of accounting audit.

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

There are no contracts in question.

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

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

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

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

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

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

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

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

- a. Matters associated with facts identified as important facts that will significantly impact on the Company
  - b. Matters associated with facts identified as activities that violate or are likely to violate the laws and ordinances or the Articles of Incorporation
  - c. Results of internal audit conducted by the internal audit division (the Audit Office)
  - d. Management of the whistle-blowing system and the details of whistle-blowing
- (viii) Other systems for securing the effectiveness of audit by statutory auditors
    - a. Statutory auditors shall hold regular meetings with representative directors, and exchange views on important audit issues.
    - b. Statutory auditors shall hold regular meetings with independent auditors, and exchange views and information, in addition to requesting independent auditors for their reports when necessary.
    - c. Statutory auditors shall maintain close contact with the internal audit division (the Audit Office), and may request the internal audit division to carry out investigation when necessary.

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

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

- (x) Systems for getting rid of antisocial forces

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

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2012)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>37,108</b>	<b>Current liabilities:</b>	<b>21,476</b>
Cash and deposits	5,314	Trade notes and accounts payable	16,503
Trade notes and accounts receivable	10,536	Short-term borrowings	2,107
Inventories	18,808	Corporate bonds due for redemption within one year	300
Deferred tax assets	535	Accrued income tax	1,413
Other current assets	1,973	Reserve for product warranties	148
Allowance for doubtful accounts	-59	Reserve for bonus payment	272
<b>Fixed assets:</b>	<b>13,616</b>	Other current liabilities	730
<b>Tangible fixed assets:</b>	<b>7,234</b>	<b>Long-term liabilities:</b>	<b>1,563</b>
Buildings and structures	3,555	Corporate bonds	300
Machinery, equipment and vehicles	2,134	Deferred tax liabilities	420
Land	581	Reserve for retirement benefits	774
Construction in progress	684	Reserve for directors' retirement benefits	12
Other tangible fixed assets	277	Other long-term liabilities	56
<b>Intangible fixed assets:</b>	<b>149</b>	<b>Total liabilities</b>	<b>23,040</b>
Software	73	<b>NET ASSETS:</b>	
Other intangible fixed assets	75	<b>Shareholders' equity:</b>	<b>26,264</b>
<b>Investments and other assets:</b>	<b>6,233</b>	<b>Common stock</b>	<b>12,345</b>
Investment securities	4,967	<b>Capital surplus</b>	<b>5,884</b>
Investments in affiliates	1,141	<b>Retained earnings</b>	<b>8,535</b>
Deferred tax assets	1	<b>Treasury stock</b>	<b>-499</b>
Other investments and other assets	122	<b>Accumulated other comprehensive income:</b>	<b>1,106</b>
<b>Deferred assets:</b>	<b>32</b>	<b>Unrealized gains on marketable securities</b>	<b>1,114</b>
Stock issuance cost	20	<b>Deferred gains (losses) on hedges</b>	<b>1</b>
Corporate bonds issuance expenses	11	<b>Translation adjustments</b>	<b>-9</b>
		<b>Subscription rights to shares</b>	<b>345</b>
		<b>Total net assets</b>	<b>27,717</b>
<b>Total Assets</b>	<b>50,757</b>	<b>Total Liabilities and Total Net Assets</b>	<b>50,757</b>

## CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2011 to March 31, 2012)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>35,739</b>
<b>Cost of sales:</b>	<b>27,388</b>
<b>Gross profit</b>	<b>8,350</b>
<b>Selling, general and administrative expenses</b>	<b>4,264</b>
<b>Operating income</b>	<b>4,086</b>
<b>Non-operating income:</b>	<b>162</b>
Interest received	2
Dividends received	47
Insurance benefits received	40
Other non-operating income	72
<b>Non-operating expenses:</b>	<b>373</b>
Interest paid	70
Loss on sales of trade notes	119
Foreign exchange losses	125
Other non-operating expenses	57
<b>Ordinary income</b>	<b>3,875</b>
<b>Extraordinary income:</b>	<b>1</b>
Gain on sales of fixed assets	1
<b>Extraordinary expenses:</b>	<b>138</b>
Loss on retirement of fixed assets	40
Impairment loss	10
Loss on devaluation of inventories	40
Loss on devaluation of investment securities	10
Loss on disaster	21
Other extraordinary expenses	16
<b>Income before taxes and other adjustments</b>	<b>3,738</b>
Corporate, inhabitant and enterprise taxes	1,692
Deferred taxes	-234
<b>Income before minority interests</b>	<b>2,281</b>
Minority interests in income	--
<b>Net income</b>	<b>2,281</b>

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2011 to March 31, 2012)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2011	10,599	4,157	6,962	-771	20,947
Change during the fiscal year					
Issuance of new shares	1,745	1,745			3,491
Cash dividends paid			-661		-661
Net income			2,281		2,281
Purchase of treasury stock				-2	-2
Disposal of treasury stock		-18	-47	274	208
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	1,745	1,726	1,572	272	5,317
Balance as of March 31, 2012	12,345	5,884	8,535	-499	26,264

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Translation adjustments	Total accumulated other comprehensive income		
Balance as of April 1, 2011	993	5	-114	884	290	22,122
Change during the fiscal year						
Issuance of new shares						3,491
Cash dividends paid						-661
Net income						2,281
Purchase of treasury stock						-2
Disposal of treasury stock						208
Changes in items other than shareholders' equity during the fiscal year (net)	120	-3	104	222	55	277
Total change during the fiscal year	120	-3	104	222	55	5,594
Balance as of March 31, 2012	1,114	1	-9	1,106	345	27,717

## Notes to Consolidated Financial Statements

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

#### (1) Scope of consolidation

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

- Number of consolidated subsidiaries: 4
- Names of major consolidated subsidiaries: Tsugami Machinery Co., Ltd.  
Tsugami General Service Co., Ltd.  
Tsugami Precision Co., Ltd.  
Precision Tsugami (China) Corporation

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

- Names of major non-consolidated subsidiaries:  
Tsugami (Thai) Co., Ltd.  
Tsugami GmbH  
Tsugami Korea Co., Ltd.  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd.  
Tsugami Precision Engineering India Pvt Ltd.
- Reason for non-consolidation: The non-consolidated subsidiaries are small in size, and their total assets, sales, net income or loss (amounts to equivalent to the equity holding) and retained earnings (amounts to equivalent to the equity holding) do not have significant material effect on the consolidated financial statements.

#### (2) Application of equity method

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

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

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

- Names of major companies: Tsugami (Thai) Co., Ltd.  
Tsugami GmbH  
Tsugami Korea Co., Ltd.  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd.  
Tsugami Precision Engineering India Pvt Ltd.  
REM SALES LLC
- Reason for not applying the equity method: These non-consolidated subsidiaries and affiliates are excluded from the scope of equity method application because their exclusion produces minor effects on consolidated financial statements and has no significance in light of their respective net income or net loss (amount corresponding to equity), retained earnings and other items.

#### (3) Matters concerning changes in the scope of consolidation and the scope of equity method application

Not applicable

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

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.

(5) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

- Securities without fair market value:

Cost accounting method using the moving average method

b. Derivatives:

Stated at market value

c. Valuation standard and valuation method for inventories

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

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

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

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

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

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery, equipment and vehicles: 9 years

b. Intangible fixed assets (excluding leased assets)

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

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

c. Leased assets

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

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

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

(iii) Accounting standards for major deferred assets

Corporate bonds issuance expenses

This is amortized using the straight-line method during the period required for maturity of corporate bonds.



(iv) Accounting standards for significant allowances

- a. Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- b. Allowance for employees' bonuses To prepare for bonus payments to employees of the Company and its consolidated subsidiaries in Japan, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.
- c. Allowance for directors' bonuses To prepare for bonus payment to the directors of the Company and its consolidated subsidiaries, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates. 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.
- d. Allowance for retirement benefits To prepare for retirement benefits paid to employees of the Company and its consolidated subsidiaries in Japan, an allowance is provided on the basis of estimated amounts of retirement benefit obligations and pension assets in the consolidated fiscal year under review.  
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 the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.
- e. 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.
- f. Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

(v) Standards for translating significant assets or liabilities in foreign currencies into yen

Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the consolidated closing date. Translation adjustments are accounted for as gains or losses. Assets, liabilities, revenues, and expenses at overseas subsidiaries are translated into yen at spot exchange rates at the consolidated closing date. Translation adjustments are included in “Translation adjustments” in net assets.

(vi) Significant hedge accounting method

Hedge accounting method

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

Hedging instruments and hedged items

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

Hedging instruments: exchange contracts

Hedged items: foreign currency receivables

Hedging policy

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

Method for assessing hedging effectiveness:

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

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

Accounting method for consumption taxes

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

(6) Changes in accounting policies

(Application of the Accounting Standard for Earnings per Share)

The Group began applying the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2 revised on June 30, 2010), the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4 revised on June 30, 2010), and the Practical Solution on Accounting for Earnings Per Share (ASBJ PITF No. 9 revised on June 30, 2010) in the consolidated fiscal year under review.

(Others)

(Application of the Accounting Standard for Accounting Changes and Error Corrections)

The Group began applying the “Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24 issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24 issued on December 4, 2009) in the beginning of the consolidated fiscal year under review.

(Effect of changes in corporate tax rates)

Following the introduction on December 2, 2011 of the Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures (Act

No. 114 of 2011) and the Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake (Act No. 117 of 2011), corporate tax rates were reduced and the special reconstruction corporate tax was imposed for the fiscal years beginning on or after April 1, 2012. In line with these changes, the effective corporate tax rate used to measure deferred tax assets and liabilities are changed from 40.70% to 38.01% for temporary differences expected to be eliminated from the fiscal year beginning on April 1, 2012 to the fiscal year beginning April 1, 2014. The rate will be changed to 35.64% for temporary differences expected to be eliminated in or after the fiscal year beginning on April 1, 2015. As a result of this change, the amount of deferred tax liabilities (the amount after subtracting the amount of deferred tax assets) decreased 23 million yen, and total corporate and other taxes increased 64 million yen.

## 2. Notes to Consolidated Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets	11,338 million yen
(3) Amount of discount for bills receivable	947 million yen
Amount of discount for export bills receivable	2,022 million yen
Debt guarantees	607 million yen (46 million yuan)
(4) The amount of an allowance for doubtful accounts that is directly deducted from assets	
Investments and other assets	119 million yen

(5) Notes due at the end of the consolidated fiscal year

Notes due at the end of the consolidated fiscal year are settled on the date of clearing. Since the end of the consolidated fiscal year under review fell on a bank holiday, the following notes due at the end of the fiscal year are included in the balance at the end of the fiscal year.

Trade notes	11 million yen
Amount of discount for bills receivable	49 million yen

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

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

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	68,019 thousand	6,900 thousand	–	74,919 thousand

(2) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	2,140 thousand	5 thousand	763 thousand	1,382 thousand

Note The increase in the number of treasury stock by 5 thousand shares reflected an increase of 5 thousand shares with the acquisition of odd-lot shares.

The decrease in the number of treasury stock by 763 thousand shares resulted from the exercise of stock options.

(3) Matters relating to dividends

(i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 12, 2011

- Total amount of dividend	329 million yen
- Dividend per share	5 yen
- Record date	March 31, 2011
- Effective date	May 31, 2011

Matters relating to dividends resolved at the Board of Directors meeting on November 14, 2011

- Total amount of dividend	331 million yen
- Dividend per share	5 yen
- Record date	September 30, 2011
- Effective date	November 28, 2011

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

The following dividends will be submitted to the Board of Directors meeting on May 10, 2012 for approval.

- Total amount of dividend                    367 million yen
- Dividend per share                            5 yen
- Record date                                    March 31, 2012
- Effective date                                 May 29, 2012

Dividend resources are planned to be retained earnings.

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

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	71,000	22,000
Unexercised subscription rights to shares	71	22
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	25,000	29,000
Unexercised subscription rights to shares	25	29
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	54,000	37,000
Unexercised subscription rights to shares	54	37
	Resolved at the annual shareholders meeting on June 20, 2008	Resolved at the Board of directors meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	43,000	298,000
Unexercised subscription rights to shares	43	298
	Resolved at the Board of directors meeting on June 19, 2009	Resolved at the annual shareholders meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	93,000	87,000
Unexercised subscription rights to shares	93	87
	Resolved at the Board of directors meeting on June 18, 2010	Resolved at the annual shareholders meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	62,000	68,000
Unexercised subscription rights to shares	62	68
	Resolved at the Board of directors meeting on June 17, 2011	Resolved at the annual shareholders meeting on June 17, 2011
Type of subject shares	Common shares	Common shares
Number of subject shares	149,000	100,000
Unexercised subscription rights to shares	149	100

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

#### 4. Notes on Financial Instruments

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

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

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

Short-term borrowings are used for operating funds.

Corporate bonds are used for policy investment funds relating to Tornos S.A., an alliance partner in Switzerland.

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

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

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2012. (Million yen)

	Carrying amount on the consolidated balance sheet (*)	Market value (*)	Difference
(i) Cash and deposits	5,314	5,314	--
(ii) Trade notes and accounts receivable	10,536	10,536	--
(iii) Investment securities			
Other securities	4,953	4,953	--
(iv) Trade notes and accounts payable	(16,503)	(16,503)	--
(v) Short-term borrowings	(2,107)	(2,107)	--
(vi) Corporate bonds	(600)	(603)	-3
(vii) Derivatives trading	(-1)	(-1)	--

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

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

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

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

(iii) Investment securities, Other securities

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

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

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

(vi) Corporate bonds

The Corporate bonds issued by the Company are private placement bonds and do not have any market prices. The value of the Corporate bond was calculated based on its present value: the principal and interest discounted at an interest rate based on the time-to-maturity of the Corporate bond and its credit risk. The Corporate bonds included corporate bonds due for redemption within one year.

(vii) Derivatives trading

Hedge accounting is not applied: No derivatives trading.

Hedge accounting is applied: The appropriation method is applied for exchange contracts and other derivatives.

2. Unlisted shares (consolidated balance sheet amount: 2 million yen) and shares in affiliates (consolidated balance sheet amount: 11 million yen) do not have market prices, their future cash flows cannot be estimated, and it is very difficult to estimate their market values. The Company therefore does not include them in “Investment securities, Other securities.”

**5. Notes on Per Share Information**

(1) Net assets per share	372.21 yen
(2) Net income per share	33.88 yen



## NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2012)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>31,827</b>	<b>Current liabilities:</b>	<b>18,112</b>
Cash and deposits	4,150	Trade notes payable	9,427
Trade notes receivable	509	Trade accounts payable	4,626
Accounts receivable	14,687	Short-term borrowings	1,500
Products, commodities	1,733	Corporate bonds due for redemption within one year	300
Goods in process	5,687	Accounts payable	207
Raw materials, supplies	2,155	Accrued expenses payable	240
Deferred tax assets	396	Accrued income tax	1,290
Accounts due	775	Reserve for product warranties	130
Advance paid	16	Reserve for bonus payment	216
Other current assets	1,840	Other current liabilities	173
Allowance for doubtful accounts	-125	<b>Long-term liabilities:</b>	<b>1,461</b>
<b>Fixed assets:</b>	<b>14,083</b>	Corporate bonds	300
<b>Tangible fixed assets:</b>	<b>4,484</b>	Deferred tax liabilities	335
Buildings	2,869	Reserve for retirement benefits	769
Structures	99	Other long-term liabilities	56
Machinery and equipment	685	<b>Total liabilities</b>	<b>19,574</b>
Vehicles	3	<b>NET ASSETS:</b>	
Tools, furniture and fixtures	194	<b>Shareholders' equity:</b>	<b>24,906</b>
Land	581	<b>Common stock</b>	<b>12,345</b>
Leased assets	15	<b>Capital surplus:</b>	<b>5,884</b>
Construction in progress	35	Capital legal reserve	5,884
<b>Intangible fixed assets:</b>	<b>93</b>	<b>Retained earnings:</b>	<b>7,176</b>
Telephone subscription right	10	<b>Other retained earnings:</b>	<b>7,176</b>
Software	73	Deferred retained earnings	7,176
Leased assets	9	<b>Treasury stock</b>	<b>-499</b>
<b>Investments and other assets:</b>	<b>9,505</b>	<b>Valuation and translation adjustments:</b>	<b>1,115</b>
Investment securities	4,955	<b>Unrealized gains on marketable securities</b>	<b>1,114</b>
Shares in affiliates	132	<b>Deferred gains (losses) on hedges</b>	<b>1</b>
Investments in affiliates	3,919	<b>Subscription rights to shares</b>	<b>345</b>
Other investments	498	<b>Total net assets</b>	<b>26,367</b>
<b>Deferred assets:</b>	<b>32</b>	<b>Total Liabilities and Total Net Assets</b>	<b>45,942</b>
Stock issuance cost	20		
Corporate bonds issuance expenses	11		
<b>Total Assets</b>	<b>45,942</b>		

**NON- CONSOLIDATED STATEMENTS OF INCOME**

(From April 1, 2011 to March 31, 2012)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>37,382</b>
<b>Cost of sales:</b>	<b>30,708</b>
<b>Gross profit</b>	<b>6,674</b>
<b>Selling, general and administrative expenses:</b>	<b>3,460</b>
<b>Operating income</b>	<b>3,214</b>
<b>Non-operating income:</b>	<b>357</b>
Interest received	21
Dividends received	177
Rent received	12
Insurance benefits received	39
Other non-operating income	106
<b>Non-operating expenses:</b>	<b>167</b>
Interest paid	37
Leased asset expenses	11
Sales discount	2
Amortization of stock issuance cost	1
Loss on sales of trade notes	70
Other non-operating expenses	43
<b>Ordinary income</b>	<b>3,403</b>
<b>Extraordinary income:</b>	<b>0</b>
Gain on sales of fixed assets	0
<b>Extraordinary expenses:</b>	<b>138</b>
Loss on retirement of fixed assets	40
Loss on sales of fixed assets	2
Impairment loss	10
Loss on devaluation of inventories	40
Loss on devaluation of investment securities	10
Loss on sales of stocks of affiliate	4
Other extraordinary expenses	30
<b>Income before taxes and other adjustments</b>	<b>3,265</b>
Corporate, inhabitant and enterprise taxes	1,437
Deferred taxes	-89
<b>Net income</b>	<b>1,916</b>

## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2011 to March 31, 2012)

(Million yen)

	Shareholders' equity						
	Common stock	Capital surplus			Retained earnings	Treasury stock	Total shareholders' equity
		Capital legal reserve	Other capital surplus	Total capital surplus	Other retained earnings Deferred retained earnings		
Balance as of April 1, 2011	10,599	4,138	18	4,157	5,967	-771	19,952
Change during the fiscal year							
Issuance of new shares	1,745	1,745		1,745			3,491
Cash dividends paid					-661		-661
Net income					1,916		1,916
Purchase of treasury stock						-2	-2
Disposal of treasury stock			-18	-18	-47	274	208
Changes in items other than shareholders' equity during the fiscal year (net)							
Total change during the fiscal year	1,745	1,745	-18	1,726	1,208	272	4,953
Balance as of March 31, 2012	12,345	5,884	--	5,884	7,176	-499	24,906

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance as of April 1, 2011	993	5	998	290	21,241
Change during the fiscal year					
Issuance of new shares					3,491
Cash dividends paid					-661
Net income					1,916
Purchase of treasury stock					-2
Disposal of treasury stock					208
Changes in items other than shareholders' equity during the fiscal year (net)	120	-3	117	55	172
Total change during the fiscal year	120	-3	117	55	5,125
Balance as of March 31, 2012	1,114	1	1,115	345	26,367

## Notes to Non-Consolidated Financial Statements

### 1. Matters Concerning Significant Accounting Policies

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

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

#### (ii) Other securities:

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

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

(iii) Derivatives: Stated at market value

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

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

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

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

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

The significant service lives are summarized as follows:

Buildings: 15 to 38 years

Machinery and equipment: 9 years

Tools, furniture and fixtures 5 years

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

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

##### (iii) Leased assets

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

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

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

#### (3) Long-term prepaid expenses

The straight-line method is used.

#### (4) Deferred assets

Stock issuance cost

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

Corporate bonds issuance expenses

This is amortized using the straight-line method during the period required for maturity of corporate bonds.

(5) Accounting standards for allowances

- (i) Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- (ii) Allowance for employees' bonuses To prepare for bonus payments to employees, an amount that needs to be paid in the fiscal year under review are provided as an estimate.
- (iii) Allowance for directors' bonuses To prepare for bonus payment to the directors, an amount that needs to be paid in the fiscal year under review are provided as an estimate. However, since the Company was unable to reasonably project the amount at the end of the fiscal year under review, this was not posted.
- (iv) Allowance for retirement benefits To prepare for retirement benefits payment to employees, the allowance is provided on the basis of amounts of retirement benefit obligations and pension assets estimated at the end of the fiscal year under review.
- In addition, any difference arising as a result of the change of accounting standards (2,086 million yen) is expensed equally, mainly over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.
- (v) 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.

(6) Significant hedge accounting method

- Hedge accounting method Deferred hedge accounting is applied. If hedges against exchange fluctuation risks meet requirements for the appropriation method, the appropriation method is applied.
- Hedging instruments and hedged items The hedging instruments and hedged items to which hedge accounting was applied during the fiscal year under review are as follows:  
Hedging instruments: exchange contracts  
Hedged items: foreign currency receivables and payables
- Hedging policy The Group carries out hedging within the scope of the target trade accounts receivable and trade accounts payable to avoid exchange fluctuation risks and lock in earnings.

Method for assessing hedging effectiveness:

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

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

Accounting method for consumption taxes

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

(8) Changes in accounting policies

(Application of the Accounting Standard for Earnings per Share)

The Group began applying the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2 revised on June 30, 2010), the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4 revised on June 30, 2010), and the Practical Solution on Accounting for Earnings Per Share (ASBJ PITF No. 9 revised on June 30, 2010) in the fiscal year under review.

(Other)

(Application of the Accounting Standard for Accounting Changes and Error Corrections)

The Group began applying the “Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24 issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24 issued on December 4, 2009) in the beginning of the fiscal year under review.

## 2. Notes to Non-Consolidated Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets	10,844 million yen
(3) Amount of discount for bills receivable	947 million yen
Amount of discount for export bills receivable	2,022 million yen
Debt guarantees	607 million yen (46 million yuan)

(4) Notes due at the end of the fiscal year

Notes due at the end of the fiscal year are settled on the date of clearing. Since the end of the fiscal year under review fell on a bank holiday, the following notes due at the end of the fiscal year are included in the balance at the end of the fiscal year.

Trade notes	11 million yen
Amount of discount for bills receivable	49 million yen

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

Investments and other assets	119 million yen
------------------------------	-----------------

(6) Monetary receivables from and monetary payables to affiliates are as follows:

(i) Short-term monetary receivables	11,369 million yen
(ii) Short-term monetary payables	234 million yen

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

Transactions with affiliates

(i) Sales	15,397 million yen
(ii) Purchases	3,406 million yen
(iii) Transactions other than operating transactions	174 million yen

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

(1) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current fiscal year	Increase in shares in the fiscal year under review	Decrease in shares in the fiscal year under review	Number of shares at the end of the fiscal year under review
Common shares	2,140 thousand	5 thousand	763 thousand	1,382 thousand

Note The increase in the number of treasury stock by 5 thousand shares reflected an increase of 5 thousand shares with the acquisition of odd-lot shares. The decrease in the number of treasury stock by 763 thousand shares resulted from the exercise of stock options.

## 5. Deferred Tax Accounting

### (1) Breakdown of deferred tax assets and deferred tax liabilities by major cause (million yen)

(Deferred tax assets)	
Allowance for doubtful accounts	90
Reserve for bonus payment	82
Reserve for retirement benefits	277
Reserve for product warranties	49
Loss on devaluation of investment securities	130
Loss on devaluation of shares in affiliates	8
Loss on devaluation of inventories	74
Impairment loss	46
Accrued enterprise taxes	91
Stock-based compensation expense	80
Other	70
Deferred tax assets subtotal	<u>1,002</u>
Valuation reserve	<u>-326</u>
Deferred tax assets total	<u>674</u>
(Deferred tax liabilities)	
Exchange contracts	-0
Unrealized gains on marketable securities	<u>-612</u>
Deferred tax liabilities total	<u>-613</u>
Net deferred tax assets	<u>60</u>

(2) As the difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting is less than five hundredths of the legally effective tax rate, the note is omitted.

(3) Revisions to the amount of deferred tax assets and deferred tax liabilities due to changes in the corporate income tax rate

Following the introduction on December 2, 2011 of the Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures (Act No. 114 of 2011) and the Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake (Act No. 117 of 2011), corporate tax rates were reduced and the special reconstruction corporate tax was imposed for the fiscal years beginning on or after April 1, 2012. In line with these changes, the effective corporate tax rate used to measure deferred tax assets and liabilities are changed from 40.70% to 38.01% for temporary differences expected to be eliminated from the fiscal year beginning on April 1, 2012 to the fiscal year beginning April 1, 2014. The rate will be changed to 35.64% for temporary differences expected to be eliminated in or after the fiscal year beginning on April 1, 2015. As a result of this change, the amount of deferred tax liabilities (the amount after subtracting the amount of deferred tax assets) decreased 23 million yen, and total corporate and other taxes increased 64 million yen.

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

(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
Tools, furniture and fixtures	21 million yen	21 million yen	0 million yen
Others	10 million yen	10 million yen	0 million yen
Total	32 million yen	31 million yen	0 million yen

(2) Amount corresponding to future minimum lease payment at the end of the fiscal year Equivalent of unexpired lease fees at end of fiscal year

Within a year 0 million yen

Longer than a year -- million yen

Total 0 million yen

## 7. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	Precision Tsugami (China) Corporation	(Owning) Direct: 100.0%	Concurrent service by directors Manufacture and sales of products of the Company Purchase of products of the company Funding	Sale of products of the Company	11,486	Accounts receivable	7,990
				Purchase of products of the company	2,402	Accounts payable	28
				Providing loans	2,110	Accounts due	80
				Receipt of interest	21	Short-term borrowings	1,716
				Acceptance of new shares	1,878	Long-term borrowings	394
						Accounts payable	0
Affiliate	REM SALES LLC	(Owning) Direct: 29.5%	Sales of the Company's products and parts	Sales of the Company's products and parts	2,629	Accounts receivable	313
						Deposits received	20

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.

## Officers and major individual shareholders

Attribute	Name	Capital or investments (million yen)	Business or job	Ownership of voting rights in percentage	Relationship		Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
					Officers holding concurrent posts	Business relationship				
Director	Takeo Nakagawa	--	Director of the Company, CEO of Fine Tech Corporation	--	--	--	Sale of products of the Company	102	Accounts receivable	66
Auditor	Ryuichi Kimura	--	Statutory auditor of the Company Representative Director of Tokyo Seimitsu Co., Ltd.	(Owning) Direct: 2.50% (Owned) Direct: 6.24%	--	--	Sale of products of the Company	6		
							Purchase of products	127	Trade notes and accounts payable	44

Note Business terms and policies for their determination, etc.

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



**8. Notes on Per Share Information**

(1) Net assets per share	353.86 yen
(2) Net income per share	28.47 yen

# Accounting Audit Report on Consolidated Financial Statements

## Independent Auditors' Report

May 8, 2012

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner  
Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner  
Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements, for the consolidated fiscal year from April 1, 2011 to March 31, 2012, in accordance with Paragraph 4, Article 444 of the Company Law.

### Responsibility of management for consolidated financial statements

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

### Responsibility of the auditor

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

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

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

### Auditor's opinion

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

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

#### Interests

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

#### Interest

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

# Accounting Audit Report on Non-Consolidated Financial Statements

## Independent Auditors' Report

May 8, 2012

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner

Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner

Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements and their supporting schedules of changes in net assets, notes to non-consolidated financial statements, and their supporting schedules, for the 109<sup>th</sup> fiscal year from April 1, 2011 to March 31, 2012, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law.

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

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

### Responsibility of the auditor

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

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

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

#### Auditor's opinion

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

#### Interest

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

## Report by the Board of Statutory Auditors

### Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 109<sup>th</sup> fiscal year from April 1, 2011 to March 31, 2012 prepared by Statutory Auditors.

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

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

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

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

## 2. Results of the Audit

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

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

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

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

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

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

May 9, 2012

Board of Statutory Auditors  
Tsugami Corporation

Toshio Honma, Standing Statutory Auditor  
Yoshifumi Miyata, Statutory Auditor  
Hiroaki Tamai, Statutory Auditor  
Ryuichi Kimura, Statutory Auditor

Note Statutory Auditors Yoshifumi Miyata, Hiroaki Tamai and Ryuichi Kimura are External Corporate Auditors, prescribed in Item 16, Article 2 and Paragraph 3, Article 335 of the Company Law.

## Reference Materials for the Annual Shareholders Meeting

### Item 1: Appointment of Nine Directors

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

We therefore propose the reappointment of the nine Directors.

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

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
1	Takao Nishijima (December 14, 1947)	May 1970	Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)	10 thousand
		February 1999	Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.	
		May 1999	General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.	
		June 2000	Director and General Manager of the Sales Development Division, Control Headquarters	
		April 2003	Representative Director, Chairman and CEO	
		April 2012	Representative Director, Chairman and CEO (current positions)	
2	Kiyoshi Tauchi (April 24, 1951)	March 1970	Joined the Company	13 thousand
		April 2005	Executive Officer and Leader of the Parts Manufacture Group of the Production Headquarters of the Company	
		April 2008	Executive Officer and General Manager of the Quality Assurance Division of the Company	
		April 2009	Managing Executive Officer and General Manager of the Manufacturing Planning Division of the Company	
		October 2010	Senior Executive Officer (Production)	
		June 2011	Director, Senior Executive Officer, General Manager of the Production Division	
		April 2012	Representative Director, COO, Manufacturing (current positions)	



Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
3	Toshiharu Nijima (November 14, 1954)	<p>November 1979    Joined the Company</p> <p>October 2003    Leader of the Automatic Lathe Group, Technology Headquarters</p> <p>April 2006        Managing Executive Officer and General Manager of the Technology Headquarters</p> <p>June 2008        Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory</p> <p>April 2009        Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>June 2009        Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>April 2012        Representative Director, COO, Plant Manager (current positions)</p>	14 thousand
4	Yoshihiro Miura (December 20, 1956)	<p>April 1979        Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)</p> <p>April 2005        General Manager of the Umeda Branch of Mizuho Bank, Ltd.</p> <p>April 2008        Executive Officer and General Manager of the Branch Banking Division of Mizuho Bank, Ltd.</p> <p>April 2009        Managing Executive Officer of Mizuho Bank, Ltd.</p> <p>April 2011        Senior Advisor of the Company</p> <p>June 2011        Director, Senior Executive Officer, General Manager of the Administration Division</p> <p>April 2012        Director, COO, Administration (current positions)</p>	0
5	Byun Jae-Hyun (July 10, 1956)	<p>October 1982    General Manager of the Import Business Division of Samsung C&amp;T Corporation</p> <p>July 2000        CEO of DI Corporation</p> <p>January 2007    Vice President of Exicon Co., Ltd.</p> <p>January 2010    President of TSUGAMI KOREA Co., Ltd.</p> <p>April 2012       Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd. (current positions)</p>	0

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
6	Donglei Tang (November 27, 1962)	<p>July 1992      Joined Tokyo Seimitsu Co., Ltd.</p> <p>November 2005      Administration Officer and General Manager of China Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2009      Executive Officer and Manager of Shanghai Office of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2010      Managing Executive Officer in Charge of China Operations of the Company, and President of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>June 2010      Director, Managing Executive Officer in Charge of China Operations of the Company, and Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>April 2012      Director, Senior Executive Officer, President of PRECISION TSUGAMI (CHINA) CORPORATION (current positions)</p>	0
7	Takeo Nakagawa (October 12, 1938)	<p>May 1999      Professor Emeritus at the University of Tokyo (current post)</p> <p>October 2000      CEO of Fine Tech Corporation (current positions)</p> <p>June 2002      Director of Nippon Pillar Packing Co., Ltd. (current positions)</p> <p>June 2007      Auditor at FANUC Ltd. (current position)</p> <p>June 2008      Director of the Company (current position)</p>	20 thousand
8	Kenji Yamada (February 20, 1948)	<p>July 1971      Joined Mitsui Ocean Development &amp; Engineering Co., Ltd. (now MODEC, Inc.)</p> <p>March 1997      Director of MODEC, Inc.</p> <p>March 2001      President &amp; CEO of MODEC, Inc.</p> <p>March 2009      Chairman &amp; Chief Executive Officer of MODEC, Inc.</p> <p>March 2012      Retired as Chairman &amp; Chief Executive Officer of MODEC, Inc.</p>	0

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
9	Kunio Shimada (August 16, 1959)	<p>April 1986 Registered as an attorney Attorney with Iwata Godo Attorneys and Counsellors at Law</p> <p>October 1991 Registered as an attorney in New York State</p> <p>June 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position)</p> <p>July 2010 Representative partner at Shimada Hamba &amp; Osajima (current position)</p> <p>June 2011 Director of the Company (current position)</p>	0

- Notes
1. Mr. Takeo Nakagawa, Mr. Kenji Yamada and Mr. Kunio Shimada are candidates for the position of outside directors.
  2. The Company has notified the Tokyo Stock Exchange of the appointment of Mr. Takeo Nakagawa, Mr. Kenji Yamada and Mr. Kunio Shimada as independent directors.
  3. The Company requests the appointment of Mr. Takeo Nakagawa, Mr. Kenji Yamada and Mr. Kunio Shimada as its outside directors based on its assessment that they possess deep insight and experience in general, and can advise the Company's management from a broad perspective.
  4. Mr. Takeo Nakagawa concurrently holds the position of Director, CEO of Fine Tech Corporation. The Company has trading relationships, including sales of products, with Fine Tech Corporation. No special interest exists between the Company and each of the other candidates for the position of Director.
  5. When the appointment of Mr. Nakagawa, Mr. Kenji Yamada and Mr. Shimada as directors is approved, the Company plans to have agreements limiting liability with Mr. Nakagawa, Mr. Kenji Yamada and Mr. Shimada.  
With respect to said agreement, the Article 27 of the Articles of Incorporation of the Company prescribes that "the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside directors, in accordance with the provisions of Paragraph 1, Article 427 of the Company Law" and that "liabilities based on such agreement shall be limited to the amount stipulated in law."
  6. Although Mr. Takeo Nakagawa and Mr. Kunio Shimada are currently outside directors of the Company, their term of office as outside director is four years for Mr. Takeo Nakagawa and one year for Mr. Kunio Shimada as of the conclusion of this annual shareholders meeting.

**Item 2: Appointment of One Reserve Statutory Auditor**

To prepare for any contingency involving statutory auditors, we request the appointment of one reserve statutory auditor.

We propose that the appointment of the reserve statutory auditor be cancelled by resolution of the Board of Directors on condition that the resolution is adopted prior to the assumption of office by the auditor.

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

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

Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held	
Toshikazu Oyanagi (July 1, 1955)	April 1979	Joined the Hokuetsu Bank, Ltd.	0
	April 2006	Manager of the Shibata Nishi Branch of the Hokuetsu Bank, Ltd.	
	April 2008	Manager of the Murakami Branch of Hokuetsu Bank, Ltd.	
	April 2010	Manager of the Tokyo Office of Hokuetsu Bank, Ltd.	
	April 2011	Senior Advisor of the Company	
	April 2012	Senior Executive Officer, General Affairs (current position)	

Note No special interest exists between the Company and the candidate nominated above.

### Item 3: Revision of the Maximum Amount of Compensation for Directors

The maximum amount of compensation, etc. for directors was approved to be not more than cash compensation of 200 million yen per annum at the 103<sup>rd</sup> annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was approved to be not more than 60 million yen per annum at the 104<sup>th</sup> annual shareholders meeting. These decisions remain in place. However, as the agenda item for the revision of the Articles of Incorporation to change the number of directors from not exceeding seven to not exceeding ten was approved at the 108<sup>th</sup> annual shareholders meeting in the last year, we will propose the revision of the maximum amount of compensation as described below.

Although the number of directors is currently seven, it will be nine (of which three will be outside directors) if the item 1 “Appointment of nine directors” is approved and passed as originally proposed. The amount of cash compensation for statutory auditors and the amount of compensation associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan will continue as in the past without revision.

The maximum amount of compensation for directors

Associated with the increase in the number of directors, we propose a revision to the amount of cash compensation for directors from “not more than 200 million yen per annum” to “not more than 250 million yen per annum.” We propose that the amount of compensation for directors not include salaries paid to employees concurrently holding a position as director, as in the past.

We also propose the revision of the amount of compensation associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan from “not more than 60 million yen per annum” to “not more than 80 million yen per annum.”

It was approved at the 106<sup>th</sup> annual shareholders meeting held on June 19, 2009 that the total number of subscription rights to shares shall be 300.

Details of subscription rights to shares to be issued are as follows:

(1) Total number of subscription rights to shares

300 shall be the maximum number of subscription rights to shares to be issued within one year from the date of an annual shareholders meeting for each fiscal year.

(2) Type and number of shares that are objects of the subscription rights to shares

300,000 common shares of the Company shall be the maximum number of shares that directors can take delivery of by exercising subscription rights to shares to be issued within one year from the date of an annual shareholders meeting for the fiscal year. If the number of shares that are objects of the subscription rights to shares is adjusted as described below, a similar adjustment shall be made.

The number of shares for each subscription right to shares (hereinafter the “Number of Granted Shares”) shall be 1,000 shares.

However, if it is appropriate to adjust the Number of Granted Shares for common stocks of the Company by a share-split (including a gratis allotment of common stocks of the Company) or a reverse share-split, etc., the Company shall make an adjustment it deems necessary.

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

(3) Amount of assets contributed on exercise of the subscription rights to shares

The amount of assets contributed upon exercise of each subscription right to shares is calculated by multiplying the paid-in value of 1 yen per share delivered upon exercise of each subscription right to shares by the Number of Granted Shares.

(4) Exercise period of the subscription rights to shares

Within 20 years from the day following the allotment date of the subscription rights to shares

(5) Restriction on acquiring the subscription rights to shares by assignment

Acquisition of the subscription rights to shares by assignment shall require approval by a resolution of the Board of Directors.

(6) Other conditions for exercise of the subscription rights to shares

In principle, a holder of the subscription rights to shares may exercise the subscription rights to shares within the period described in Provision (4) above, only when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title.

In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.

Any other conditions associated with the exercise of the subscription rights to shares shall be determined by resolution of a meeting of the Company's Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



**Item 5:** Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

Under the provisions of Articles 236, 238, and 239 of the Company Law, we request shareholders to approve the delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company.

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

The Company intends to grant the subscription rights to shares to its employees, as well as to the directors of the Company's subsidiaries to bolstering their morale and enthusiasm for improving consolidated results of the Company.

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

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

The maximum number of the subscription rights to shares as described in point (3) below shall be 200.

The total number of the Company's shares that are issued in exchange for the exercise of the subscription rights to shares shall be limited to a maximum of 200,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the subscription rights to shares.

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

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

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

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

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

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

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

(ii) Amount of assets contributed on exercise of the subscription rights to shares

The amount of assets contributed upon exercise of each subscription right to shares is calculated by multiplying the paid-in value 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 rights 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 rights 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.

- (iii) Exercise period of the subscription rights to shares  
Within three years of the day that is two years from the day after the Allotment Date
- (iv) Matters concerning the increase in capital and capital reserve when shares are issued upon exercise of the subscription rights to shares
  - i. The amount of increase in capital when shares are issued upon exercise of the subscription rights to shares shall be one half of the maximum amount of increase in capital, etc., which is calculated in accordance with Paragraph 1 of Article 17 of the Corporate Calculation Regulation, and fractions of less than 1 yen shall be rounded up to the nearest 1 yen.
  - ii. The amount of increase in capital reserve to be increased when shares are issued upon exercise of the subscription rights to shares shall be the amount calculated by deducting the amount of increase in capital as stated in the preceding paragraph i from the maximum amount of increase in capital, etc., as stated in the same paragraph i above.
- (v) Restriction on acquiring the subscription rights to shares by assignment  
Acquisition of the subscription rights to shares by assignment shall require approval by a resolution of the Board of Directors.
- (vi) Provisions concerning the acquisition of the subscription rights to shares  
If a proposal for a merger agreement in which the Company ceases to exist, or a proposal for a stock swap agreement or a stock transfer plan in which the Company will become a wholly owned subsidiary, is approved at a general meeting of shareholders of the Company, the Company may acquire the subscription rights to shares free of charge on the date stipulated separately by the Company's Board of Directors.
- (vii) Fractions of less than 1 share occurring on exercise of the subscription rights to shares  
If a fraction of less than 1 share to be delivered to the holder of the subscription rights to shares occurs upon exercise of the subscription rights to shares, it shall be rounded down to the nearest 1 share.
- (viii) Other conditions governing the exercise of subscription rights to shares shall be specified in resolutions of the Board of Directors of the Company and agreements on the granting of subscription rights to shares to be concluded between the Company and the recipients of subscription rights to shares based on the resolutions.