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Document submitted	Annual Securities Report ("Yukashoken Hokokusho")
Applicable law clause	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Destination	Director General of the Kanto Finance Bureau
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Fiscal year	The 115th term (from April 1, 2017 to March 31, 2018)
Corporate name	TSUGAMI CORPORATION
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Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Kabutocho, Nihonbashi, Chuo-ku, Tokyo)

## Chapter 1. Corporate Information

### Section 1. Overview of the Company's Situation

#### 1. Changes in major financial data

##### (1) Consolidated financial data

Fiscal term	111 <sup>th</sup> term	112 <sup>th</sup> term	113 <sup>th</sup> term	114 <sup>th</sup> term	115 <sup>th</sup> term
Closing month and year	March 2014	March 2015	March 2016	March 2017	March 2018
Net sales (million yen)	32,225	54,132	40,132	41,050	57,576
Ordinary income (loss) (million yen)	1,932	7,745	1,095	2,848	6,510
Net income attributable to owners of parent (million yen)	344	5,297	877	2,630	4,171
Comprehensive income (million yen)	1,085	7,848	-1,428	3,516	5,813
Net assets (million yen)	31,587	37,279	32,594	31,462	37,516
Total assets million yen(Million yen)	52,250	56,829	47,859	50,127	62,656
Net assets per share (yen)	428.18	522.94	473.78	510.43	585.58
Net income (loss) per share (yen)	4.72	74.37	13.04	41.91	74.71
Net income per share after residual equity adjustment (yen)	4.64	72.92	12.77	40.93	71.97
Capital adequacy ratio (%)	59.3	64.1	66.2	61.1	49.6
Earnings on equity (%)	1.10	15.72	2.58	8.44	13.52
Price-earnings ratio (times)	130.68	10.34	31.37	17.66	17.91
Cash flows from operating activities (million yen)	714	3,135	4,226	5,550	6,832
Cash flows from investing activities (million yen)	-713	-1,706	-959	920	-615
Cash flows from financing activities (million yen)	445	-2,822	-3,520	-6,353	-1,002
Cash and cash equivalents at the end of the term (million yen)	6,044	4,952	4,589	4,561	10,181
Number of employees (Average number of temporary employees in addition to the above)	1,832 (130)	1,959 (102)	1,614 (105)	1,959 (95)	2,419 (88)

## (2) Financial data of the submitting company

Fiscal term	111 <sup>th</sup> term	112 <sup>th</sup> term	113 <sup>th</sup> term	114 <sup>th</sup> term	115 <sup>th</sup> term
Closing month and year	March 2014	March 2015	March 2016	March 2017	March 2018
Net sales (million yen)	29,491	34,992	31,852	28,601	33,821
Ordinary income (loss) (million yen)	1,330	2,522	252	706	1,767
Net income (loss) (million yen)	-70	1,698	292	1,253	3,072
Capital (million yen)	12,345	12,345	12,345	12,345	12,345
(Number of shares issued) (thousand shares)	(74,919)	(74,919)	(74,919)	(64,919)	(55,000)
Net assets (million yen)	29,692	30,494	26,574	24,708	21,129
Total assets (million yen)	41,800	39,050	33,281	33,331	36,570
Net assets per share (yen)	401.99	427.60	386.23	400.56	385.68
Dividend per share	12.00	14.00	16.00	16.00	18.00
(Of which, interim dividend per share) (yen)	(6.00)	(6.00)	(8.00)	(8.00)	(9.00)
Net income (loss) per share (yen)	-0.97	23.85	4.34	19.96	55.03
Net income per share after residual equity adjustment (yen)	--	23.39	4.25	19.50	53.44
Capital adequacy ratio (%)	69.6	76.2	77.6	72.1	56.0
Earnings on equity (%)	--	5.78	1.05	5.03	13.81
Price-earnings ratio (times)	--	32.24	94.18	37.07	24.32
Dividend payout ratio (%)	--	58.7	368.4	80.1	32.7
Number of employees	441	430	439	439	368
(Average number of temporary employees in addition to the above)	(111)	(90)	(93)	(83)	(70)

- (Note) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; the same shall apply hereinafter).
2. Since net losses were posted, net income per share after residual equity adjustment in the financial data of the submitting company for the 111th term have no value, although there were residual securities.
3. Since net losses were posted in the 111th term, earnings on equity, price-earnings ratio and the dividend payout ratio in the financial data of the submitting company has no value.

## 2. Corporate history

March 1937	Tsugami Mfg., Co., Ltd. established with capital of ¥2 million in Nagaoka, Niigata
December 1938	Head office relocated to Kyobashi-ku, Tokyo
September 1941	All plants in Nagaoka factory completed
February 1945	Tsugami Precision Engineering Industry Co., Ltd. absorbed and renamed Shinshu Plant
February 1948	Head office relocated to Minato-ku, Tokyo
May 1949	Listed on Tokyo Stock Exchange, Osaka Securities Exchange, and Niigata Stock Exchange
October 1961	Toyo Seiki K.K. absorbed and made Ibaraki Plant
July 1968	Zao Seisakusho K.K. established
September 1970	Tsugami Sogo Kenkyusho (Research Institute) established in Nagaoka.
November 1970	Corporate name changed to TSUGAMI CORPORATION
September 1974	Tsugami Machine Tool Trading Corp. established
March 1975	Ibaraki Plant closed and sold
October 1982	Corporate name changed to TSUGAMI CORPORATION
May 1988	Shares of Azuma Shimamoto Ltd. (corporate name changed to Tsugami Shimamoto Ltd.) acquired
April 1991	TSUGAMI PRECISION CO., LTD. (currently a consolidated subsidiary) established
May 1991	Weldon Machine Tool Inc., a U.S. manufacturer of machine tools, acquired (corporate name changed to WMT Corporation)
April 1997	Tsugami High Tech Co., Ltd. (currently TSUGAMI MACHINAERY CO., LTD., a consolidated subsidiary) established
November 2001	Shares of Tsugami Techno Co., Ltd. acquired
December 2002	Liquidation of WMT Corporation completed
September 2003	PRECISION TSUGAMI (CHINA) CORPORATION (currently a consolidated subsidiary) established
April 2004	Tsugami Machine Tool Trading Corp. absorbed
October 2004	Shimamoto Precision Ltd. and Tsugami Techno Co., Ltd. merged. The corporate name of the new company as a result of the merger is Tsugami Shimamoto Ltd. Tsugami High Tech Co., Ltd. and TSUGAMI MACHINAERY CO., LTD. merged. The corporate name of the new company is TSUGAMI MACHINAERY CO., LTD. (currently a consolidated subsidiary).
February 2005	Invests in REM Sales LLC (currently an affiliate to which the equity method is not applied)
November 2005	New plants in Nagaoka and Shinshu factories completed
October 2006	TSUGAMI GENERAL SERVICE CO., LTD. and Tsugami Tool Co., Ltd. merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary).
November 2007	TSUGAMI GmbH (currently a non-consolidated subsidiary) established
January 2009	Tsugami Shimamoto Ltd. absorbed
February 2010	TSUGAMI KOREA Co., Ltd. (currently a non-consolidated subsidiary) established
November 2010	Shinagawa Precision Machinery (Zhejiang) Co., Ltd. (currently a non-consolidated subsidiary) established
April 2011	TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) established in India.
June 2011	TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED (currently a non-consolidated subsidiary) established in India.
March 2012	TSUGAMI Universal Pte. Ltd. (currently a non-consolidated subsidiary) established in Singapore.
April 2013	TSUGAMI GENERAL SERVICE CO., LTD. and TSUGAMI PRECISION CO., LTD. merged. The corporate name of the new company formed as a result of the merger is TSUGAMI GENERAL SERVICE CO., LTD. (currently a consolidated subsidiary).
July 2013	Precision Tsugami (China) Corporation Limited (currently a non-consolidated subsidiary) established
September 2013	Precision Tsugami (Hong Kong) Limited (currently a non-consolidated subsidiary) established
April 2015	TSUGAMI GmbH changed its trade name to TSUGAMI EUROPE GmbH (currently a non-consolidated subsidiary).
September 2017	Precision Tsugami (China) Corporation Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited.

### 3. Businesses

The Group consists of TSUGAMI Corporation ("the Company") and 12 subsidiaries (of which eight are consolidated subsidiaries) and engages primarily in the manufacture and sale of Automatic lathes, Grinding machines, Machining centers, and Rolling machines chiefly in Japan and China. The Group undertakes additional business activities, including research on individual companies and other services.

#### (1) Positions of Group companies in the Group's businesses

The following is a description of the positions of Group companies in the Group's businesses in Japan, China, India and South Korea:

##### (i) Japan

The Company manufactures and sells machine tools. Products are sold also by TSUGAMI Machinery Co., Ltd., subsidiary. The Company purchases certain parts and products from subsidiary PRECISION TSUGAMI (CHINA) CORPORATION.

##### (ii) China

PRECISION TSUGAMI (CHINA) CORPORATION manufactures and sells machine tools. Shinagawa Precision Machinery (Zhejiang) Co., Ltd. manufactures and sells machine tool castings. PRECISION TSUGAMI (CHINA) CORPORATION also purchases certain parts from the Company and Shinagawa Precision Machinery (Zhejiang) Co., Ltd., and sells products to the Company.

##### (iii) India

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED manufactures and sells machine tools.

##### (iv) South Korea

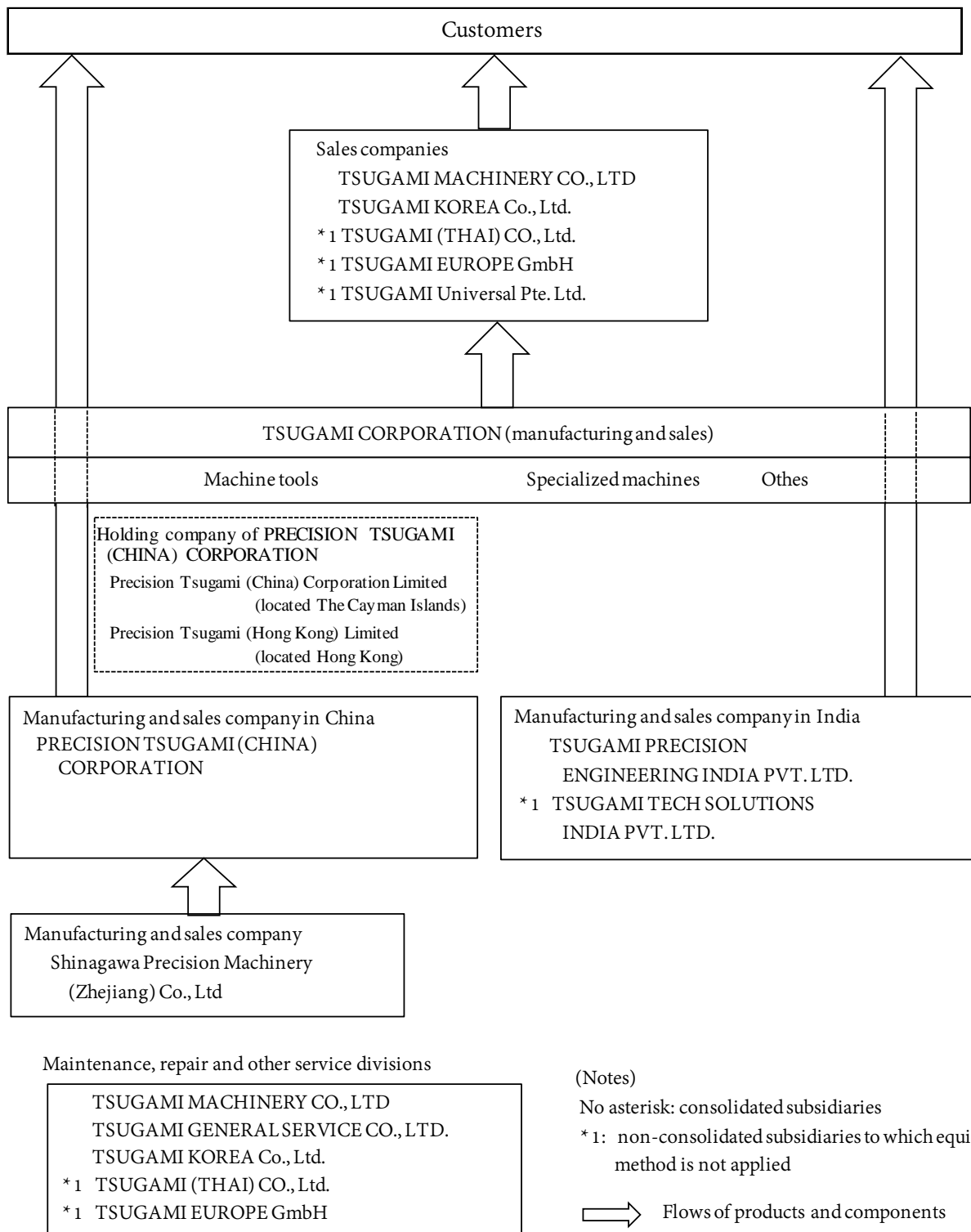
TSUGAMI Korea Co., Ltd. sells products of the Company.

TSUGAMI (Thai) Co., Ltd., TSUGAMI EUROPE GmbH and TSUGAMI Universal Pte. Ltd., subsidiaries, sell products of the Company.

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

(2) Business diagram

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



## 4. Situations of affiliates

Name	Address	Capital or investments	Major business	Ownership of voting rights (%)	Relations
(Consolidated subsidiaries)					
TSUGAMI MACHINAERY CO., LTD.	Kawasaki-ku, Kawasaki-shi, Kanagawa	60 million yen	Sales, installation and repairing of machine tool parts in Japan.	100	Sells products and parts of the Company; installs and repairs products of the Company. There are interlocking officers.
TSUGAMI GENERAL SERVICE CO., LTD.	Nagaoka-shi, Niigata	42 million yen	Inspections and maintenance of buildings and facilities of factories and non-life insurance agency operations in Japan.	100	Checks and maintains buildings and equipment on the premises of the Company's plants; carries out the agency of nonlife insurance of the Company. There are interlocking officers.
PRECISION TSUGAMI (CHINA) CORPORATION (Note 1, 2, 3)	Zhejiang, China	517 million yuan	Manufacturing and sales of machine tools in China.	70.8 (70.8)	Manufactures and sells products of the Company. There are interlocking officers.
Shinagawa Precision Machinery (Zhejiang) Co., Ltd (Note 3)	Zhejiang, China	35 million yuan	Manufacturing and sales of machine tool castings in China.	70.8 (70.8)	Manufactures and sells of machine tool castings for products of the Company. There are interlocking officers.
TSUGAMI KOREA Co., Ltd.	Anyang-Si, South Korea	1,000 million won	Sales of machine tools in South Korea.	100	Sells products of the Company. There are interlocking officers.
Precision Tsugami (China) Corporation Limited (Note 1)	The Cayman Islands	381 million Hong Kong dollar	Holding Company	70.8	Holds all shares in Precision Tsugami (Hong Kong) Limited. There are interlocking officers.
Precision Tsugami (Hong Kong) Limited (Note 1, 3)	Hong Kong, China	767 million Hong Kong dollar	Holding Company	70.8 (70.8)	Holds all shares in PRECISION TSUGAMI (CHINA) CORPORATION.
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED (Note 3)	Oragadam, Dt. Tamil Nadu, India	495 million Indian rupee	Manufacturing and sales of machine tools in India.	90.9 (15.1)	Manufactures and sells products of the Company. There are interlocking officers.

(Note) 1. PRECISION TSUGAMI (CHINA) CORPORATION, Precision Tsugami (China) Corporation Limited and Precision Tsugami (Hong Kong) Limited are specified subsidiaries.

2. The ratio of the net sales of PRECISION TSUGAMI (CHINA) CORPORATION (excluding intra-Group sales among consolidated companies) to consolidated net sales exceeded 10%.

Information on major profit and other items

(1) Net sales	¥39,331 million
(2) Ordinary income	¥4,812 million
(3) Net income	¥3,453 million
(4) Net assets	¥17,087 million
(5) Total assets	¥27,995 million

3. The figure in the parenthesis is the indirect ownership of voting rights.

## 5. Employees

## (1) Group employees

As of March 31, 2018

Business segment	Number of employees	
Japan	496	(88)
China	1,751	(--)
India	150	(--)
South Korea	22	(--)
Total	2,419	(88)

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

2. The number of employees rose by 297 from the end of the previous fiscal year to 1,751 because of a significant increase in production at PRECISION TSUGAMI (CHINA) CORPORATION in the fiscal year under review.

## (2) Employees of the submitting company

As of March 31, 2018

Number of employees	Average age	Average service years	Average annual salary (thousand yen)
368 (70)	43.3	18.4	6,298

(Note) 1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees. Workers on loan from other companies to the Company (four employees) are included. Workers on loan from the Company to other companies (160 employees) are not included. The employees of the Company are classified into Japan Segment.

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

3. The number of employees downed by 71 from the end of the previous fiscal year because of increase of workers on loan from the Company to consolidated subsidiaries in the fiscal year under review.

## (3) Labor union

The labor union of the Company belongs to JAM, an industrial union. The number of union members, who have concluded union-shop contracts, is 285.

Labor-management relations are good.



## Section 2. Business Situation

### 1. Management Policy, Management Environment and Issues to Be Addressed, etc.

The Group's basic management policy is to contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies it has been developing since the Company was first established.

We are determined to achieve sustained growth over the long term, through the provision of high-precision, high-speed and high-rigidity products that meet our customers' needs.

Regarding the management environment, we will focus on the following challenges based on the recognition described in [Section 2 Business Situation, 3. Analysis of financial position, operating results, and cash flows by management (1) Overview of operating results, etc. (i) Financial position and operating results].

(Challenges in the medium to long term)

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

#### (1) Introduction of new products targeting growth fields

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

#### (2) Business strategies targeting growth regions

The Group will continue its efforts to build up production, sales and after-sales service organizations in Asian markets (including China, Southeast Asia and India), which we continue to need to emphasize.

#### (3) Management streamlining and customer satisfaction enhancement

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

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

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

Forward-looking statements in the document are based on the judgments of the Group's management as of the end of the fiscal year under review.

## 2. Business and other risks

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

### (1) Effects of business fluctuations

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

### (2) Effects of changes in prices of raw materials

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

### (3) Effects of fluctuations in exchange rates

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

### (4) Effects of overseas operations

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

### (5) Effects of matters relating to quality

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

### (6) Effects relating to intellectual property rights

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

### (7) Effects of the situation

The Group deals with range of industries, including the electronics, information and telecommunications, and automobile industries. The Group pays close attention to the environment and credit risk. However, if the situation of customer, especially those with which the Group conducts large transactions, changes because of amendments to contracts, changes in the business environment, business downturns, or other factors, this may could the Group's production, business performance, and financial situation.

### (8) Effects of natural disasters

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

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

### 3. Analysis of financial position, operating results, and cash flows by management

#### (1) Overview of operating results, etc.

Overview of financial position, operating results, and cash flows situation (hereinafter "operating results, etc.") of the Group (the Company and its consolidated subsidiaries) in the consolidated fiscal year under review are as follows:

#### (i) Financial position and operating results

##### (Operating results)

During the consolidated fiscal year under review, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") have kept steady growth in both domestic, U.S. and European markets, and showed strong growth in the Chinese market.

In this environment, the Group sought to boost sales in auto parts-related sectors and conventional industries. As a result, net sales for the fiscal year under review increased 40.3% year on year, to ¥57,576 million, operating income increased 125.1% year on year, to ¥6,942 million, ordinary income rose 128.5% year on year, to ¥6,510 million and net income attributable to owners of parent increased 58.5% year on year, to ¥4,171 million.

##### (Operating results by business segment)

- a. In Japan, net sales stood at ¥34,127 million, up 18.1 % year on year. Operating income was ¥1,620 million.
- b. In China, net sales were ¥39,227 million, up 46.7 % year on year. Operating income was ¥5,231 million.
- c. In South Korea, net sales were ¥1,249 million, down 4.8 % year on year. Operating income was ¥16 million.
- d. In India newly included in the consolidated fiscal year under review, net sales were ¥1,882 million. Operating income was ¥32 million.

##### (Financial position)

Assets totaled ¥62,656 million at the end of the fiscal year under review, increasing ¥12,528 million from the end of the previous fiscal year. The increase resulted primarily from increases of ¥5,619 million in cash and deposits, ¥4,636 million in trade notes and accounts receivable and ¥1,250 million in inventories.

Liabilities came to ¥25,139 million, increasing ¥6,474 million from the end of the previous fiscal year. The result was mainly attributable to increases of ¥4,429 million in trade notes and accounts payable, ¥1,260 million in advances received and ¥543 million in income taxes payable.

Net assets stood at ¥37,516 million at the end of the fiscal year under review, increasing ¥6,054 million from the end of the previous fiscal year. The increase mainly reflected increases of ¥4,171 million in retained earnings resulting from net income attributable to owners of the parent and ¥956 million in other comprehensive income, as well as increases of ¥2,327 million in capital surplus and ¥5,776 million in non-controlling interests as a result of the issuance of new shares associated with the listing of a consolidated subsidiary on the Stock Exchange of Hong Kong Limited and the secondary offering of some of its shares owned by the parent company, which offset decreases of ¥978 million in retained earnings due to the payment of dividends and ¥6,491 million mainly due to the purchase of treasury stock.

As a result of the changes stated above, the capital adequacy ratio came to 49.6%, declining 11.5 percentage points from the end of the previous fiscal year.

In the consolidated fiscal year under review, the Company has retired 9,919,000 treasury shares worth ¥7,637 million by using its retained earnings and others.

#### (ii) Cash flows

Cash and cash equivalents amounted to ¥10,181 million at the end of the fiscal year under review, increasing ¥5,070 million from the end of the previous fiscal year. A description of each cash flow during the fiscal year was as follows:

##### (Cash flows from operating activities)

Cash provided by operating activities was ¥6,832 million. (provided ¥5,550 million previous year)

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥6,440 million, depreciation and amortization of ¥1,008 million, ¥3,554 million increase in trade notes and accounts payable and ¥1,197 million increase in advances received, which offset decreases in cash, such as a ¥4,334 million increase in trade notes and accounts receivable and ¥1,552 million in corporate and other taxes paid.

##### (Cash flows from investing activities)

Cash used for investing activities was ¥615 million. (provided ¥920 million previous year)

The cash outflow was primarily attributable to decrease in cash of 1,258 million payment for purchase of property, plant and equipment offsetting cash inflow consisting of a ¥270 million of proceeds from withdraw of deposit and ¥183 million from sale of investment securities.

##### (Cash flows from financing activities)

Cash used for financing activities was ¥1,002 million. (used ¥6,353 million previous year)

The cash outflow resulted mainly from an increase in cash due to the issuance of new shares and others of ¥5,837 million associated with the listing of a consolidated subsidiary on the Stock Exchange of Hong Kong and the secondary offering of some of its shares worth ¥2,288 million owned by the parent company, as well as a decrease in cash due to the repayment of short-term loans payable of ¥1,148 million, the purchase of treasury stock of ¥6,848 million and cash dividends paid of ¥978 million.

## (iii) Production, orders received, and sales

## a. Production performance

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

Business segment	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018) (Million yen)	Year on year (%)
Japan	28,481	111.1
China	27,193	136.8
South Korea	--	--
India	1,866	--
Total	57,540	126.4

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

2. The amounts above do not include consumption taxes.
3. In South Korea, the Group does not engage in production.
4. India is newly included in the consolidated fiscal year under review.

## b. Orders received

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

## c. Sales performance

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

Business segment	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018) (Million yen)	Year on year (%)
Japan	25,885	118.3
China	28,603	159.8
South Korea	1,221	96.1
India	1,866	--
Total	57,576	140.3

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

2. The amounts above do not include consumption taxes.
3. India is newly included in the consolidated fiscal year under review.

## (2) Analysis and consideration of operating results, etc. from the perspective of management

The recognition, analysis and consideration of operating results, etc. of the Group from the perspective of management are as follows.

Forward-looking statements in the text are judgments of the Company as of the end of the fiscal year under review.

## (i) Significant accounting policies and estimates

The consolidated financial statements of the Group are prepared based on generally accepted accounting principles in Japan. Individual significant accounting policies and estimates are as stated in "Section 5. Financial Status, 1. Consolidated Financial Statements, etc., (1) Consolidated financial statements, Important Matters that Become Basis of Presenting Consolidated Financial Statements."

## (ii) The recognition, analysis and consideration of operating results, etc. for the consolidated fiscal year under review

## a. Analysis of operating results for the consolidated fiscal year under review

(Net Sales)

Net sales for the fiscal year under review increased 40.3% year on year, to ¥57,576 million.

By geographic region, net sales in Japan increased 23.0% year on year, to ¥12,670 million. Overseas increased 46.1% year on year, to ¥44,905 million. The export ratio increased 3.1% from 74.9% for the previous fiscal year, to 78.0%.

A breakdown of net sales by machinery category shows that sales of mainstay Automatic lathes rose 40.1% year on year, to ¥47,949 million, sales of Grinding machines increased 26.7%, to ¥4,221 million, sales of Machining centers fell 46.1%, to ¥269

million, and sales of Rolling machines and other specialized machines rose 76.1%, to ¥4,795 million.

Breakdown by region of overseas net sales in the consolidated fiscal year under review are as follows:

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	37,862	3,404	3,638	44,905
II Consolidated net sales				57,576
III Ratio of overseas net sales to consolidated net sales (%)	65.8	5.9	6.3	78.0

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

2. Major countries or regions in each classification

(1) Asia China, Thailand, South Korea, Singapore, the Philippines, and India

(2) America the United States and Mexico

(3) Europe Switzerland, Germany, France and Italy

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

(Operating income)

Operating income increased 125.1% year on year, to ¥6,942 million. This was mainly due to the effect of higher sales, while fixed costs increased slightly.

(Net income attributable to owners of parent)

Net income attributable to owners of parent increased 58.5% year on year, to ¥4,171 million. As with operating income, this was also due to the effect of higher sales.

Associated with the listing of a consolidated subsidiary in China on the Stock Exchange of Hong Kong Limited in the fiscal year under review (September 2017), the Group posted net income attributable to non-controlling interests of ¥513 million.

(Segment)

Operating results by business segment are stated in "Section 2. Business Situation, 3. Analysis of financial position, operating results, and cash flows by management, (1) Overview of operating results, etc., (i) Financial position and operating results."

Net sales increased 46.7% year on year in China, as the strong performance in the Chinese market continued. Net sales increased 18.1% year on year in Japan because both the Japanese and the European markets remained firm. Operating income also rose year on year in line with the increase in net sales.

Associated with the inclusion of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED in the scope of consolidated as a consolidated subsidiary as a result of an increase in its significance, the Group has newly added "India" to reportable segments.

b. Factors which may have a significant impact on operating results

The factors which may have a significant impact on operating results of the Group are described in "Section 2. Business Situation, 2. Business and other risks".

c. Financial source of capital and liquidity of funds

The situation of cash flows is stated in "Section 2. Business Situation, 3. Analysis of financial position, operating results, and cash flows by management, (1) Overview of operating results, etc., (ii) Cash flows."

In the fiscal year under review, funds increased by ¥5,837 million with the issuing of new shares associated with the listing of a consolidated subsidiary in China on the Stock Exchange of Hong Kong Limited and by ¥2,288 million due to the sale of shares of a subsidiary owned by the parent company.

The Group plans to make capital expenditures including the construction of a new factory in Anhui, China with the said funds and cash provided by operating activities, etc., as stated in "Section 3. Facilities, 3. Equipment introduction and retirement plans."

#### 4. Significant management contracts

Not applicable.

#### 5. Research and development activities

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

Total R&D expenses in the entire Group in the consolidated fiscal year under review were ¥1,318 million.

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

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

During the consolidated fiscal year under review, the Company developed the B026/32/38V-III CNC precision automatic lathe, the M06/08SJ-II CNC lathe and the VL3 High speed vertical machining center.

### Section 3. Facilities

#### 1. Overview of capital investment

Capital expenditures of the Group were ¥1,658 million.

Capital expenditures by business segment are as follows:

Capital expenditures in Japan were ¥689 million, which was allocated primarily to production facilities at Nagaoka factory of the Company.

Capital expenditures in China were ¥747 million, which was allocated primarily to production facilities at PRECISION TSUGAMI (CHINA) CORPORATION, a subsidiary.

Capital expenditures in South Korea were ¥154 million, which was allocated primarily to facilities at TSUGAMI KOREA Co., Ltd., a subsidiary.

Capital expenditures in India were ¥66 million, which was allocated primarily to facilities at TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED, a subsidiary.

The Group's own funds for the capital expenditures.

#### 2. Major facilities

The table below shows major facilities of the Group.

##### (1) Submitting company

As of March 31, 2018

Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
			Buildings	Machinery and equipment	Land (m <sup>2</sup> )	Leased assets	Other	Total	
Nagaoka factory (Nagaoka-shi, Niigata)	Japan	Equipment for producing machine tools	1,808	254	177 (69,281)	6	194	2,441	368 (72)

##### (2) Overseas subsidiary

As of March 31, 2018

Corporate name	Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
				Buildings	Machinery and equipment	Land (m <sup>2</sup> )	Leased assets	Other	Total	
PRECISION TSUGAMI (CHINA) CORPORATION	China factory (Zhejiang, China)	China	Equipment for producing machine tools	1,979	2,450	--	--	83	4,513	1,679 (--)
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	China factory (Zhejiang, China)	China	Equipment for producing machine tools	344	108	--	--	17	470	72 (--)

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

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

3. Main equipment that is out of service is as follows:

As of March 31, 2018

Factory (location)	Business segment	Facilities	Book value (Million yen)						Number of employees
			Buildings	Machinery and equipment	Land (m <sup>2</sup> )	Leased assets	Other	Total	
Niigata factory (Higashi-ku, Niigata-shi, Niigata)	Japan	Idle asset	222	8	164 (18,245)	--	8	403	-- (--)

### 3. Equipment introduction and retirement plans

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

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

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

Corporate name, factory	Location	Business segment	Facilities	Planned investments (Million yen)		Financing method	Planned start and completion date	
				Total	Amount paid		Start	Completion
Nagaoka factory of the Company	Nagaoka-shi, Niigata	Japan	Buildings and others	380	--	Self-financing	April 2018	March 2019
PRECISION TSUGAMI (CHINA) CORPORATION	Zhejiang, China	China	Buildings, machinery and equipment	1,545	--	Self-financing	April 2018	March 2019
Precision Tsugami (Anhui) Corporation	Anhui, China	China	Buildings, machinery and equipment	3,384	--	Self-financing	August 2018	December 2019



**Section 4. Situation of Submitting Company****1. Shares of the Company****(1) Total number of shares and other information****(i) Total number of shares**

Type	Number of shares issuable
Common stock	320,000,000
Total	320,000,000

**(ii) Shares issued**

Type	Number of shares issued at end of fiscal year (March 31, 2018)	Number of shares issued on the date of the submission of the report (June 21, 2018)	Stock exchange or registered financial instruments dealers association	Remarks
Common stock	55,000,000	55,000,000	The First Section of the Tokyo Stock Exchange	Number of shares per unit: 1,000
Total	55,000,000	55,000,000	--	--

(Note) The figures in the number of shares issued on the date of the submission of the report column do not include shares issued through the exercise of subscription rights to shares from June 1, 2018 through the date of the submission of the report.

## (2) Subscription rights to shares

## (i) Stock option system

Date of relevant resolution	June 24, 2005
Positions and numbers of officers to receive stock options	<div>The Company's directors 4</div> <div>Statutory auditors 4</div> <div>Titled executive officers 7</div>
Number of subscription rights to shares (Note 1)	59
Type, number and content of shares underlying subscription right to shares (Note 1)	<div>Common stock</div> <div>59,000</div>
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1
Exercise period (Note 1)	From July 1, 2005 to June 30, 2025
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	<div>Issue price: 1</div> <div>Amount per share to be credited to capital: 1</div>
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--

Date of relevant resolution	June 23, 2006	June 23, 2006
Positions and numbers of officers to receive stock options	<div>The Company's directors 4</div> <div>Statutory auditors 4</div>	<div>Titled executive officers 8</div> <div>Employees with similar positions 3</div>
Number of subscription rights to shares (Note 1)	22	14
Type, number and content of shares underlying subscription right to shares (Note 1)	<div>Common stock</div> <div>22,000</div>	<div>Common stock</div> <div>14,000</div>
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 21, 2006 to July 20, 2026	From July 21, 2006 to June 20, 2026
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	<div>Issue price: 609</div> <div>Amount per share to be credited to capital: 305</div>	<div>Issue price: 609</div> <div>Amount per share to be credited to capital: 305</div>
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	(Note 3)	(Note 3)

Date of relevant resolution	June 22, 2007	June 22, 2007
Positions and numbers of officers to receive stock options	The Company's directors 4 Statutory auditors 4	Titled executive officers 11 Employees with similar positions 1
Number of subscription rights to shares (Note 1)	29	24
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 29,000	Common stock 24,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 10, 2007 to July 9, 2027	From July 10, 2007 to July 9, 2027
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 514 Amount per share to be credited to capital: 257	Issue price: 514 Amount per share to be credited to capital: 257
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	(Note 3)	(Note 3)

Date of relevant resolution	June 20, 2008	June 20, 2008
Positions and numbers of officers to receive stock options	The Company's directors 7 Statutory auditors 4	Titled executive officers 18
Number of subscription rights to shares (Note 1)	37	8
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 37,000	Common stock 8,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 8, 2008 to July 7, 2028	From July 8, 2008 to July 7, 2028
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 280 Amount per share to be credited to capital: 140	Issue price: 280 Amount per share to be credited to capital: 140
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	(Note 3)	(Note 3)

Date of relevant resolution	June 19, 2009	June 19, 2009
Positions and numbers of officers to receive stock options	The Company's directors 7 Statutory auditors 4	Titled executive officers and employees with similar positions 14
Number of subscription rights to shares (Note 1)	93	21
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 93,000	Common stock 21,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 7, 2009 to July 6, 2029	From July 7, 2009 to July 6, 2029
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 124 Amount per share to be credited to capital: 62	Issue price: 124 Amount per share to be credited to capital: 62
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 18, 2010	June 18, 2010
Positions and numbers of officers to receive stock options	The Company's directors 7 Statutory auditors 4	Titled executive officers and employees with similar positions 20
Number of subscription rights to shares (Note 1)	51	14
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 51,000	Common stock 14,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 6, 2010 to July 5, 2030	From July 6, 2010 to July 5, 2030
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 533 Amount per share to be credited to capital: 267	Issue price: 533 Amount per share to be credited to capital: 267
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 17, 2011	June 17, 2011
Positions and numbers of officers to receive stock options	The Company's directors 8 Statutory auditors 4	Titled executive officers and employees with similar positions 14
Number of subscription rights to shares (Note 1)	92	32
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 92,000	Common stock 32,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 5, 2011 to July 4, 2031	From July 5, 2011 to July 4, 2031
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 409 Amount per share to be credited to capital: 205	Issue price: 409 Amount per share to be credited to capital: 205
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 15, 2012	June 15, 2012
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 4	Titled executive officers and employees with similar positions 19
Number of subscription rights to shares (Note 1)	95	28
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 95,000	Common stock 28,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 3, 2012 to July 2, 2032	From July 3, 2012 to July 2, 2032
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 460 Amount per share to be credited to capital: 230	Issue price: 460 Amount per share to be credited to capital: 230
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 21, 2013	June 21, 2013
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 4	Titled executive officers and employees with similar positions 23
Number of subscription rights to shares (Note 1)	119	50
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 119,000	Common stock 50,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 9, 2013 to July 8, 2033	From July 9, 2013 to July 8, 2033
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 446 Amount per share to be credited to capital: 223	Issue price: 446 Amount per share to be credited to capital: 223
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 21, 2013	June 20, 2014
Positions and numbers of officers to receive stock options	Employees of the Company 59 Directors of subsidiaries of the Company 2	The Company's directors 9 Statutory auditors 5
Number of subscription rights to shares (Note 1)	29	139
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 29,000	Common stock 139,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	575	1
Exercise period (Note 1)	From July 9, 2015 to June 30, 2018	From July 8, 2014 to July 7, 2034
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 755 Amount per share to be credited to capital: 378	Issue price: 453 Amount per share to be credited to capital: 227
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 20, 2014	June 20, 2014
Positions and numbers of officers to receive stock options	Titled executive officers and employees with similar positions 19	Employees of the Company 63
Number of subscription rights to shares (Note 1)	50	44
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 50,000	Common stock 44,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	584
Exercise period (Note 1)	From July 8, 2014 to July 7, 2034	From July 8, 2016 to June 30, 2019
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 453 Amount per share to be credited to capital: 227	Issue price: 750 Amount per share to be credited to capital: 375
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 18, 2015	June 18, 2015
Positions and numbers of officers to receive stock options	The Company's directors 8 Statutory auditors 5	Titled executive officers and employees with similar positions 25
Number of subscription rights to shares (Note 1)	115	61
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 115,000	Common stock 61,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 7, 2015 to July 6, 2035	From July 7, 2015 to July 6, 2035
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 527 Amount per share to be credited to capital: 263	Issue price: 527 Amount per share to be credited to capital: 263
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 22, 2016	June 22, 2016
Positions and numbers of officers to receive stock options	The Company's directors 8 Statutory auditors 5	Titled executive officers and employees with similar positions 24
Number of subscription rights to shares (Note 1)	155	106
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 155,000	Common stock 106,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 8, 2016 to July 7, 2036	From July 8, 2016 to July 7, 2036
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 273 Amount per share to be credited to capital: 136	Issue price: 273 Amount per share to be credited to capital: 136
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--

Date of relevant resolution	June 21, 2017	June 21, 2017
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Titled executive officers and employees with similar positions 25
Number of subscription rights to shares (Note 1)	107	82
Type, number and content of shares underlying subscription right to shares (Note 1)	Common stock 107,000	Common stock 82,000
Amount to be paid for the exercise of subscription right to shares (yen) (Note 1)	1	1
Exercise period (Note 1)	From July 7, 2017 to July 6, 2037	From July 7, 2017 to July 6, 2037
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen) (Note 1)	Issue price: 707 Amount per share to be credited to capital: 354	Issue price: 707 Amount per share to be credited to capital: 354
Conditions for the exercise of subscription right to shares (Note 1)	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares (Note 1)	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts (Note 1)	--	--



Date of relevant resolution	June 20, 2018	June 20, 2018
Positions and numbers of officers to receive stock options	The Company's directors 5	Titled executive officers and employees with similar positions 25
Number of subscription rights to shares	540	970
Type, number and content of shares underlying subscription right to shares	Common stock 54,000	Common stock 97,000
Amount to be paid for the exercise of subscription right to shares (yen)	1	1
Exercise period	From July 7, 2018 to July 6, 2038	From July 7, 2018 to July 6, 2038
Issue price and amount per share to be credited to capital when shares are issued through the exercise of subscription rights to shares (yen)	Issue price: -- Amount per share to be credited to capital: --	Issue price: -- Amount per share to be credited to capital: --
Conditions for the exercise of subscription right to shares	(Note 2)	(Note 2)
Matters relating to the transfer of subscription rights to shares	The approval of the Board of Directors is required for the transfer of subscription rights to shares.	The approval of the Board of Directors is required for the transfer of subscription rights to shares.
Matters relating to the delivery of subscription rights to shares in association with reorganization acts	--	--

- (Note) 1. The contents at end of fiscal year under review (March 31, 2018) are stated. There are no items changed from the end of fiscal year under review to the end of month preceding date of submission of the report (May 31, 2018).
2. The conditions for the exercise of subscription rights to shares shall be stipulated in a resolution of the Board of Directors, of the Company and the "Subscription Rights to Share Allocation Agreement" concluded between the Company and the recipients of subscription rights to shares, based on the resolution.
3. In the event of a stock swap or a stock transfer in which the Company will become a wholly owned subsidiary, obligations relating to subscription rights to shares that are not exercised or canceled shall be able to be transferred to the company that will become the parent company through the stock swap or stock transfer under certain conditions. Details shall be specified in the invitation to issuing of subscription.

(ii) Features of rights plan

Not applicable

(iii) Other Important Matters on Subscription rights to shares, etc.

Not applicable

## (3) Exercise of bonds with subscription rights to shares with an amended exercise price

Not applicable.

## (4) Changes in the number of shares outstanding and capital

Date	Change in number of shares outstanding (shares)	Number of shares outstanding (shares)	Change in capital stock (Million yen)	Capital stock (Million yen)	Change in Legal capital surplus (Million yen)	Legal capital surplus (Million yen)
August 1, 2016 (Note 1)	--	74,919,379	--	12,345	-5,884	--
August 10, 2016 (Note 2)	-10,000,000	64,919,379	--	12,345	--	--
October 20, 2017 (Note 2)	-9,919,379	55,000,000	--	12,345	--	--

(Note) 1. In accordance with Article 448, Paragraph 1 of the Companies Act, it reduced and transfer the legal capital surplus to other capital surplus.

2. The decrease of outstanding shares was due to the retirement of treasury stock.

## (5) Ownership of shares by owner

As of March 31, 2018

Classification	Ownership of shares (one unit is 1,000 shares)								Fractional shares (shares)
	Government and local governments	Financial institutions	Securities companies	Other corporations	Foreign corporations and individuals		Individuals and others	Total	
					Entities other than individuals	Individuals			
Number of shareholders	--	40	45	112	151	4	4,551	4,903	--
Number of shares held (unit)	--	18,906	1,214	4,036	16,842	19	13,616	54,633	367,000
Holdings (%)	--	34.6	2.2	7.4	30.9	0.0	24.9	100.0	--

(Note) 1. Treasury stock (1,918,101 shares) includes 1,918 units in the individuals and others category and 101 fractional shares.

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

## (6) Major shareholders

As of March 31, 2018

Name	Address	Number of shares held (thousand shares)	Ratio of holdings to the number of shares issued (%)
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	5,379	10.13
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	1-8-12, Harumi, Chuo-ku, Tokyo	2,592	4.88
The Dai-ichi Life Insurance Company, Limited (Standing agency: Trust & Custody Services Bank, Ltd.)	1-13-1, Yurakucho, Chiyoda-ku, Tokyo (1-8-12, Harumi, Chuo-ku, Tokyo)	2,103	3.96
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	1,895	3.56
MSCO CUSTOMER SECURITIES (Standing agency: Morgan Stanley MUFG Securities Co., Ltd.)	1585 Broadway New York, New York 10036, U.S.A. (1-9-7 Otemachi, Chiyoda-ku, Tokyo)	1,799	3.39
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	5TH FLOOR, TRINITY TOWER 9, THOMAS MORE STREET LONDON, E1W 1YT, UNITED KINGDOM	1,796	3.38
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	1,516	2.85
The Hokuetsu Bank, Ltd.	2-2-14, Otedori, Nagaoka-shi, Niigata	1,484	2.79
Tsugami Customers' Shareholding Association	1-1-1, Higashi-Zao, Nagaoka-shi, Niigata	1,110	2.09
THE BANK OF NEW YORK MELLON 140044	225 LIBERTY STREET, NEW YORK, NEW YORK, U.S.A.	930	1.75
Total	--	20,606	38.82

- (Note) 1. All shares held by Japan Trustee Services Bank, Ltd. relate to the trust service.  
2. All shares held by The Master Trust Bank of Japan, Ltd. relate to the trust service.  
3. All shares held by Mizuho Trust & Banking Co., Ltd. relate to the trust service.  
4. The number of shares held by The Dai-ichi Life Insurance Company, Limited 3 thousand shares in separate pension accounts.

## (7) Voting rights

## (i) Shares issued

As of March 31, 2018

Classification	Number of shares	Number of voting rights	Remarks
Nonvoting shares	--	--	--
Shares with limited voting rights (Treasury stock)	--	--	--
Shares with limited voting rights (other shares)	--	--	--
Shares with complete voting rights (Treasury stock)	Common stock 1,918,000	--	--
Shares with complete voting rights (other shares)	Common stock 52,715,000	52,715	--
Fractional shares	Common stock 367,000	--	--
Total number of shares issued	55,000,000	--	--
Number of voting rights of all shareholders	--	52,715	--

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

## (ii) Treasury stock

As of March 31, 2018

Owner	Address of owner	Number of shares held under the owner's own name (shares)	Number of shares held under the name of any other person (shares)	Total number of shares held (shares)	Ratio of holdings to the number of shares issued (%)
Tsugami Corporation	12-20, Tomizawa-cho Nihonbashi, Chuo-ku, Tokyo	1,918,000	--	1,918,000	3.5
Total	--	1,918,000	--	1,918,000	3.5

## 2. Acquisition of Treasury stock

Type of stock The acquisition of common stock under Article 155, Item 3 of the Companies Act and the acquisition of common stock under Article 155, Item 7 of the Companies Act

## (1) Acquisition based on resolutions at the shareholders meeting

Not applicable.

## (2) Acquisition based on resolutions at Board of Directors meeting

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on December 12, 2016 (Acquisition period: from December 12, 2016 to June 20, 2017)	2,000,000	1,300,000,000
Treasury stock acquired before the fiscal year under review	1,735,000	1,196,862,000
Treasury stock acquired in the fiscal year under review	--	--
Number and total value of remaining Treasury stock	265,000	103,138,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	13.3	7.9
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	13.3	7.9

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on March 13, 2017 (Acquisition period: from March 14, 2017 to September 14, 2017)	2,000,000	1,450,000,000
Treasury stock acquired before the fiscal year under review	241,000	176,585,000
Treasury stock acquired in the fiscal year under review	1,546,000	1,261,873,000
Number and total value of remaining Treasury stock	213,000	11,542,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	10.7	0.8
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	10.7	0.8

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on June 21, 2017 (Acquisition period: from June 21, 2017 to December 8, 2017)	2,000,000	1,600,000,000
Treasury stock acquired before the fiscal year under review	--	--
Treasury stock acquired in the fiscal year under review	1,570,000	1,339,295,000
Number and total value of remaining Treasury stock	430,000	290,705,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	21.5	16.3
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	21.5	16.3

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on July 12, 2017 (Acquisition period: from July 12, 2017 to December 8, 2017)	2,000,000	1,700,000,000
Treasury stock acquired before the fiscal year under review	--	--
Treasury stock acquired in the fiscal year under review	1,929,000	1,662,526,000
Number and total value of remaining Treasury stock	71,000	37,474,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	3.6	2.2
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	3.6	2.2

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on September 15, 2017 (Acquisition period: from September 15, 2017 to March 9, 2018)	2,000,000	1,900,000,000
Treasury stock acquired before the fiscal year under review	--	--
Treasury stock acquired in the fiscal year under review	1,913,000	1,851,701,000
Number and total value of remaining Treasury stock	87,000	48,299,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	4.4	2.5
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	4.4	2.5

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on November 13, 2017 (Acquisition period: from November 13, 2017 to March 9, 2018)	1,000,000	1,150,000,000
Treasury stock acquired before the fiscal year under review	--	--
Treasury stock acquired in the fiscal year under review	371,000	555,975,000
Number and total value of remaining Treasury stock	629,000	594,025,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	62.9	51.7
Treasury stock acquired in the current fiscal year	--	--
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	62.9	51.7

Classification	Number of shares	Total value (yen)
Resolution at a Board of Directors meeting held on March 12, 2018 (Acquisition period: from March 12, 2018 to September 13, 2018)	1,000,000	1,350,000,000
Treasury stock acquired before the fiscal year under review	--	--
Treasury stock acquired in the fiscal year under review	126,000	163,704,000
Number and total value of remaining Treasury stock	874,000	1,186,296,000
Ratio of Treasury stock that had not been acquired until the end of the fiscal year under review (%)	87.4	87.9
Treasury stock acquired in the current fiscal year	578,000	717,969,000
Ratio of Treasury stock that has not been acquired until the date of the submission of the report (%)	29.6	34.7

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

Classification	Number of shares	Total value (yen)
Treasury stock acquired in the fiscal year under review	6,273	7,327,280
Treasury stock acquired in the current fiscal year	2,104	2,838,653

(Note) The Treasury stock acquired in the current fiscal year does not include fractional shares repurchased from June 1, 2017 to the date of the submission of the report.

## (4) Treatment of acquired Treasury stock and Treasury stock held

Classification	Fiscal year under review		Current fiscal year	
	Number of shares	Total value disposed of (yen)	Number of shares	Total value disposed of (yen)
Acquired Treasury stock offered to prospective underwriters	--	--	--	--
Acquired Treasury stock cancelled	9,919,379	7,637,921,830	--	--
Acquired Treasury stock transferred in relation to mergers, stock swaps, and company splits	--	--	--	--
Other (Note 1,2)	554,000	376,343,000	--	--
Treasury stock held(Note 3)	1,918,101	—	2,498,205	--

- (Note) 1. Exercise of subscription rights to shares (554,000 shares, disposal of ¥376,343,000) in the fiscal year under review.  
2. The Treasury stock disposed of in the current fiscal year does not include fractional shares transferred from June 1, 2018 to the date of the submission of the report.  
3. The Treasury stock held in the current fiscal year does not include fractional shares repurchased or transferred from June 1, 2018 to the date of the submission of the report.



### 3. Dividend Policy

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

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

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

For the year ended March 31, 2018, the Company has decided to pay annual dividends of 18 yen per share including interim dividends of 9 yen per share and a year-end dividends of 9 yen per share.

Dividends are determined by the Board of Directors.

The Articles of Incorporation stipulate that the Company may pay dividends by resolution of the Board of Directors under the provisions of Article 459, Paragraph 1 of the Companies Act.

For the fiscal year ending March 31, 2019 the Company plans to pay annual dividends of 18 yen per share, including interim dividends of 9 yen per share and year-end dividends of 9 yen per share.

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

The table below shows dividends for the fiscal year ended of March 31, 2018

Resolution	Total amount of dividend (Million yen)	Dividend per share (yen)
Resolution of Board of Directors on November 13, 2017	498	9.00
Resolution of Board of Directors on May 11, 2018	477	9.00

### 4. Trends in Stock Prices

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

Fiscal term	111 <sup>th</sup> term	112 <sup>th</sup> term	113 <sup>th</sup> term	114 <sup>th</sup> term	115 <sup>th</sup> term
Closing month and year	March 2014	March 2015	March 2016	March 2017	March 2018
Highest (yen)	677	814	788	783	1,834
Lowest (yen)	426	505	355	385	730

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

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

Month	October 2017	November	December	January 2018	February	March
Highest (yen)	1,189	1,279	1,473	1,834	1,751	1,452
Lowest (yen)	932	1,084	1,157	1,461	1,403	1,265

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

## 5. Officers

Male: 11 Female: -- (The ratio of female among the officers: -- %)

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Representative Director	Chairman and CEO	Takao Nishijima	December 14, 1947	May 1970 Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.) Feb. 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. Jun. 2000 Director and General Manager of the Sales Development Division, Control Headquarters Apr. 2003 Representative Director, Chairman and CEO Apr. 2006 Representative Director, Chairman and CEO Apr. 2012 Representative Director, Chairman and CEO (current positions)	(Note 3)	10
Representative Director	CFO	Nobuaki Takahashi	February 10, 1964	Apr. 1987 Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation) Apr. 2011 Head of Mizonokuchi corporate business office of Sumitomo Mitsui Banking Corporation Apr. 2013 Manager of Credit Review Dept. of Sumitomo Mitsui Banking Corporation Apr. 2016 Head of Credit Review Dept. of Sumitomo Mitsui Banking Corporation Apr. 2018 Senior adviser, administration of the Company Jun. 2018 Director of the Company (current position)	(Note 3)	--
Director	Senior Advisor, President of TSUGAMI KOREA Co., Ltd.,	Byun Jae-Hyun	July 10, 1956	Oct. 1982 General Manager of the Import Business Division of Samsung C&T Corporation Jul. 2000 CEO of DI Corporation Jan. 2007 Vice President of Exicon Co., Ltd. Jan. 2010 President of TSUGAMI KOREA Co., Ltd. Apr. 2012 Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd. Jun. 2012 Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd. Jun. 2013 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd. Sep. 2014 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (current positions)	(Note 3)	--

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Director	President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.	Kameswaran Balasubramanian	March 28, 1960	<p>1983 Master of Science (physics), Indian Institutes of Technology Delhi</p> <p>Founder and President of PROTECK MACHINERY LTD. (current position)</p> <p>Apr. 2013 Director of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.</p> <p>Apr. 2014 President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position)</p> <p>Jun. 2018 Director of the Company (current position)</p>	(Note 3)	--
Director	Senior Advisor, President of PRECISION TSUGAMI (CHINA) CORPORATION	Donglei TANG	November 27, 1962	<p>Nov. 2005 Joined the Company</p> <p>Jun. 2010 Director, Managing Executive Officer in charge of China Operations of the Company</p> <p>Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Feb. 2017 Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>Director of Precision Tsugami (Hong Kong) Limited</p> <p>Executive director of Precision Tsugami (China) Corporation Limited (current position)</p> <p>Jun. 2018 Director of the Company (current position)</p>	(Note 3)	--
Director		Shigeru Nishiyama	March 4, 1948	<p>Jun. 1971 Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)</p> <p>Jun. 2006 Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.</p> <p>Dec. 2008 Representative Director, President of HORAI Co., Ltd.</p> <p>Jun. 2010 Representative Director, CEO of HORAI Co., Ltd.</p> <p>Jun. 2013 Director of the Company (current position)</p> <p>Jun. 2013 Auditor at Mitsui Sugar Co., Ltd. (current position)</p>	(Note 3)	--
Director		Hitoshi Yoshida	November 26, 1959	<p>Apr. 1983 Joined TOKYO SEIMITSU CO., LTD.</p> <p>Apr. 2002 Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD.</p> <p>Apr. 2005 Managing Executive Officer of the Metrology Company of TOKYO SEIMITSU CO., LTD.</p> <p>Jun. 2005 Director of TOKYO SEIMITSU CO., LTD.</p> <p>Oct. 2007 President of the Metrology Company of TOKYO SEIMITSU CO., LTD.</p> <p>Jun. 2011 Representative Director of TOKYO SEIMITSU CO., LTD.</p> <p>Apr. 2015 President and CEO of TOKYO SEIMITSU CO., LTD. (current position)</p> <p>Jun. 2015 Statutory Auditor of the Company</p> <p>Jun. 2018 Director of the Company (current position)</p>	(Note 3)	--

Title	Job title	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Director (Members of the Audit and Supervisory Committee)		Kenji Yoneyama	March 7, 1965	Apr. 1988 Joined The Hokuetsu Bank, Ltd. Apr. 2011 Manager of the Ishiyama Branch of The Hokuetsu Bank, Ltd. Apr. 2013 Manager of the Kanda Branch of The Hokuetsu Bank, Ltd. Apr. 2015 Advisor of Accounting of the Company Oct. 2015 General Manager of Finance and Administration Apr. 2016 General Manager of Accounting Apr. 2017 Senior Advisor of Accounting Jun. 2017 Standing Statutory Auditor of the Company Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)		Takeo Nakagawa	October 12, 1938	May 1999 Professor Emeritus at the University of Tokyo (current post) Oct. 2000 CEO of Fine Tech Corporation Jun. 2002 Director of Nippon Pillar Packing Co., Ltd. Jun. 2007 Advisor of FANUC CORPORATION (current position) Jun. 2008 Director of the Company Feb. 2014 Director of OSG CORPORATION (current position) Apr. 2015 CEO of Fine Tech Corporation (current position) Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position)	(Note 4)	20
Director (Members of the Audit and Supervisory Committee)		Koichi Maruno	July 29, 1956	Apr. 1980 Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited) Mar. 2015 Outside auditor of SHIZUOKA GAS Co., Ltd. (current position) Oct. 2016 Senior Managing Executive Officer of Daiichi Life Holdings, Inc. Oct. 2016 Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited Apr. 2017 Representative Director, President of The Dai-ichi Life Research Institute INC (current position) Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position)	(Note 4)	--
Director (Members of the Audit and Supervisory Committee)		Kunio Shimada	August 16, 1959	Apr. 1986 Registered as an attorney (current position) Attorney with Iwata Godo Attorneys and Counsellors at Law Oct. 1991 Registered as an attorney in New York State Jun. 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position) Jul. 2010 Representative partner at Shimada Hamba & Osajima (current position) Jun. 2011 Director of the Company Nov. 2011 Supervisory Officer of Hulic Reit, Inc. (current position) Jun. 2018 Director of the Company (Members of the Audit and Supervisory Committee) (current position)	(Note 4)	--
Total						30

(Note) 1. Directors Shigeru Nishiyama and Hitoshi Yoshida are outside directors.

2. Directors who are members of the audit and supervisory committee Takeo Nakagawa, Koichi Maruno and Kunio Shimada are outside directors.

3. One year from the closing of the annual shareholders meeting held on June 20, 2018

4. Four years from the closing of the annual shareholders meeting held on June 20, 2018

## 6. Corporate Governance

### (1) Corporate governance

#### (Basic policy on corporate governance)

The Company is committed to fulfilling the expectations of its shareholders and fulfilling its corporate social responsibility as a member of the international community by making quick and appropriate management judgments that facilitate continued growth in corporate value and maintaining sound management through the building and reinforcement of an internal control system and its effective operation.

In addition, the Company made the shift to a company with an audit and supervisory committee with the approval of the shareholders' meeting held in June 2018. The Company will strengthen the governance system of the Board of Directors by audits conducted by the audit and supervisory committee members with voting rights at the Board of Directors meetings on the legality and adequacy of the execution of business and increase the mobility of the execution of business by delegating some of the business execution authority of the Board of Directors to directors.

#### (i) Corporate governance system

##### I) Outline of the corporate governance system and reason for the establishment of the system

The Company is a company with an audit and supervisory committee, and four audit and supervisory committee members including three outside directors (three independent directors) who are the audit and supervisory committee members audit the execution of duties of directors.

The number of directors (excluding directors who are the audit and supervisory committee members) is seven consisting of five inside directors and two outside directors.

The Company believes that it has created a system in which appropriate judgments are made because the Company is able to incorporate extensive insight and knowledge into important matters for company management, including the development of company-wide management strategies from an independent position that does not give rise to a conflict of interest with general shareholders, as a result of the election of outside directors.

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

##### II) Development of internal control system

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

##### i. Systems for ensuring the execution of the duties of directors and employees are in compliance with laws and ordinances and the Articles of Incorporation

a. Given that compliance is one of its key management issues, the Board of Directors shall establish the Tsugami Group Code of Conduct and develop a compliance policy to ensure that the Company operates based on sound social practices.

b. The Company shall establish a "whistle-blowing system," an internal reporting system through which activities that apparently violate the laws and ordinances, the Articles of Incorporation, any other internal rules, or social norms carried out by directors or employees are reported. Whistle blowers shall be protected.

c. The Company shall have an Audit Office, an organization under the direct control of the CEO, and shall conduct internal audits of compliance.

d. The Company has an audit and supervisory committee. The directors' execution of their duties shall be in accordance with the standards on audits by the audit and supervisory committee established by the audit and supervisory committee.

##### 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

a. The Company shall hold regular meetings of the Board of Directors once a month in principle, 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.

- b. 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.
- c. The Company shall hold monthly meetings of the Executive Committee, which consists of the CEO and the members who preside over the five divisions of Domestic Sales, Overseas Operation, Technology, Production and Administration, and discuss important business execution matters including those submitted to the Board of Directors.
- v. System for ensuring the appropriateness of business in the corporate group consisting of the Company and its subsidiaries
  - a. A system for reporting to the Company matters related to the execution of duties by the Directors of subsidiaries, and the like shall be put into operation.  
The Company shall set the Group Companies Management Regulations, and its subsidiaries shall report their monthly results, financial position and other important information at the Executive Committee every month in order for the Company to accurately understand the details of the subsidiaries' management.
  - b. Regulations and other systems relating to the management of risk loss at subsidiaries  
The Company shall hold meetings of the Risk Management Committee as needed, understand the risks and take appropriate measures for preventing or minimizing various risks that surround Group operations in compliance with risk management rules and essential risk management execution rules.
  - c. System for ensuring efficient execution of duties by the Directors of subsidiaries, and the like  
The Company shall respect the management independence of its subsidiaries. At the same time, the Company shall ensure efficiency by discussing important matters with the subsidiaries in advance at regular, monthly management meetings, and the like, and by asking the subsidiaries to resolve such matters at the meetings of their Board of Directors.
  - d. Systems for ensuring the conformity of the execution of duties by the Directors, and the like, and the employees of subsidiaries with laws, regulations and Articles of Incorporation
    - 1) The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.
    - 2) The Directors, etc., of the Company's subsidiaries shall take part in regular monthly management meetings and advance discussions on internal control.
    - 3) The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.
- vi. Matters concerning applicable employees in cases where the audit and supervisory committee request the assignment of employees who should assist them in their duties
  - a. The Company may assign employees (auxiliary employees) who should assist the audit and supervisory committee in cases where the audit and supervisory committee request their assignment.
  - b. The Company shall work to strengthen its system of auxiliary employees from the viewpoint of ensuring the effectiveness of the audit, taking into account corporate size, business type, management risks and other company-specific circumstances.
- vii. Matters concerning the independence of employees from Directors (other than directors who are members of the audit and supervisory committee) stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions the audit and supervisory committee provide to the concerned employees
  - a. The Company shall work to ensure the independence of auxiliary employees from Directors (other than directors who are members of the audit and supervisory committee).
  - b. The Company shall address issues, including clarification of the following items necessary for ensuring the independence of auxiliary employees.
    - 1) The authority that auxiliary employees have
    - 2) Organizations which auxiliary employees belong to
    - 3) Elimination of the chain of command Directors (other than directors who are members of the audit and supervisory committee) have over auxiliary employees
    - 4) Granting of consent rights to the audit and supervisory committee regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees
- viii. System concerning reports to the audit and supervisory committee
  - a. A system that enables the directors and employees of the Company to submit reports to the audit and supervisory committee.  
The directors (other than directors who are members of the audit and supervisory committee) and employees of the Company shall report the following items without delay to the audit and supervisory committee concerning the execution

of their duties.

- 1) Items concerning important facts that may affect the Company significantly when such facts are found
- 2) Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found
- 3) Results of internal audits performed by the internal audit division (the Audit Office)
- 4) The operational status for the Whistle-blowing System and the details of reports
- b. A system that enables the Directors, an audit and supervisory committee and employees of subsidiaries or individuals who received reports from them to submit reports to the audit and supervisory committee of the Company
  - 1) The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the audit and supervisory committee of the Company without delay when they find such acts or facts.
  - 2) The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the audit and supervisory committee of the Company.
- ix. System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to the audit and supervisory committee for the reason of having submitted such reports  
 The Company shall work to establish a system that prevents the unfavorable treatment of individuals who submitted the reports stated in the foregoing paragraph to the audit and supervisory committee for the reason for having submitted such reports.
- x. Matters concerning procedures for the advance payment or the refunding of expenses that arise in connection with duty execution by the audit and supervisory committee or policies on processing expenses or debts that arise in connection with the execution of other concerned duties  
 The Company shall promptly comply with the concerned request when the audit and supervisory committee requests the advance payment of expenses, etc., in connection with the execution of his or her duties unless the requested expenses, etc., could be proven as unnecessary for the execution of the duties by the concerned the audit and supervisory committee.
- xi. Other systems for ensuring the effectiveness of audits performed by the audit and supervisory committee
  - a. The audit and supervisory committee shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.
  - b. The audit and supervisory committee shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.
  - c. The audit and supervisory committee shall stay in close cooperation with the internal audit division (the Audit Office). The audit and supervisory committee may ask the internal audit division to perform investigations as needed.
- xii. System for ensuring the reliability of financial reports
  - a. The Company shall establish the Internal Control Reporting System for ensuring the reliability of financial reports and submitting internal control reports effectively and appropriately as prescribed in the Financial Instruments and Exchange Act.
  - b. The Company shall continually evaluate internal control systems and take the necessary steps in order to correct them in order to ensure the compliance of such systems with the Financial Instruments and Exchange Act, other laws and regulations.
  - c. The internal audit division (the Audit Office), as a responsible division, shall implement monitoring, evaluation and assist in improving the operation of internal control systems.
- xiii. Systems for excluding antisocial forces
  - a. The Company shall systematically deal with antisocial forces that threaten social order and sound corporate activities with a resolute attitude.
  - b. The Company shall deal with antisocial forces in cooperation with police, lawyers and external specialized agencies, such as corporate defense councils, when cases of unreasonable demand by such forces, and the like emerge.

### III) Accounting audit

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

The certified public accountants who carried out accountancy service for the Company are Messrs. Kazunari Tsukada and Eishi Daikoku, who all work for Ernst & Young ShinNihon LLC. Eight certified public accountants and 12 other members assisted with the accountancy service.

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

Outside Director Shigeru Nishiyama was Representative Director, CEO of HORAI Co., Ltd. until December 2012. There are no trading relationships between HORAI Co., Ltd. and the Company. Mr. Shigeru Nishiyama was also Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc. until June 2008. Sumitomo Mitsui Banking Corporation, a company of the Sumitomo Mitsui Financial Group, is the main financial institution of the Company. Sumitomo Mitsui Banking Corporation has 1,516,000 shares in the Company.

Outside Director Hitoshi Yoshida is President and CEO of TOKYO SEIMITSU CO., LTD., which has 2,592,000 shares in the Company. The Company has 1,033,000 shares in Tokyo Seimitsu. Tokyo Seimitsu and the Company trade products.

Outside Director Takeo Nakagawa is a professor emeritus at the University of Tokyo and the CEO of Fine Tech Corporation. The Company trade products with Fine Tech. Mr. Takeo Nakagawa holds the position of Outside Statutory Auditor of FANUC CORPORATION, which has 327,000 shares in the Company. The Company has 50,000 shares in FANUC. The Company trade products with FANUC. Mr. Takeo Nakagawa is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Koichi Maruno is Representative Director, President of The Dai-ichi Life Research Institute INC. The Company has 38,700 shares in Dai-ichi Life Holdings, Inc. The Dai-ichi Life Insurance Company, Limited has 2.1 million shares in the Company. Mr. Koichi Maruno is registered as an independent officer with the Tokyo Stock Exchange.

Outside Director Kunio Shimada is a representative partner at Shimada Hamba & Osajima. There are no trading relationships between Shimada Hamba & Osajima and the Company. Mr. Kunio Shimada is registered as an independent officer with the Tokyo Stock Exchange.

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

V) Standards and policies for the independence of outside directors from the Company

The Company does not have any clearly defined standards or policies for the independence of outside directors. However, when appointing outside directors, the Company checks their backgrounds and its relationships with them to ensure that each can remain independent and that conflicts of interest that may affect general shareholders are unlikely to occur.



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

Post	Total compensation (Million yen)	Breakdown of compensation (Million yen)				Number of officers
		Basic compensation	Stock option	Bonus	Compensation benefit	
Director (excluding Outside Director)	186	140	45	--	--	6
Statutory Auditor (excluding Outside Auditor)	35	24	10	--	--	3
Outside officer	58	46	11	--	--	6

(Note) 1. The above figures include one director who retired on June 21, 2017.

- The maximum amount of compensation for directors was resolved to be not more than cash compensation of ¥250 million per annum by the 109th annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than ¥80 million per annum by the 109th annual shareholders meeting.
- The maximum amount of compensation for statutory auditors was resolved to be not more than cash compensation of ¥60 million per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation 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 per annum by the 104th annual shareholders meeting.
- The upper limit of total compensation for directors is stipulated in a resolution of the shareholders meeting. Compensation for each director is determined in consideration of the importance of the role, responsibilities, and duties of each director. The upper limit of total compensation for statutory auditors is stipulated in a resolution of the shareholders meeting. Compensation for each statutory auditor is determined through consultation among the statutory auditors in consideration of whether they are full-time or part-time auditors and of audit work assigned to each statutory auditor.

## Policy of determining compensation for the Directors

The upper limit of total compensation for directors (other than directors who are members of the audit and supervisory committee) is stipulated in a resolution of the shareholders meeting. Compensation for each director is determined in consideration of the importance of the role, responsibilities, and duties of each director.

The upper limit of total compensation for directors who are members of the audit and supervisory committee is stipulated in a resolution of the shareholders meeting. Compensation for each director is determined through consultation among the members of the audit and supervisory committee in consideration of whether they are full-time or part-time auditors and of audit work assigned to each director.

## (iii) Share holding

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

19 stocks      ¥8,278 million

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

At end of the previous fiscal year

Specific stocks held

Stock	Number of shares	Balance sheet amount (Million yen)	Purpose
Tokyo Seimitsu Co., Ltd.	1,033,000	3,620	To strengthen the business relationship
FANUC CORPORATION	50,000	1,141	To strengthen the business relationship
DAIKIN INDUSTRIES, LTD	46,700	522	To strengthen the business relationship
YAMAZEN CORPORATION	500,000	501	To strengthen the business relationship
YUASA TRADING CO., LTD.	100,000	308	To strengthen the business relationship
DMG MORI SEIKI CO., LTD.	100,000	173	To strengthen the business relationship
THK CO., LTD.	59,000	165	To strengthen the business relationship
The Hokuetsu Bank, Ltd.	52,782	151	To strengthen the business relationship
MinebeaMitsumi Inc.	100,000	148	To strengthen the business relationship
The Hachijuni Bank, Ltd.	196,000	123	To strengthen the business relationship
The Daishi Bank, Ltd.	241,000	106	To strengthen the business relationship
Mitsubishi UFJ Financial Group, Inc.	134,800	94	To strengthen the business relationship
Dai-ichi Life Holdings, Inc.	38,700	77	To strengthen the business relationship
Teikoku Tsushin Kogyo Co., Ltd.	80,000	15	To strengthen the business relationship
TOMITA CO., LTD.	10,194	7	To strengthen the business relationship

(Note) The Dai-ichi Life Insurance Company, Limited shifted to a holding company through a corporate split and changed its trade name to Dai-ichi Life Holdings, Inc. on October 1, 2016.

At end of the fiscal year under preview

Specific stocks held

Stock	Number of shares	Balance sheet amount (Million yen)	Purpose
Tokyo Seimitsu Co., Ltd.	1,033,000	4,436	To strengthen the business relationship
FANUC CORPORATION	50,000	1,348	To strengthen the business relationship
YAMAZEN CORPORATION	500,000	555	To strengthen the business relationship
DAIKIN INDUSTRIES, LTD	46,700	548	To strengthen the business relationship
YUASA TRADING CO., LTD.	100,000	351	To strengthen the business relationship
THK CO., LTD.	59,000	259	To strengthen the business relationship
MinebeaMitsumi Inc.	100,000	227	To strengthen the business relationship
The Hokuetsu Bank, Ltd.	53,245	123	To strengthen the business relationship
The Daishi Bank, Ltd.	24,100	113	To strengthen the business relationship
The Hachijuni Bank, Ltd.	196,000	111	To strengthen the business relationship
Mitsubishi UFJ Financial Group, Inc.	134,800	93	To strengthen the business relationship
Dai-ichi Life Holdings, Inc.	38,700	75	To strengthen the business relationship
Teikoku Tsushin Kogyo Co., Ltd.	16,000	20	To strengthen the business relationship
TOMITA CO., LTD.	10,996	13	To strengthen the business relationship

## (iv) Outline of contracts for limitation of liability

Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company and the outside directors (other than directors who have executive authority over operations) have concluded contracts to limit liability for damages stipulated in Article 423, Paragraph 1 of the Companies Act.

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

## (v) Decision-making body of dividends etc.

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

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

## (vi) Number of directors

The Articles of Incorporation stipulate that the number of the Company's directors (other than directors who are members of the audit and supervisory committee) is 10 at maximum and the number of the Company's directors who are members of the audit and supervisory committee is five at maximum.

## (vii) Requirements for a resolution to elect directors

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

## (viii) Requirements for a special resolution in shareholders meeting

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

## (2) Audit fees

## (i) Breakdown of compensation to auditing certified public accountants

Classification	Previous fiscal year		Fiscal year under review	
	Compensation for audit certification work (Million yen)	Compensation for non-audit work (Million yen)	Compensation for audit certification work (Million yen)	Compensation for non-audit work (Million yen)
Submitting company	33	30	33	3
Consolidated subsidiaries	--	--	--	--
Total	33	30	33	3

## (ii) Other important compensation

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, signed agreements for audit certification work and outsourcing of accounting audit and internal governance support in relation to listing on stock markets in Asia with Ernst & Young Hua Ming Certified Public Accountants, which belongs to the same network as the accounting auditor for the Company. Fees payable in relation to the two agreements is ¥16 million.

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

PRECISION TSUGAMI (CHINA) CORPORATION, a consolidated subsidiary, signed agreements for audit certification work and outsourcing of accounting audit and internal governance support in relation to listing on stock markets in Asia with Ernst & Young Hua Ming Certified Public Accountants, which belongs to the same network as the accounting auditor for the Company. Fees payable in relation to the two agreements is ¥58 million.

(iii) Non-audit work of auditing certified public accountants for the submitting company

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

The Company paid compensation to accounting auditors for assurance engagements for PRECISION TSUGAMI (CHINA) CORPORATION, one of the Company's subsidiaries, in accordance with the International Standard on Assurance Engagement (ISAE3000).

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

The Company paid compensation to accounting auditors for the preparatory work for the change in accounting standards to the international accounting standards.

(iv) Policy for determining audit fees

Not applicable.

## Section 5. Financial Status

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

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

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

The company is required to submit special-purpose financial statements. Therefore, the non-consolidated financial statements are prepared in accordance with Article 127 of "Regulations for non-consolidated Financial Statements".

### 2. Audit certification

Under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year under review (from April 1, 2017 to March 31, 2018) and the financial statements for The 115th fiscal year (from April 1, 2017 to March 31, 2018) were audited by Ernst & Young ShinNihon LLC.

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

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

## 1. Consolidated Financial Statements, etc.

## (1) Consolidated financial statements

## (i) Consolidated balance sheets

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2017)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	4,666	10,286
Trade notes and accounts receivable	9,846	Note3 14,482
Merchandise and finished goods	7,108	7,063
Work in process	3,756	4,953
Raw materials and supplies	5,249	5,347
Consumption taxes receivable	718	1,046
Deferred tax assets	488	525
Other	676	516
Allowance for doubtful accounts	-41	-56
Total current assets	32,468	44,165
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,651	9,283
Accumulated depreciation	-4,014	-4,297
Buildings and structures (net)	4,636	4,985
Machinery, equipment and vehicles	8,297	8,095
Accumulated depreciation	-5,423	-5,065
Machinery, equipment and vehicles (net)	2,874	3,029
Land	450	409
Leased assets	38	38
Accumulated depreciation	-20	-28
Leased assets (net)	17	9
Construction in progress	0	416
Other	987	1,074
Accumulated depreciation	-770	-779
Other (net)	217	294
Total property, plant and equipment	8,196	9,145
Intangible assets	649	696
Investments and other assets		
Investment securities	7,157	8,278
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	915	67
Long-term loans receivable	593	3
Deferred tax assets	2	3
Other	Note 2 131	282
Total investments and other assets	8,813	8,648
Total non-current assets	17,659	18,490
Total assets	50,127	62,656

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2017)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2018)
Liabilities		
Current liabilities		
Trade notes and accounts payable	9,606	14,035
Short-term loans payable	4,183	3,200
Income taxes payable	525	1,068
Provision for bonuses	232	275
Advances received	905	2,166
Provision for product warranties	322	457
Other	986	1,618
Total current liabilities	16,762	22,821
Non-current liabilities		
Deferred tax liabilities	1,125	1,550
Provision for directors' retirement benefits	22	21
Net defined benefit liability	718	716
Other	36	29
Total non-current liabilities	1,902	2,318
Total liabilities	18,665	25,139
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	478	2,806
Retained earnings	17,250	13,257
Treasury stock	-2,986	-1,814
Total shareholders' equity	27,087	26,594
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	4,149
Foreign currency translation adjustment	329	409
Remeasurements of defined benefit plans	-104	-69
Total accumulated other comprehensive income	3,533	4,489
Subscription rights to shares	842	656
Non-controlling interests	--	5,776
Total net assets	31,462	37,516
Total liabilities and net assets	50,127	62,656

## (ii) Consolidated statements of income and comprehensive income

## Consolidated statements of income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)		Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)	
Net sales		41,050		57,576
Cost of sales	Note 1	31,418	Note 1	43,021
Gross profit		9,631		14,554
Selling, general and administrative expenses				
Salaries and allowances		1,601		1,839
Provision for bonuses		79		99
Retirement benefit expenses		52		58
Provision for directors' retirement benefits		5		3
Research and development expenses	Note 2	1,320	Note 2	1,318
Insurance expenses		164		177
Provision of allowance for doubtful accounts		--		12
Provision for product warranties		472		563
Other		2,853		3,541
Total selling, general and administrative expenses		6,547		7,612
Operating income		3,083		6,942
Non-operating income				
Interest income		23		58
Dividend income		141		158
Reversal of allowance for doubtful accounts		5		--
Insurance income		59		66
Share of profit of entities accounted for using equity method		11		--
Other		83		48
Total non-operating income		325		332
Non-operating expenses				
Interest expenses		185		124
Loss on sales of notes payable		90		154
Foreign exchange losses		25		119
Payment fee		156		269
Other		102		95
Total non-operating expenses		560		764
Ordinary income		2,848		6,510
Extraordinary income				
Gain on sales of non-current assets	Note 3	871	Note 3	36
Gain on sales of investments securities		--		97
Gain on sales of investments in capital of affiliate		--		81
Gain on reversal of subscription rights to shares		35		2
Subsidy income		47		90
Total extraordinary income		954		308
Extraordinary losses				
Loss on retirement of non-current assets	Note 4	91	Note 4	342
Loss on sales of non-current assets	Note 5	7	Note 5	5
Impairment loss	Note 6	26		--
Loss on valuation of golf club membership		9		--
Loss from performance of warranty against defects		--		30
Total extraordinary losses		135		378
Income before taxes and other adjustments		3,666		6,440
Corporate, inhabitant and enterprise taxes		1,076		1,715
Deferred taxes		-40		41
Total corporate and other taxes		1,035		1,756
Net income		2,630		4,684
Net income attributable to non-controlling interests		--		513
Net income attributable to owners of parent		2,630		4,171



## Consolidated Statements of Comprehensive Income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Net income	2,630	4,684
Other comprehensive income		
Valuation difference on available-for-sale securities	1,528	840
Foreign currency translation adjustment	-673	252
Remeasurements of defined benefit plans, net of tax	19	35
Share of other comprehensive income of entities accounted for using equity method	11	--
Total other comprehensive income	Note 885	Note 1,128
Comprehensive income	3,516	5,813
(Breakdown)		
Comprehensive income attributable to owners of parent	3,516	5,367
Comprehensive income attributable to non-controlling interests	--	445

## (iii) Consolidated statements of changes in net assets

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	12,345	5,884	15,653	-4,837	29,045
Change during the fiscal year					
Cash dividends paid			-1,034		-1,034
Net income attributable to owners of parent			2,630		2,630
Purchase of treasury stock				-3,734	-3,734
Disposal of treasury stock		-25		204	179
Retirement of treasury stock		-5,380		5,380	--
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	-5,405	1,596	1,850	-1,958
Balance as of March 31, 2018	12,345	478	17,250	-2,986	27,087

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	1,779	991	-123	2,647	900	32,594
Change during the fiscal year						
Cash dividends paid						-1,034
Net income attributable to owners of parent						2,630
Purchase of treasury stock						-3,734
Disposal of treasury stock						179
Retirement of treasury stock						--
Changes in items other than shareholders' equity during the fiscal year (net)	1,528	-662	19	885	-58	826
Total change during the fiscal year	1,528	-662	19	885	-58	-1,131
Balance as of March 31, 2018	3,308	329	-104	3,533	842	31,462

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2018	12,345	478	17,250	-2,986	27,087
Change during the fiscal year					
Cash dividends paid			-978		-978
Change in ownership interest of parent due to transactions with non-controlling interests		2,806			2,806
Net income attributable to owners of parent			4,171		4,171
Purchase of treasury stock				-6,842	-6,842
Disposal of treasury stock			-25	376	350
Retirement of treasury stock		-478	-7,159	7,637	--
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	2,327	-3,992	1,171	-492
Balance as of March 31, 2018	12,345	2,806	13,257	-1,814	26,594

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2017	3,308	329	-104	3,533	842	--	31,462
Change during the fiscal year							
Cash dividends paid							-978
Change in ownership interest of parent due to transactions with non-controlling interests							2,806
Net income attributable to owners of parent							4,171
Purchase of treasury stock							-6,842
Disposal of treasury stock							350
Retirement of treasury stock							--
Changes in items other than shareholders' equity during the fiscal year (net)	840	79	35	956	-185	5,776	6,546
Total change during the fiscal year	840	79	35	956	-185	5,776	6,054
Balance as of March 31, 2018	4,149	409	-69	4,489	656	5,776	37,516

## (iv) Consolidated statements of cash flows

(Million yen)

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	3,666	6,440
Depreciation and amortization	989	1,008
Gain on reversal of subscription rights to shares	-35	-2
Share-based compensation expenses	98	137
Impairment loss	26	--
Subsidy income	-47	-90
Increase (decrease) in allowance for doubtful accounts	-5	12
Increase (decrease) in provision for bonuses	27	43
Increase (decrease) in provision for product warranties	7	129
Increase (decrease) in net defined benefit liability	15	-2
Interest and dividend income	-165	-217
Commission fee	--	269
Interest expenses	185	124
Loss on retirement of non-current assets	91	342
Share of (profit) loss of entities accounted for using equity method	-11	--
Loss (gain) on sales of non-current assets	-864	-30
Loss (gain) on sales of investment securities	--	-97
Gain on sales of investments in capital of affiliate	--	-81
Loss from performance of warranty against defects	--	30
Foreign exchange losses (gains)	64	27
Decrease (increase) in trade notes and accounts receivable	-4,086	-4,334
Decrease (increase) in inventories	1,574	-661
Decrease (increase) in advance payments	-138	29
Increase (decrease) in trade notes and accounts payable	3,871	3,554
Increase (decrease) in advances received	382	1,197
Decrease (increase) in consumption taxes refund receivable	64	-164
Other	722	590
Sub total	6,434	8,254
Interest and dividend income received	142	192
Interest expenses paid	-209	-140
Proceeds from subsidy	47	90
Payments for performance of warranty against defects	--	-12
Corporate and other taxes paid	-864	-1,552
Cash flows from operating activities	5,550	6,832
Cash flows from investing activities		
Payments into time deposits	-155	-124
Proceeds from withdrawal of time deposits	205	124
Payments into deposit	-270	--
Proceeds from withdraw of deposit	--	270
Purchase of property, plant and equipment	-162	-1,258
Proceeds from sales of property, plant and equipment	1,343	122
Payments for retirement of property, plant and equipment	-8	-53
Purchase of intangible assets	-28	-30
Expenditure for acquisition of investment securities	-2	-2
Proceeds from sales of investment securities	--	183
Collection of investments in capital	--	152
Other	-1	-0
Cash flows from investing activities	920	-615

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-1,629	-1,148
Proceeds from sales of treasury shares	58	211
Purchase of treasury shares	-3,739	-6,848
Cash dividends paid	-1,034	-978
Repayments of lease obligations	-8	-8
Payment for commission fee	--	-355
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	--	2,288
Proceeds from share issuance to non-controlling shareholders	--	5,837
Cash flows from financing activities	-6,353	-1,002
Effect of exchange rate change on cash and cash equivalents	-145	-144
Net increase (decrease) in cash and cash equivalents	-27	5,070
Cash and cash equivalents at the beginning of the term	4,589	4,561
Increase in cash and cash equivalents from newly consolidated subsidiary	--	549
Cash and cash equivalents at the end of the term	Note 4,561	Note 10,181

## Notes

## (Important Matters that Become Basis of Presenting Consolidated Financial Statements)

## 1. Scope of consolidation

## (1) Number of consolidated subsidiaries: 8

## Names of consolidated subsidiaries

TSUGAMI MACHINERY CO., LTD.

TSUGAMI GENERAL SERVICE CO., LTD.

PRECISION TSUGAMI (CHINA) CORPORATION

Shinagawa Precision Machinery (Zhejiang) Co., Ltd.

TSUGAMI KOREA Co., Ltd.

Precision Tsugami (China) Corporation Limited

Precision Tsugami (Hong Kong) Limited

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED listed above which had been included in the scope of Non-consolidated subsidiaries or affiliates accounted for by the equity method in the previous fiscal year, is included in consolidated subsidiaries from the fiscal year under review because of increasing their significance.

## (2) Names of non-consolidated subsidiaries:

## Non-consolidated subsidiaries:

TSUGAMI (THAI) CO., LTD.

TSUGAMI EUROPE GmbH

TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED

TSUGAMI Universal Pte. Ltd.

## (Reason for non-consolidation)

The non-consolidated subsidiaries are small in size, and their total assets, sales, net income or loss (amounts to equivalent to the equity holding) and retained earnings (amounts to equivalent to the equity holding) do not have significant material effect on the consolidated financial statements.

## 2. Application of equity method

## (1) Non-consolidated subsidiaries or affiliates accounted for by the equity method: none

(2) The non-consolidated subsidiaries (TSUGAMI (THAI) CO., LTD., TSUGAMI EUROPE GmbH, TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED and TSUGAMI Universal Pte. Ltd.), have little material effect on the consolidated net income or loss and the consolidated retained earnings, and further, have small significance in the Group as a whole.

For the above reason, the equity method is not applied on these companies."

## 3. Matters Concerning Fiscal year of consolidated subsidiaries, etc.

Among the consolidated subsidiaries, the balance sheet date of PRECISION TSUGAMI (CHINA) CORPORATION, and Shinagawa Precision Machinery (Zhejiang) Co., Ltd. are December 31.

In preparing the consolidated financial statements, financial statements based on provisional calculations made as of the consolidated closing date were utilized in connection with this company.

## 4. Matters concerning significant accounting policies

## (1) Valuation standard and valuation method of major assets

## (i) Securities

## Other securities

## Securities with fair market value:

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

## Securities without fair market value:

Cost accounting method using the moving average method

## (ii) 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.).

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

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

The straight-line method is mainly adopted.

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery and transportation vehicle: 9 year

(ii) Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.

(iii) Leased assets

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

(3) Accounting standards for significant 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 provide for the payment of employees' bonuses, the Company and certain its consolidated subsidiaries provide accrued bonuses for employees based on the projected amount for the current consolidated fiscal year.

(iii) 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.

(iv) Allowance for product warranties

To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company and certain its consolidated subsidiaries accrue repair expenses using an amount projected based on the past ratio of repairs.

(4) Accounting policies for retirement benefits

(i) Period attribution method of the expected amount of retirement benefits

As a method of attributing the expected amount of retirement benefits to the period before the end of the consolidated fiscal year under review to calculate retirement benefit obligations, we use the projected benefit method.

(ii) Method of expensing net retirement benefit obligation at transition and actuarial gains and losses

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

(iii) Accounting method of unrecognized actuarial gain or loss and unrecognized prior service cost

Unrecognized actuarial gains and losses and unrecognized prior service costs after tax are recorded as remeasurements of defined benefit plans in the net assets section as a component of accumulated other comprehensive income.

(5) Accounting standards for translating significant assets or liabilities in foreign currencies into yen

Monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates at the consolidated closing date. Foreign currency translation adjustment 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. Foreign currency translation adjustment are included in "Foreign currency translation adjustment" in net assets.

(6) Scope of Funds in Consolidated Cash Flow Statements

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less at the date of acquisition that can easily be converted into cash and that have only minor risks of changes in value.

(7) 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, and non-deductible consumption tax and local consumption tax are accounted as expenses.

## (Changes in Accounting Policy)

## (Change in method of depreciation for property, plant and equipment)

The Company and its domestic consolidated subsidiaries previously used the declining-balance method for depreciation and amortization of property, plant and equipment (excluding leased assets) (Please note that the straight-line method has been used for buildings (excluding building fixtures) purchased on or after April 1, 1998 and building fixtures and structures purchased on or after April 1, 2016). From the fiscal year under review, the depreciation method has been changed to the straight-line method. The manufacturing bases of the Group are located at the Company and its subsidiaries in China. With the expansion of the Chinese market, the Company has been shifting manufacturing to its subsidiaries in China. In addition, in the previous fiscal year, the Company integrated the domestic manufacturing function to Nagaoka Factory, sold other plants and conducted a review of other domestic bases. In the current fiscal year and thereafter, Nagaoka Factory will play the role as headquarters for the Group's manufacture and development, and the Company expects stable operation that is resistant to order trends.

As a result, the Company changed the method of depreciation from the declining-balance method to the straight-line method in order to carry out a cost allocation for property, plant and equipment that reflects the actual conditions of the Company and its domestic consolidated subsidiaries.

Compared with the previous depreciation method, operating income, ordinary income and income before income taxes and other adjustments in the fiscal year under review each increased by ¥23 million.

## (Accounting Standards, etc. Not Yet Applied)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 on March 30, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 on March 30, 2018, Accounting Standards Board of Japan)

## (1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and published "Revenue from Contracts with Customers" (IFRS 15 in IASB and Topic 606 in FASB) in May 2014. Given that IFRS 15 and Topic 606 are applied from the fiscal year that began or will begin on or after January 1, 2018 and the fiscal year that began or will begin on or after December 15, 2017, respectively, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them along with the implementation guidance.

The basic policy of the ASBJ on its development of accounting standards for revenue recognition is to establish accounting standards, with the incorporation of basic principles of IFRS 15 as a starting point, from the standpoint of comparability between financial statements, which is one of the benefits of promoting consistency with IFRS 15, and to add alternative treatments to the extent to which comparability is not damaged if there is an item in which consideration should be given to practices conducted in Japan thus far.

## (2) Scheduled date of application

The date of application is currently under consideration.

## (3) Impact of the application of the accounting standards, etc.

The amount of impact of application of the Accounting Standard for Revenue Recognition, etc. on the consolidated financial statements of the Group is currently under review.

## (Overseas Subsidiaries that Prepare Financial Statements in accordance with the International Financial Reporting Standards)

Of the new establishment or revision of major accounting standards, etc. that have been published before March 31, 2018, those that are not yet applied are as follows. The impact of the application of these accounting standards, etc. is currently under review.

Name of accounting standards	Overview	Applicable fiscal year
"Financial Instruments" (IFRS 9)	Introduce new requirements for the classification, measurement, impairment and hedge accounting of financial instruments.	Fiscal year ending March 31, 2019
"Revenue from Contracts with Customers" (IFRS 15)	Introduce a single comprehensive model to be used by companies for their accounting of revenue arising from contracts with customers.	Fiscal year ending March 31, 2019
"Leases" (IFRS 16)	Introduce a single accounting model for a lessee to recognize assets and liabilities for all leases.	Fiscal year ending March 31, 2019



## (Changes in Method of Presentation)

## (Consolidated Statements of Income)

"Rent income" had been posted as a separated item in the previous consolidated fiscal year, was included in "Other" of the non-operation income in the consolidated fiscal year under review because of the amount decrease in its importance in terms of the amount. To reflect the changes in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Rent income" of ¥39 million and "Other" of ¥44 million in the non-operating income in the consolidated statements of income for the previous consolidated fiscal year were posted as "Other" of ¥83 million.

## (Consolidated Balance Sheet)

1. Amount of discount for bills receivable	(Million yen)	
	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Amount of discount for bills receivable	1,141	1,533
Amount of discount for export bills receivable	2,333	2,692
*2.Amount of allowance for doubtful accounts directly subtracted from assets	(Million yen)	
	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Investments and other assets	2	--
*3. 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.		
	(Million yen)	
	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Amount of bills receivable	--	0
Amount of discount for bills receivable	--	252

## 4. Contingent liability

## Previous consolidated fiscal year (As of March 31, 2017)

With regard to the transfer of Shinshu Factory, which the Company implemented in the consolidated fiscal year under review, expenses for soil contamination investigation and others associated with its disposition are currently under examination and difficult to estimate rationally as of this time. Therefore, the Company has not recorded the expenses in the consolidated fiscal year under review.

## Consolidated fiscal year under review (As of March 31, 2018)

Not applicable.

## (Consolidated Statement of Income)

## \* 1. Reductions in book value associated with declines in the profitability of inventories owned for ordinary sales (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Cost of sales	192	9

## \* 2. R&amp;D expenses included in selling, general and administrative expenses, and manufacturing cost for the term (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
	1,320	1,318

## \* 3. Breakdown of gain on sales of non-current assets (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Machinery and equipment	21	35
Land	913	0
Buildings and structures	-63	--
Others	--	0
Total	871	36

## \* 4. Breakdown of loss on retirement of non-current assets (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Buildings	77	335
Machinery and equipment	13	0
Others	1	5
Total	91	342

## \* 5. Breakdown of the loss on sales of non-current assets (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Machinery and equipment	7	5
Others	--	0
Total	7	5

## \* 6. Impairment loss

The Group posted an impairment loss for the group of assets below.

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

Location	Use	Type
Niigata-shi, Niigata	Idle asset	Buildings

Business assets of the Group are grouped based on business proximity, and idle assets are grouped by asset.

The Company determined to suspend the use of the above assets and changed their purpose of use from business assets to idle assets. Accordingly, it has reduced the book value of said assets to net realizable values and recorded ¥26 million as an extraordinary loss for impairment loss.

Net realizable values are determined based on net sale values and assessed based on real estate appraisals.

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

Not applicable.

(Consolidated Statements of Comprehensive Income)

## \* Recycling and tax effect relating to other comprehensive income

(Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Valuation difference on available-for-sale securities:		
Amount arising during fiscal year under review	2,175	1,302
Recycling	--	-97
Before tax effect adjustment	2,175	1,205
Tax effect	-647	-364
Valuation difference on available-for-sale securities	1,528	840
Foreign currency translation adjustment:		
Amount arising during fiscal year under review	-673	252
Remeasurements of defined benefit plans, net of tax:		
Amount arising during fiscal year under review	-20	9
Recycling	46	41
Before tax effect adjustment	25	51
Tax effect	-6	-15
Remeasurements of defined benefit plans, net of tax	19	35
Share of other comprehensive income of entities accounted for using equity method		
Amount arising during fiscal year under review	11	--
Total other comprehensive income	885	1,128

## (Consolidated Statements of Changes in Net Assets)

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

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

	Number of shares at the beginning of the consolidated fiscal year	Increase in shares in the consolidated fiscal year	Decrease in shares in the consolidated fiscal year	Number of shares at the end of the consolidated fiscal year
Outstanding shares				
Common shares Note 1	74,919	--	10,000	64,919
Total	74,919	--	10,000	64,919
Treasury shares				
Common shares Note 2, 3	8,023	7,254	10,348	4,930
Total	8,023	7,254	10,348	4,930

(Notes) 1. The decrease in common shares of outstanding shares of 10,000 thousand shares was due to the retirement of treasury stock.

2. The increase in common shares of treasury shares of 7,254 thousand shares due to the purchase of 7,249 thousand shares on the Tokyo Stock Exchange, and the purchase of 5 thousand shares of odd-lot shares.

3. The decrease in common shares of treasury shares of 10,348 thousand shares was due to the retirement of treasury stock of 10,000 thousand shares and the exercise of stock options of 348 thousand shares.

## 2. Matters concerning subscription rights to shares and subscription right to shares for treasury shares

Category	Description of subscription rights to shares	Type of shares to be issued under subscription rights to shares	Number of shares to be issued under subscription rights to shares				Outstanding balance at the end of the consolidated fiscal year (million yen)
			Number of shares at the beginning of the consolidated fiscal year	Increase in shares in the consolidated fiscal year	Decrease in shares in the consolidated fiscal year	Number of shares at the end of the consolidated fiscal year	
Submitting company (parent company)	Subscription rights to shares as stock options	--	--	--	--	--	679
Consolidated subsidiary	Subscription rights to shares as stock options	--	--	--	--	--	163
Total		--	--	--	--	--	842

## 3. Matters relating to dividends

## (1) Dividends paid

(Resolution)	Type of shares	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 12, 2016	Common shares	535	8.00	March 31, 2016	May 30, 2016
Board of directors meeting held on November 11, 2016	Common shares	499	8.00	September 30, 2016	November 30, 2016

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

(Resolution)	Type of shares	Total amount of dividend (million yen)	Funds for dividends	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 12, 2017	Common shares	479	Retained earnings	8.00	March 31, 2017	May 29, 2017

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

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

	Number of shares at the beginning of the consolidated fiscal year	Increase in shares in the consolidated fiscal year	Decrease in shares in the consolidated fiscal year	Number of shares at the end of the consolidated fiscal year
Outstanding shares				
Common shares Note 1	64,919	--	9,919	55,000
Total	64,919	--	9,919	55,000
Treasury shares				
Common shares Note 2, 3	4,930	7,461	10,473	1,918
Total	4,930	7,461	10,473	1,918

(Notes) 1. The decrease in common shares of outstanding shares of 9,919 thousand shares was due to the retirement of treasury stock.

2. The increase in common shares of treasury shares of 7,461 thousand shares due to the purchase of 7,455 thousand shares on the Tokyo Stock Exchange, and the purchase of 6 thousand shares of odd-lot shares.

3. The decrease in common shares of treasury shares of 10,473 thousand shares was due to the retirement of treasury stock of 9,919 thousand shares and the exercise of stock options of 554 thousand shares.

## 2. Matters concerning subscription rights to shares and subscription right to shares for treasury shares

Category	Description of subscription rights to shares	Type of shares to be issued under subscription rights to shares	Number of shares to be issued under subscription rights to shares				Outstanding balance at the end of the consolidated fiscal year (million yen)
			Number of shares at the beginning of the consolidated fiscal year	Increase in shares in the consolidated fiscal year	Decrease in shares in the consolidated fiscal year	Number of shares at the end of the consolidated fiscal year	
Submitting company (parent company)	Subscription rights to shares as stock options	--	--	--	--	--	656
Consolidated subsidiary	Subscription rights to shares as stock options	--	--	--	--	--	--
Total		--	--	--	--	--	656

## 3. Matters relating to dividends

## (1) Dividends paid

(Resolution)	Type of shares	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 12, 2017	Common shares	479	8.00	March 31, 2017	May 29, 2017
Board of directors meeting held on November 13, 2017	Common shares	498	9.00	September 30, 2017	November 30, 2017

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

(Resolution)	Type of shares	Total amount of dividend (million yen)	Funds for dividends	Dividend per share (yen)	Record date	Effective date
Board of directors meeting held on May 11, 2018	Common shares	477	Retained earnings	9.00	March 31, 2018	May 28, 2018

## (Consolidated Statements of Cash Flows)

\*Relationship between the ending balance of cash and cash equivalents and the accounts and their amounts on the Consolidated Balance Sheet (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Cash and cash accounts	4,666	10,286
Time deposits with maturity of more than 3 months	-105	-104
Cash and cash equivalents	4,561	10,181

(Lease Transactions)

(Lessee)

Finance lease transactions without the transfer of ownership

(i) Leased assets

a. Property, plant and equipment

Primary tools, equipment and fixtures in the machine tool business and the specialized machines and other businesses

b. Intangible assets

Software

(ii) Depreciation and amortization methods for leased assets

The methods described in Important Matters that Become the Basis of Presenting Consolidated Financial Statements, 4. Matters concerning significant accounting policies, (2) Depreciation and amortization methods used for material depreciable and amortizable assets apply.

(Financial Instruments)

1. Situation of financial instruments

(1) Policy for financial instruments

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

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

Trade notes and accounts receivable that are included in trade receivables are exposed to credit risk in relation to customers and the Company endeavors to reduce such risk pursuant to the credit management regulations. In addition, trade receivables denominated in foreign currencies arising from business operations overseas are exposed to foreign exchange fluctuation risk. Investment securities are mainly shares in companies with which the Company has business relationships and are exposed to changes in market prices and the Company monitors their market values on a quarterly basis.

The due dates of most trade notes and accounts payable, which are operating payables, are within four months.

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

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

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

(3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments are values based on market values, or if there are no market values, values reasonably calculated. Since variables are included in the calculation of fair values, they may change depending on assumptions.

## 2. Matters relating to fair values of financial instruments

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

Previous consolidated fiscal year (As of March 31, 2017)

	Consolidated balance sheet amount (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and deposits	4,666	4,666	--
(2) Trade notes and accounts receivable	9,846	9,846	--
(3) Investment securities	7,156	7,156	--
Total assets	21,669	21,669	--
(1) Trade notes and accounts payable	9,606	9,606	--
(2) Short-term loans payable	4,183	4,183	--
(3) Income taxes payable	525	525	--
Total liabilities	14,315	14,315	--

Consolidated fiscal year under review (As of March 31, 2018)

	Consolidated balance sheet amount (million yen)	Fair value (million yen)	Difference (million yen)
(1) Cash and deposits	10,286	10,286	--
(2) Trade notes and accounts receivable	14,482	14,482	--
(3) Investment securities	8,277	8,277	--
Total assets	33,047	33,047	--
(1) Trade notes and accounts payable	14,035	14,035	--
(2) Short-term loans payable	3,200	3,200	--
(3) Income taxes payable	1,068	1,068	--
Total liabilities	18,304	18,304	--

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

Assets

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

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

(3) Investment securities

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

Liabilities

(1) Trade notes and accounts payable and (2) Short-term loans payable (3) Income taxes payable

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

## 2. Financial instruments whose fair values are very difficult to estimate (Million yen)

Classification	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Unlisted shares (Note)	1	1
Shares in affiliates	11	11

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

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

Previous consolidated fiscal year (As of March 31, 2017)

	Within one year (million yen)	Longer than one year, within five years (million yen)	Longer than five years, within ten years (million yen)	Over ten years (million yen)
Cash and deposits*	4,658	--	--	--
Trade notes and accounts receivable	9,846	--	--	--
Total	14,505	--	--	--

\*Cash is excluded.

Consolidated fiscal year under review (As of March 31, 2018)

	Within one year (million yen)	Longer than one year, within five years (million yen)	Longer than five years, within ten years (million yen)	Over ten years (million yen)
Cash and deposits*	10,268	--	--	--
Trade notes and accounts receivable	14,482	--	--	--
Total	24,751	--	--	--

\*Cash is excluded.

## 4. Scheduled repayment of short-term loans payable after the consolidated closing date.

Previous consolidated fiscal year (As of March 31, 2017)

	Within one year (million yen)	Longer than one year, within two years (million yen)	Longer than two years, within three years (million yen)	Longer than three years, within four years (million yen)	Longer than four years, within five years (million yen)	Over five years (million yen)
Short-term loans payable	4,183	--	--	--	--	--
Total	4,183	--	--	--	--	--

Consolidated fiscal year under review (As of March 31, 2018)

	Within one year (million yen)	Longer than one year, within two years (million yen)	Longer than two years, within three years (million yen)	Longer than three years, within four years (million yen)	Longer than four years, within five years (million yen)	Over five years (million yen)
Short-term loans payable	3,200	--	--	--	--	--
Total	3,200	--	--	--	--	--



## (Securities)

## 1. Other securities

Previous consolidated fiscal year (As of March 31, 2017)

(Million yen)

	Classification	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Carrying amounts on the consolidated balance sheet exceeding the acquisition cost	(1) Shares	7,156	2,542	4,614
	(2) Corporate bond	--	--	--
	(3) Others	--	--	--
	Subtotal	7,156	2,542	4,614
Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost	(1) Shares	--	--	--
	(2) Corporate bond	--	--	--
	(3) Others	--	--	--
	Subtotal	--	--	--
Total		7,156	2,542	4,614

(Note) Since unlisted stocks (whose consolidated balance sheet amount is ¥1 million) have no market prices, and their fair values are very difficult to estimate, they are omitted.

Consolidated fiscal year under review (As of March 31, 2018)

(Million yen)

	Classification	Carrying amount on the consolidated balance sheet	Acquisition cost	Difference
Carrying amounts on the consolidated balance sheet exceeding the acquisition cost	(1) Shares	8,277	2,457	5,820
	(2) Corporate bond	--	--	--
	(3) Others	--	--	--
	Subtotal	8,277	2,457	5,820
Carrying amounts on the consolidated balance sheet not exceeding the acquisition cost	(1) Shares	--	--	--
	(2) Corporate bond	--	--	--
	(3) Others	--	--	--
	Subtotal	--	--	--
Total		8,277	2,457	5,820

(Note) Since unlisted stocks (whose consolidated balance sheet amount is ¥1 million) have no market prices, and their fair values are very difficult to estimate, they are omitted.

## 2. Other securities sold during the consolidated fiscal year

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

Not applicable.

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Million yen)

Classification	Amount of sale	Total profit on sale	Total loss on sale
Shares	183	97	--

## (Derivatives Trading)

Not applicable.

## (Pension and Severance Cost)

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

The Company and its consolidated subsidiaries adopt funded and unfunded defined benefit pension plans and defined contribution pension plans to provide for employees' retirement benefits.

Under defined benefit corporate pension plans (all of which are funded), a lump-sum grant and pension based on salary and length of service is paid.

Under retirement lump-sum grant plans (all of which are non-funded), a lump-sum grant based on salary and length of service is paid as retirement benefit.

For the defined benefit pension plans and retirement lump-sum grant plans of certain domestic and overseas consolidated subsidiaries, net defined benefit liability and retirement benefit cost is calculated by the simplified method.

The defined contribution plans adopted by certain domestic consolidated subsidiaries are SME retirement benefit mutual aid schemes.

## 2. Defined benefit plans (including those for which simplified method is adopted)

## (1) Reconciliation of beginning and ending balances of the projected benefit obligations (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Projected benefit obligations at beginning of year	2,247	2,300
Service cost	140	148
Interest cost	5	5
Actuarial loss (gain)	41	-23
Benefits paid	-133	-133
Projected benefit obligations at end of year	2,300	2,298

## (2) Reconciliation of beginning and ending balances of pension assets (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Pension assets at beginning of year	1,543	1,581
Expected return on pension assets	30	30
Actuarial gain (loss)	20	-13
Employer contributions	56	56
Benefits paid	-68	-72
Pension assets at end of year	1,581	1,582

## (3) Reconciliation of beginning and ending balances of projected benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheet (Million yen)

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Projected benefit obligations (funded plans)	1,457	1,459
Pension assets	-1,581	-1,582
	-123	-122
Projected benefit obligations (unfunded plans)	842	839
Net liability and asset recognized in the consolidated balance sheet	718	716
Net defined benefit liability	718	716
Net liability and asset recognized in the consolidated balance sheet	718	716

## (4) Breakdown of retirement benefit expenses (Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Service cost	140	148
Interest cost	5	5
Expected return on pension assets	-30	-30
Recognized actuarial gain or loss	46	41
Retirement benefit expenses for defined benefit plans	162	166

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

## (5) Remeasurements of defined benefit plans, net of tax

The amounts recognized as remeasurements of defined benefit plans, net of tax (before the effect of tax), are as follows:

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Actuarial gains and losses	-25	-51
Total	-25	-51

## (6) Remeasurements of defined benefit plans

The amounts recognized as remeasurements of defined benefit plans (before the effect of tax) are as follows: (Million yen)

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Unrecognized actuarial gains and losses	-150	-99
Total	-150	-99

## (7) Matters relating to pension assets

## (i) Significant components of pension assets

The significant components of pension assets by asset category are as follows:

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Bonds	17.0%	12.6%
Stock	30.6%	31.7%
General accounts	38.4%	21.1%
Others	14.0%	34.6%
Total	100.0%	100.0%

## (ii) Determination method of expected long-term rate of return

The expected long-term rate of return on pension assets is determined based on the current and expected future distribution of pension assets and the current and expected future long-term rate of return of various assets of which pension assets are composed.

## (8) Matters relating to assumptions used for actuarial computation

The weighted-average assumptions used for the actuarial computation at the end of the fiscal year were primarily as follows:

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Discount rate	0.3%	0.5%
Expected long-term rate of return	2.0%	2.0%
Expected rate of salary increase	3.4%	3.4%

## (Stock Options)

## 1. Expenses posted in relation to stock options

(Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Cost of sales	3	--
Selling, general and administrative expenses	95	134

## 2. Amounts posted gains due to vested stock options unexercised

(Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Gain on reversal of subscription rights to shares	35	2

## 3. Description and change in the scale of stock options

## (1) Description of stock options

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

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

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

	2008 Stock compensation-type stock options Plan B	2009 Stock compensation-type stock options Plan A
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Titled executive officers 18	The Company's directors 7 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 51,000 shares	Common stock 191,000 shares
Grant date	July 7, 2008	July 6, 2009
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 8, 2008 to July 7, 2028	July 7, 2009 to July 6, 2029

	2009 Stock compensation-type stock options Plan B	2010 Stock compensation-type stock options Plan A
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Titled executive officers and employees with similar positions 14	The Company's directors 7 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 111,000 shares	Common stock 101,000 shares
Grant date	July 6, 2009	July 5, 2010
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 7, 2009 to July 6, 2029	July 6, 2010 to July 5, 2030

	2010 Stock compensation-type stock options Plan B	2011 Stock compensation-type stock options Plan A
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Executive officers and employees with similar positions 20	The Company's directors 8 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 100,000 shares	Common stock 165,000 shares
Grant date	July 5, 2010	July 4, 2011
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 6, 2010 to July 5, 2030	July 5, 2011 to July 4, 2031

	2011 Stock compensation-type stock options Plan B	2012 Ninth general-type subscription rights to shares
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Executive officers and employees with similar positions 14	Employees of the Company 64 Directors of subsidiaries of the Company 3
Number of stock options by share type (Note 1)	Common stock 100,000 shares	Common stock 200,000 shares
Grant date	July 4, 2011	July 2, 2012
Vesting conditions	(Note 2)	Not applicable
Target period of service	Not applicable	July 2, 2012 to July 2, 2014
Exercise period	July 5, 2011 to July 4, 2031	July 3, 2014 to June 30, 2017

	2012 Stock compensation-type stock options Plan A	2012 Stock compensation-type stock options Plan B
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 4	Executive officers and employees with similar positions 19
Number of stock options by share type (Note 1)	Common stock 160,000 shares	Common stock 110,000 shares
Grant date	July 2, 2012	July 2, 2012
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 3, 2012 to July 2, 2032	July 3, 2012 to July 2, 2032
	2013 10th general-type subscription rights to shares	2013 Stock compensation-type stock options Plan A
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Employees of the Company 59 Directors of subsidiaries of the Company 2	The Company's directors 9 Statutory auditors 4
Number of stock options by share type (Note 1)	Common stock 200,000 shares	Common stock 190,000 shares
Grant date	July 8, 2013	July 8, 2013
Vesting conditions	(Note 2)	(Note 2)
Target period of service	July 8, 2013 to July 8, 2015	Not applicable
Exercise period	July 9, 2015 to June 30, 2018	July 9, 2013 to July 8, 2033

	2013 Stock compensation-type stock options Plan B	2014 11th general-type subscription rights to shares
Company	The Company	The Company
Positions and numbers of officers to receive stock options	Executive officers and employees with similar positions 23	Employees of the Company 63
Number of stock options by share type (Note 1)	Common stock 120,000 shares	Common stock 200,000 shares
Grant date	July 8, 2013	July 7, 2014
Vesting conditions	(Note 2)	Not applicable
Target period of service	Not applicable	July 7, 2014 to July 7, 2016
Exercise period	July 9, 2013 to July 8, 2033	July 8, 2016 to June 30, 2019

	2014 Stock compensation-type stock options Plan A	2014 Stock compensation-type stock options Plan B
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Executive officers and employees with similar positions 19
Number of stock options by share type (Note 1)	Common stock 190,000 shares	Common stock 110,000 shares
Grant date	July 7, 2014	July 7, 2014
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 8, 2014 to July 7, 2034	July 8, 2014 to July 7, 2034

	2014 Stock options Group A	2014 Stock options Group B
Company	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)
Positions and numbers of officers to receive stock options	Consolidated subsidiary's directors 6 Consolidated subsidiary's statutory auditor 1 Consolidated subsidiary's employees 4	Consolidated subsidiary's employees 44
Number of stock options by share type (Note 1)	Common stock 4,845,000 shares	Common stock 3,781,000 shares
Grant date	March 14, 2014	March 14, 2014
Vesting conditions	Not applicable	Not applicable
Target period of service	March 14, 2014 to March 16, 2015	March 14, 2014 to March 16, 2017
Exercise period	March 17, 2015 to March 16, 2020	March 17, 2017 to March 16, 2020

	2015 Stock compensation-type stock options Plan A	2015 Stock compensation-type stock options Plan B
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 8 Statutory auditors 5	Executive officers and employees with similar positions 25
Number of stock options by share type (Note 1)	Common stock 131,000 shares	Common stock 122,000 shares
Grant date	July 6, 2015	July 6, 2015
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 7, 2015 to July 6, 2035	July 7, 2015 to July 6, 2035

	2016 Stock compensation-type stock options Plan A	2016 Stock compensation-type stock options Plan B
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 8 Statutory auditors 5	Executive officers and employees with similar positions 24
Number of stock options by share type (Note 1)	Common stock 175,000 shares	Common stock 150,000 shares
Grant date	July 7, 2016	July 7, 2016
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 8, 2016 to July 7, 2036	July 8, 2016 to July 7, 2036

	2017 Stock compensation-type stock options Plan A	2017 Stock compensation-type stock options Plan B
Company	The Company	The Company
Positions and numbers of officers to receive stock options	The Company's directors 9 Statutory auditors 5	Executive officers and employees with similar positions 25
Number of stock options by share type (Note 1)	Common stock 107,000 shares	Common stock 86,000 shares
Grant date	July 6, 2017	July 6, 2017
Vesting conditions	(Note 2)	(Note 2)
Target period of service	Not applicable	Not applicable
Exercise period	July 7, 2017 to July 6, 2037	July 7, 2017 to July 6, 2037

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

2. In principle, a holder of subscription rights to shares may exercise them when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.



## (2) Change in the scale of stock options

The stock options that existed in the consolidated fiscal year under review ended March 31, 2018 are counted. The number of stock options is converted to the number of shares.

## (i) Number of stock options

	2005 First compensation-type subscription rights to shares	2006 Stock compensation-type stock options Plan A	2006 Stock compensation-type stock options Plan B
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	59,000	22,000	14,000
Vested	--	--	--
Exercised	--	--	--
Lapsed	--	--	--
Unexercised	59,000	22,000	14,000

	2007 Stock compensation-type stock options Plan A	2007 Stock compensation-type stock options Plan B	2008 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	29,000	24,000	37,000
Vested	--	--	--
Exercised	--	--	--
Lapsed	--	--	--
Unexercised	29,000	24,000	37,000

	2008 Stock compensation-type stock options Plan B	2009 Stock compensation-type stock options Plan A	2009 Stock compensation-type stock options Plan B
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	12,000	93,000	42,000
Vested	--	--	--
Exercised	4,000	--	21,000
Lapsed	--	--	--
Unexercised	8,000	93,000	21,000

	2010 Stock compensation-type stock options Plan A	2010 Stock compensation-type stock options Plan B	2011 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	51,000	25,000	92,000
Vested	--	--	--
Exercised	--	11,000	--
Lapsed	--	--	--
Unexercised	51,000	14,000	92,000

	2011 Stock compensation-type stock options Plan B	2012 Ninth general-type subscription rights to shares	2012 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	48,000	131,000	100,000
Vested	--	--	--
Exercised	16,000	116,000	5,000
Lapsed	--	15,000	--
Unexercised	32,000	--	95,000

	2012 Stock compensation-type stock options Plan B	2013 10th general-type subscription rights to shares	2013 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	44,000	150,000	134,000
Vested	--	--	--
Exercised	16,000	121,000	15,000
Lapsed	--	--	--
Unexercised	28,000	29,000	119,000

	2013 Stock compensation-type stock options Plan B	2014 11th general-type subscription rights to shares	2014 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	72,000	170,000	144,000
Vested	--	--	--
Exercised	22,000	126,000	5,000
Lapsed	--	--	--
Unexercised	50,000	44,000	139,000

	2014 Stock compensation-type stock options Plan B	2014 Stock options Group A	2014 Stock options Group B
Company	The Company	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	63,000	4,845,000	3,781,000
Vested	--	--	--
Exercised	13,000	4,845,000	3,025,000
Lapsed	--	--	756,000
Unexercised	50,000	--	--

	2015 Stock compensation-type stock options Plan A	2015 Stock compensation-type stock options Plan B	2016 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	--	--
Granted	--	--	--
Lapsed	--	--	--
Vested	--	--	--
Non-vested	--	--	--
After vesting date (shares)	--	--	--
End of previous fiscal year	119,000	84,000	160,000
Vested	--	--	--
Exercised	4,000	23,000	5,000
Lapsed	--	--	--
Unexercised	115,000	61,000	155,000

	2016 Stock compensation-type stock options Plan B	2017 Stock compensation-type stock options Plan A	2017 Stock compensation-type stock options Plan B
Company	The Company	The Company	The Company
Before vesting date (shares)			
End of previous fiscal year	--	----	----
Granted	--	107,000	86,000
Lapsed	--	--	3,000
Vested	--	107,000	83,000
Non-vested	--	--	--
After vesting date (shares)			
End of previous fiscal year	139,000	--	--
Vested	--	107,000	83,000
Exercised	30,000	--	1,000
Lapsed	3,000	--	--
Unexercised	106,000	107,000	82,000

## (ii) Unit price information

(Yen)

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

(Yen)

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

(Yen)

	2008 Stock compensation-type stock options Plan B	2009 Stock compensation-type stock options Plan A	2009 Stock compensation-type stock options Plan B
Company	The Company	The Company	The Company
Exercise price	1	1	1
Average stock price at the time of exercise	807	--	791
Fair valuation of unit price (grant date)	279	123	123

(Yen)

	2010 Stock compensation-type stock options Plan A	2010 Stock compensation-type stock options Plan B	2011 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Exercise price	1	1	1
Average stock price at the time of exercise	--	797	--
Fair valuation of unit price (grant date)	532	532	408

(Yen)

	2011 Stock compensation-type stock options Plan B	2012 Ninth general-type subscription rights to shares	2012 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Exercise price	1	589	1
Average stock price at the time of exercise	798	809	826
Fair valuation of unit price (grant date)	408	196	459

(Yen)

	2012 Stock compensation-type stock options Plan B	2013 10th general-type subscription rights to shares	2013 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Exercise price	1	575	1
Average stock price at the time of exercise	802	1,002	826
Fair valuation of unit price (grant date)	459	180	445

(Yen)

	2013 Stock compensation-type stock options Plan B	2014 11th general-type subscription rights to shares	2014 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Exercise price	1	584	1
Average stock price at the time of exercise	797	975	826
Fair valuation of unit price (grant date)	445	166	452

(Yen)

	2014 Stock compensation-type stock options Plan B
Company	The Company
Exercise price	1
Average stock price at the time of exercise	815
Fair valuation of unit price (grant date)	452

(HKD)

	2014 Stock options Group A	2014 Stock options Group B
Company	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)	Consolidated subsidiary (Precision Tsugami (China) Corporation Limited)
Exercise price	1.50	1.50
Average stock price at the time of exercise	10.76	11.78
Fair valuation of unit price (grant date)	1.55	1.44

(Yen)

	2015 Stock compensation-type stock options Plan A	2015 Stock compensation-type stock options Plan B	2016 Stock compensation-type stock options Plan A
Company	The Company	The Company	The Company
Exercise price	1	1	1
Average stock price at the time of exercise	826	793	826
Fair valuation of unit price (grant date)	526	526	272

(Yen)

	2016 Stock compensation-type stock options Plan B	2017 Stock compensation-type stock options Plan A	2017 Stock compensation-type stock options Plan B
Company	The Company	The Company	The Company
Exercise price	1	1	1
Average stock price at the time of exercise	802	--	844
Fair valuation of unit price (grant date)	272	706	706

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

The following is the method of estimating a fair unit price of the 2017 stock options granted in the fiscal year:

The Company

(i) Valuation technique used: Black-Scholes method

(ii) Major fundamental figures and estimation method

	2017 Compensation-type subscription rights to shares Plan A and Plan B
Stock price volatility (Note 1)	46.063%
Expected remaining period (Note 2)	10.0 years
Projected dividend (Note 3)	16.00 yen per share
Risk-free interest rate (Note 4)	0.095%

(Note) 1. The stock price volatility for the 2017 Plan A and Plan B compensation-type subscription rights to shares was calculated based on the closing price on the last trading day of each month in the past 10 years (from June 2007 to June 2017).

2. Since accumulated data is insufficient, reasonably estimating a remaining period is difficult. We thus estimate a period based on the assumption that stock options will be exercised at the mid-point of the exercise period.
3. The projected dividend is based on the actual dividend for the fiscal year ended March 31, 2017.
4. The rate is the yield of the government bond for the expected remaining period.

### 4. Method of estimating the number of vested stock options

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

## (Deferred Tax Accounting)

## 1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

	(Million yen)	
	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Deferred tax assets		
Allowance for doubtful accounts	13	17
Reserve for bonus payment	59	72
Net defined benefit liability	217	215
Reserve for product warranties	90	126
Loss on devaluation of investment securities	121	121
Loss on devaluation of affiliates' stock	7	7
Loss on devaluation of inventories	201	156
Impairment loss	49	45
Accrued enterprise taxes	38	54
Accrued sales commission	12	10
Unrealized income of inventories	109	102
Stock-based compensation expenses	182	196
Non-qualified contribution in-kind	849	763
Foreign tax credit carried forward	17	--
Other	140	152
Deferred tax assets subtotal	2,109	2,043
Valuation reserve	-1,356	-1,282
Deferred tax assets total	752	761
Deferred tax liabilities		
Valuation difference on available-for-sale securities	-1,306	-1,670
Reserve profit of overseas subsidiaries	-80	-105
Other	--	-5
Deferred tax liabilities total	-1,387	-1,782
Net deferred tax assets (liabilities)	-634	-1,020

## 2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Legally effective tax rate	30.7%	30.7%
(Adjustments)		
Differences from applicable tax rates for overseas subsidiaries	-2.9%	-4.0%
Experiment and research expenses	-2.0%	-1.8%
Tax sparing	-3.7%	-3.0%
consolidation adjustments for gain on sales of shares of subsidiaries	--	3.6%
Items permanently excluded from nontaxable expenses, including entertainment costs	1.1%	0.9%
Increase (decrease) in valuation reserve	2.5%	-1.0%
Withholding tax on dividends from overseas subsidiaries	2.1%	1.2%
Other	0.5%	0.7%
Actual effective tax rate after applying tax effect	28.3%	27.3%



(Business Combination)

(Transaction under common control, etc.)

Precision Tsugami (China) Corporation Limited, a consolidated subsidiary of the Company, was listed on the Main Board of The Stock Exchange of Hong Kong Limited on September 25, 2017 and issued new shares and made a secondary offering of some of its shares owned by the parent company. Precision Tsugami (China) Corporation Limited also increased capital through private placement in relation to the secondary offering by way of over-allotment on the Stock Exchange of Hong Kong Limited on which the company was listed, and the payment was completed on October 13, 2017.

1. Overview of the transaction

(1) Name and business of the company involved in the business combination

Name of the company involved in business combination: Precision Tsugami (China) Corporation Limited

Business: Manufacture and sale of machine tools (the principal business corporation is a local subsidiary in China)

(2) Date of business combination

September 25, 2017 ((i) Issuance of new shares by the subsidiary through public offering (ii) Secondary offering of the subsidiary's shares)

October 13, 2017 ((iii) Issuance of new shares by the subsidiary through public offering)

(3) Legal form of business combination

(i) Issuance of new shares by the subsidiary through public offering

(ii) Secondary offering of the subsidiary's shares

(iii) Issuance of new shares by the subsidiary through public offering

(4) Company name after combination

No change

(5) Other matters related to the overview of the transaction

The consolidated subsidiary aims to raise funds for business through the issuance of new shares, and the Company aims to recover the amount of investment through a secondary offering of some of the subsidiary's shares.

As a result of the transaction, the percentage of voting rights of Precision Tsugami (China) Corporation Limited held by the Company declined to 70.80% at the end of the fiscal year under review.

2. Overview of accounting

This transaction is treated as a transaction under common control based on the Accounting Standard for Business Combinations (Accounting Standard Board of Japan (ASBJ) Statement No.21 on September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 on September 13, 2013).

3. Change in ownership interest of parent due to transactions with non-controlling interests

(1) Important factors in the change in capital surplus

Secondary offering of some of the subsidiary's shares that do not result in change in scope of consolidation

Issuance of new shares by consolidated subsidiary

(2) Amount of capital surplus increased due to transactions with non-controlling interests

¥2,806 million

(Asset Retirement Obligations)

Not stated because of the insignificant amount.

(Real estate for rent, etc.)

Not stated because of the insignificant amount.

## (Segment Information)

## Segment Information

## 1. Summary of reportable segments

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

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

In the consolidated fiscal year under review, the Group has newly added its reportable segments India because TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED is included in consolidated subsidiaries.

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

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

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

Intersegment revenue and transfers are based on market prices.

## 3. Information relating to net sales income or loss, assets, liabilities and other items by reportable segment.

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Million yen)

	Reportable segment				Adjustment (Note) 1	Consolidated financial statement amount (Note) 2
	Japan	China	South Korea	Total		
Net sales						
Net sales to external customers	21,876	17,905	1,268	41,050	--	41,050
Intersegment net sales or transfers to other accounts	7,017	8,841	43	15,903	-15,903	--
Total	28,894	26,747	1,312	56,953	-15,903	41,050
Segment income (loss)	233	2,938	78	3,250	-166	3,083
Segment assets	19,719	22,510	981	43,211	6,916	50,127
Other items						
Depreciation and amortization	292	689	20	1,002	-12	989
Increases in property, plant and equipment and intangible assets	81	160	69	311	--	311

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of ¥166 million is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of ¥6,916 million includes Company-wide assets of ¥10,037 million and an effect of intersegment adjustments of ¥-3,120 million.

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

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

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Million yen)

	Reportable segment					Adjustment (Note) 1	Consolidated financial statement amount (Note) 2
	Japan	China	India	South Korea	Total		
Net sales							
Net sales to external customers	25,885	28,603	1,866	1,221	57,576	--	57,576
Intersegment net sales or transfers to other accounts	8,241	10,624	16	28	18,911	-18,911	--
Total	34,127	39,227	1,882	1,249	76,487	-18,911	57,576
Segment income	1,620	5,231	32	16	6,901	40	6,942
Segment assets	20,891	31,152	2,792	940	55,777	6,878	62,656
Other items							
Depreciation and amortization	224	722	30	42	1,020	-11	1,008
Increases in property, plant and equipment and intangible assets	689	747	66	154	1,658	--	1,658

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of ¥40 million is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of ¥6,878 million includes Company-wide assets of ¥11,644 million and an effect of intersegment adjustments of ¥-4,765 million.

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

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

## 4. Changes in reportable business segments, etc.

(Changes in method of depreciation for property, plant and equipment)

As stated in [Changes to accounting policy], the Company and its domestic consolidated subsidiaries previously used the declining-balance method for the depreciation and amortization of property, plant and equipment (excluding leased assets) (Please note that the straight-line method has been used for buildings (excluding building fixtures) purchased on or after April 1, 1998 and building fixtures and structures purchased on or after April 1, 2016). From the fiscal year under review, the depreciation method has been changed to the straight-line method.

Compared with the previous depreciation method, segment income in the fiscal year under review increased by ¥23 million in Japan, one of the Company's reportable segments.

## Related information

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

## 1. Information by product and service

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

## 2. Information by region

## (1) Net sales

(Million yen)

Japan	China	Asia	America	Europe	Total
10,306	17,393	6,873	3,173	3,303	41,050

(Note) Net sales are classified by country or region based on the customer's location.

## (2) Property, plant and equipment

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

## 3. Information by major customer

Not stated because sales for specific customer less than 10% of net sales on the consolidated statements of income.

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

## 1. Information by product and service

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

## 2. Information by region

## (1) Net sales

(Million yen)

Japan	China	Asia	America	Europe	Total
12,670	28,376	9,486	3,404	3,638	57,576

(Note) Net sales are classified by country or region based on the customer's location.

## (2) Property, plant and equipment

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

## 3. Information by major customer

Not stated because sales for specific customer less than 10% of net sales on the consolidated statements of income.

## Information on impairment loss on Non-current assets by reportable segment

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Million yen)

	Japan	China	South Korea	Corporate or elimination	Total
Impairment loss	26	--	--	--	26

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

No corresponding item existed.

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

No corresponding item existed.

## Information on gain on negative goodwill by reportable segment

No corresponding item existed.

## Related Party information

## Transaction with the Company's directors and major shareholders

## Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

Attributes	Name	Address	Capital or investments	Business	Ownership of voting rights (%)	Relationship	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Affiliate	TSUGAMI Universal Pte.Ltd.	Singapore	125 thousand Singapore dollar	Wholesale	(Owning) Direct: 80.0%	Sales of the Company's products and parts Concurrent service by directors	Sales of the Company's products and parts (Note1)	421	Accounts receivable	526
	TSUGAMI PRECISION ENGINEERING INDIA PVT. LTD.	India	495 million Indian rupee	Manufacturing	(Owning) Direct: 90.9%	Manufacturing and sales of the Company's products Concurrent service by directors	Sales of the Company's products and parts (Note1)  Lending of funds (Note2)	666  --	Accounts receivable  Long-term loans receivable	692  588

Business terms and policies for their determination, etc.

(Note) 1. Terms for sales and purchases of the Company's products, etc. are determined with their market prices as reference data.

2. Reasonable interest rates on loans are determined in consideration of market interest rates.

## Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

The statement of transactions with related parties is omitted, since the amount did not reach the disclosure standard.

## (Per Share information)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Net assets per share	510.43 yen	585.58 yen
Net income per share	41.91 yen	74.71 yen
Net income per share after residual equity adjustment	40.93 yen	71.97 yen

(Note) The bases for the calculation of net income per share and net income per share after residual equity adjustment are as follows.

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Net income per share		
Net income attributable to owners of parent (million yen)	2,630	4,171
Amount not attributed to common shareholders (million yen)	--	--
Net income attributable to owners of parent on common shares (million yen)	2,630	4,171
Average number of shares during the period (thousand shares)	62,779	55,834
Net income per share after residual equity adjustment		
Adjustment in net income attributable to owners of parent (million yen)	--	-33
(Adjustment of dilutive shares issued by subsidiaries) (million yen)	--	(-33)
Increase in common shares (thousand shares)	1,498	1,656
(Stock option) (thousand shares)	(1,498)	(1,656)
Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect	<p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 15, 2012 (Number of shares: 131,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 21, 2013 (Number of shares: 150,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 20, 2014 (Number of shares: 170,000)</p> <p>(Consolidated subsidiary)</p> <p>Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000)</p>	--

## (Important post-balance sheet events)

## 1. Establishment of a significant new company and acquisition of significant non-current assets)

Precision Tsugami (China) Corporation ("PTC"), a Chinese production company and consolidated subsidiary of TSUGAMI CORPORATION (the "Company") resolved to establish a new company in Anhui Province, the PRC at the Board of Directors meeting on April 11, 2018 and established the new company on April 18, 2018.

PTC plans to increase the production capacity of PTC group, maintain the strong output of metal castings and CNC high precision machine tools and expand the PRC market by constructing a new plant through establishing a new company.

## (1) Outline of a new company

- (i) Trade name: Precision Tsugami (Anhui) Corporation
- (ii) Location: Bowang High-tech Industrial Development Zone, Ma'anshan, Anhui Province
- (iii) Representative: Chairman, Tang Donglei
- (iv) Business: Manufacture and sale of CNC high precision machine tools and metal castings
- (v) Capital: Renminbi (RMB) 50 million
- (vi) Establishment: April 18, 2018
- (vii) Fiscal year: End of December
- (viii) Share Holding: Share held by PTC (100%)

## (2) Content of the Investment

- (i) Investment Content: Making the investment agreement with Industrial development zone and Construction of a new plant
- (ii) Total investment amount: approx. RMB200 million
  - (Breakdown, Land and construction of plant: approx. RMB110 million
  - Production machinery and equipment: approx. RMB85 million
  - General working capital: approx. RMB5 million)
- (iii) Production capacity of a new company:
  - Metal castings: 18,000 ton per year
  - Machine tools: 1,200 unit per year
- (iv) Future schedule: Commencement of the plant construction from around August 2018
  - Production will start at the beginning of 2020

## 2. Resolution on stock option

The company resolved to issue subscription rights to shares at The 115th annual shareholders meeting and at the Board of Directors meeting, held on June 20, 2018 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (2) Subscription rights to shares, (i) Stock option system.

## 2. Acquisition of treasury stock

At a meeting of the Board of Directors held on June 20, 2018, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

- (i) Reason of the acquisition of treasury stock: To implement flexible capital policy in response to changes in the management environment
- (ii) Class of stock to be acquired: Common stock
- (iii) Number of shares that can be acquired: 1,000 thousand shares (maximum)  
(Ratio to the number of issued shares (excluding treasury stock): 1.90%)
- (iv) Value of shares to be acquired: ¥1,200 million (maximum)
- (v) Acquisition period: From June 20, 2018 to November 9, 2018
- (vi) Method of acquisition: Acquisition on the Tokyo Stock Exchange



## (v) Consolidated supplementary schedule

## Schedule of bonds

No corresponding item existed.

## Schedule of borrowings

Classification	Balance at beginning of the fiscal year (million yen)	Balance at end of the fiscal year under review (million yen)	Average interest rate (%)	Repayment term
Short-term loans payable	4,183	3,200	1.475	--
Lease obligations to be repaid within a year	8	6	--	--
Lease obligations (excluding those to be repaid within a year)	10	4	--	From 2019 to 2022
Total	4,203	3,210	--	--

- (Note) 1. The average interest rate is the weighted average rate for the borrowings at the end of the term.
2. The average interest rate of lease obligations is omitted, since lease obligations before the subtraction of the equivalent of interest included in total lease fees are posted in the consolidated balance sheets.
3. The table below shows scheduled repayments of lease obligations (excluding those to be repaid within a year) with five years of the consolidated closing date.

(Million yen)

	More than 1 year, within 2 years	More than 2 years, within 3 years	More than 3 years, within 4 years	More than 4 years, within 5 years
Lease obligations	2	0	0	0

## Schedule of asset retirement obligations

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

## (2) Other

## Quarterly information for the fiscal year under review

(Accumulated total)	First quarter From April 1, 2017 to June 30, 2017	First half From April 1, 2017 to September 30, 2017	First nine months From April 1, 2017 to December 31, 2017	Full year under review From April 1, 2017 to March 31, 2018
Net sales (million yen)	12,746	27,376	42,269	57,576
Income before taxes and other adjustments (million yen)	1,681	3,112	4,644	6,440
Net income attributable to owners of parent on common stock (million yen)	1,357	2,296	3,140	4,171
Net income per share (yen)	22.84	39.62	55.44	74.71

(Quarterly)	First quarter From April 1, 2017 to June 30, 2017	Second quarter From July 1, 2017 to September 30, 2017	Third quarter From October 1, 2017 to December 31, 2017	Fourth quarter From January 1, 2018 to March 31, 2018
Net income per share (yen)	22.84	16.56	15.61	19.36

## 2. Non-Consolidated Financial Statements, etc.

## (1) Non-consolidated financial statements

## (i) Non-consolidated balance sheets

(Million yen)

	Figures at the end of the previous fiscal year (As of March 31, 2017)	Figures at the end of the fiscal year under review (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	2,171	3,290
Trade notes receivable	Note 1 125	Note 1, 3 100
Accounts receivable	Note 1 6,213	Note 1 7,484
Merchandise and finished goods	4,804	4,311
Work in process	1,107	1,851
Raw materials and supplies	1,891	1,778
Consumption taxes receivable	715	803
Payments into deposit	270	--
Deferred tax assets	280	268
Other	Note 1 224	Note 1 200
Allowance for doubtful accounts	-48	-66
Total current assets	17,756	20,023
Non-current assets		
Property, plant and equipment		
Buildings	1,810	2,122
Structures	45	63
Machinery and equipment	255	262
Vehicles	0	0
Tools, furniture and fixtures	119	145
Land	450	409
Leased assets	17	9
Construction in progress	--	52
Total property, plant and equipment	2,699	3,066
Intangible assets		
Software	46	34
Telephone subscription rights	10	8
Leased assets	1	0
Other	--	1
Total intangible assets	58	44
Investments and other assets		
Investment securities	7,157	8,278
Shares in affiliates	3,913	3,521
Investments in capital of subsidiaries and associates	1,056	847
Long-term loans receivable from affiliates	611	573
Long-term loans receivable from employees	1	--
Other	77	216
Total investments and other assets	12,817	13,436
Total non-current assets	15,575	16,547
Total assets	33,331	36,570

	(Million yen)	
	Figures at the end of the previous fiscal year (As of March 31, 2017)	Figures at the end of the fiscal year under review (As of March 31, 2018)
Liabilities		
Current liabilities		
Trade notes payable	4,038	5,795
Accounts payable	Note 1 1,744	Note 1 2,754
Short-term loans payable	--	3,200
Accounts payable - other	Note 1 162	Note 1 197
Accrued expenses payable	276	Note 1 238
Income taxes payable	148	513
Provision for product warranties	177	254
Provision for bonuses	169	162
Other	Note 1 196	212
Total current liabilities	6,913	13,327
Non-current liabilities		
Deferred tax liabilities	1,121	1,489
Provision for retirement benefits	551	594
Other	36	29
Total non-current liabilities	1,709	2,114
Total liabilities	8,622	15,441
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus		
Other capital surplus	478	--
Total capital surplus	478	--
Retained earnings		
Legal retained earnings	49	147
Other retained earnings		
Deferred retained earnings	10,834	5,645
Total retained earnings	10,884	5,793
Treasury stock	-2,986	-1,814
Total shareholders' equity	20,721	16,323
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,308	4,149
Total Valuation and translation adjustments	3,308	4,149
Subscription rights to shares	679	656
Total net assets	24,708	21,129
Total liabilities and net assets	33,331	36,570

## (ii) Non-consolidated statements of income

	(Million yen)	
	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Fiscal year under review (From April 1, 2017 to March 31, 2018)
Net sales	Note 1 28,601	Note 1 33,821
Cost of sales	Note 1 24,374	Note 1 28,068
Gross profit	4,227	5,752
Selling, general and administrative expenses	Note 1, 2 4,137	Note 1, 2 4,302
Operating income	89	1,450
Non-operating income		
Interest income	12	12
Dividend income	587	491
Reversal of allowance for doubtful accounts	3	--
Foreign exchange gains	21	--
Insurance income	55	58
Other	99	45
Total non-operating income	Note 1 779	Note 1 607
Non-operating expenses		
Interest expenses	--	28
Foreign exchange losses	--	104
Sales discount	6	13
Loss on sales of notes payable	64	73
Other	91	70
Total non-operating expenses	161	289
Ordinary income	706	1,767
Extraordinary income		
Gain on sales of non-current assets	869	33
Gain on sales of investment securities	--	97
Gain on sales of investments in capital of affiliate	--	81
Gain on sales of shares of subsidiaries	--	1,909
Gain on reversal of subscription rights to shares	35	2
Total extraordinary income	905	2,124
Extraordinary losses		
Loss on retirement of non-current assets	70	48
Loss on sales of non-current assets	7	4
Impairment loss	26	--
Loss on valuation of golf club membership	9	--
Loss from performance of warranty against defects	--	30
Total extraordinary losses	114	83
Income before taxes and other adjustments	1,497	3,808
Corporate, inhabitant and enterprise taxes	248	720
Deferred taxes	-4	16
Total corporate and other taxes	244	736
Net income	1,253	3,072

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

Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Capital legal reserve	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Deferred retained earnings	Total retained earnings
Balance as of March 31, 2016	12,345	5,884	--	5,884	--	10,665	10,665
Change during the fiscal year							
Transfer from reserve to surplus		-5,884	5,884	--			
Cash dividends paid					49	-1,084	-1,034
Net income						1,253	1,253
Purchase of treasury stock							
Disposal of treasury stock			-25	-25			
Retirement of treasury stock			-5,380	-5,380			
Changes in items other than shareholders' equity during the fiscal year (net)							
Total change during the fiscal year	--	-5,884	478	-5,405	49	168	218
Balance as of March 31, 2017	12,345	--	478	478	49	10,834	10,884

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2016	-4,837	24,057	1,779	1,779	736	26,574
Change during the fiscal year						
Transfer from reserve to surplus						
Cash dividends paid		-1,034				-1,034
Net income		1,253				1,253
Purchase of treasury stock	-3,734	-3,734				-3,734
Disposal of treasury stock	204	179				179
Retirement of treasury stock	5,380	--				
Changes in items other than shareholders' equity during the fiscal year (net)			1,528	1,528	-57	1,471
Total change during the fiscal year	1,850	-3,336	1,528	1,528	-57	-1,865
Balance as of March 31, 2017	-2,986	20,721	3,308	3,308	679	24,708

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Million yen)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		
		Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Deferred retained earnings	Total retained earnings
Balance as of March 31, 2017	12,345	478	478	49	10,834	10,884
Change during the fiscal year						
Cash dividends paid				97	-1,076	-978
Net income					3,072	3,072
Purchase of treasury stock						
Disposal of treasury stock					-25	-25
Retirement of treasury stock		-478	-478		-7,159	-7,159
Changes in items other than shareholders' equity during the fiscal year (net)						
Total change during the fiscal year	--	-478	-478	97	-5,188	-5,090
Balance as of March 31, 2018	12,345	--	--	147	5,645	-5,793

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of March 31, 2017	-2,986	20,721	3,308	3,308	679	24,708
Change during the fiscal year						
Cash dividends paid		-978				-978
Net income		3,072				3,072
Purchase of treasury stock	-6,842	-6,842				350
Disposal of treasury stock	376	350				350
Retirement of treasury stock	7,637	--				--
Changes in items other than shareholders' equity during the fiscal year (net)			840	840	-22	818
Total change during the fiscal year	1,171	-4,397	840	840	-22	-3,579
Balance as of March 31, 2018	-1,814	16,323	4,149	4,149	656	21,129

## Notes

## (Significant accounting policies)

## 1. Valuation standards for securities

## (1) Stocks of subsidiaries and affiliates

Cost accounting method using the moving average method

## (2) Other securities

Securities with fair market value:

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

Securities without fair market value:

Cost accounting method using the moving average method

## 2. Valuation standard and 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.)

## 3. Depreciation method for Non-current assets

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

The straight-line method is mainly adopted.

The significant service lives are summarized as follows:

Buildings: 15-38 years

Machinery and equipment: 9 years

Tools, furniture and fixtures: 5 years

## (2) Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

However, software for in-house use is amortized on a straight-line basis over the expected usable period, up to five years.

## (3) Leased assets

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

## (4) Long-term prepaid expenses

This is computed using the straight-line method.

## 4. Accounting standards for translating 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 closing date.

## 5. Accounting standards for allowances

## (1) Allowance for doubtful accounts

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

## (2) Allowance for employees' bonuses

To provide for the payment of employees' bonuses, the Company provides accrued bonuses for employees based on the projected amount for the fiscal year under review.

## (3) Allowance for retirement benefits

To prepare for the payment of employee retirement benefits, the Company provides accrued retirement benefits based on projected benefits obligations and the fair value of pension assets at end of the fiscal year under review.

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

## (4) Allowance for product warranties

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

## 6. Other important matters for the preparation of financial statements

## (1) Accounting policy for retirement benefits

Unrecognized actuarial gain or loss and unsettled difference at change of accounting principle in relation to retirement benefits are accounted for by a different method than the method used in the consolidated financial statements.

## (2) Accounting method for consumption taxes

The tax-exclusion method is used for the calculation of consumption tax and local consumption tax, and consumption tax and local consumption tax not subject to deduction are treated as expenses in the consolidated fiscal year under review.



## (Changes in Accounting Policy)

## (Change in method of depreciation for property, plant and equipment)

The Company previously used the declining-balance method for depreciation and amortization of property, plant and equipment (excluding leased assets) (Please note that the straight-line method has been used for buildings (excluding building fixtures) purchased on or after April 1, 1998 and building fixtures and structures purchased on or after April 1, 2016). From the fiscal year under review, the depreciation method has been changed to the straight-line method.

The manufacturing bases of the Group are located at the Company and its subsidiaries in China. With the expansion of the Chinese market, the Company has been shifting manufacturing to its subsidiaries in China. In addition, in the previous fiscal year, the Company integrated the domestic manufacturing function to Nagaoka Factory, sold other plants and conducted a review of other domestic bases. In the current fiscal year and thereafter, Nagaoka Factory will play the role as headquarters for the Group's manufacture and development, and the Company expects stable operation that is resistant to order trends.

As a result, the Company changed the method of depreciation from the declining-balance method to the straight-line method in order to carry out a cost allocation for property, plant and equipment that reflects the actual conditions of the Company.

Compared with the previous depreciation method, operating income, ordinary income and income before income taxes and other adjustments in the fiscal year under review each increased by ¥23 million.

## (Changes in Method of Presentation)

## (Non-consolidated Statements of Income)

"Rent income" had been posted as a separated item in the previous fiscal year, was included in "Other" of the non-operation income in the fiscal year under review because of the amount decrease in its importance in terms of the amount. To reflect the changes in the method of presentation, the Company changed the financial statements for the previous fiscal year.

As a result, "Rent income" of ¥41 million and "Other" of ¥58 million in the non-operating income in the statements of income for the previous fiscal year were posted as "Other" of ¥99 million.

"Rent expenses" had been posted as a separated item in the previous fiscal year, was included in "Other" of the non-operation expenses in the fiscal year under review because of the amount decrease in its importance in terms of the amount. To reflect the changes in the method of presentation, the Company changed the financial statements for the previous fiscal year.

As a result, "Rent expenses" of ¥30 million and "Other" of ¥61 million in the non-operating expenses in the statements of income for the previous fiscal year were posted as "Other" of ¥91 million.

## (Non-consolidated balance sheets)

## \* 1. Notes relating to subsidiaries and affiliates

The following shows major transactions with subsidiaries and affiliates that are included in accounts other than those posted as independent items.

	Previous fiscal year (As of March 31, 2017)	Fiscal year under review (As of March 31, 2018)
Short-term monetary receivables	3,477	3,228
Short-term monetary payables	684	1,382

## 2. Amount of discount for bills receivable

(Million yen)

	Previous fiscal year (As of March 31, 2017)	Fiscal year under review (As of March 31, 2018)
Amount of discount for bills receivable	1,141	1,533
Amount of discount for export bills receivable	2,333	2,692

## \* 3. 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.

	Previous consolidated fiscal year (As of March 31, 2017)	Consolidated fiscal year under review (As of March 31, 2018)
Amount of bills receivable	--	0
Amount of discount for bills receivable	--	252

## 4. Contingent liability

Previous fiscal year (As of March 31, 2017)

With regard to the transfer of Shinshu Factory, which the Company implemented in the fiscal year under review, expenses for soil contamination investigation and others associated with its disposition are currently under examination and difficult to estimate rationally as of this time. Therefore, the Company has not recorded the expenses in the fiscal year under review.

Fiscal year under review (As of March 31, 2018)

Not applicable.

(Non-consolidated statements of income)

## \* 1. Net sales, amount of purchases and other in relation to transactions with subsidiaries and affiliates (Million yen)

	Previous fiscal year (from April 1, 2016 to March 31, 2017)	Fiscal year under review (from April 1, 2017 to March 31, 2018)
Net sales	11,771	9,666
Amount of purchases	8,782	11,627
Selling, general and administrative expenses	144	145
Amount of transactions other than business transactions	494	361

## \* 2. Selling expenses accounted for approximately 27% of total expenses in the previous fiscal year and approximately 27% in the fiscal year under review. General and administrative expenses accounted for approximately 73% of total expenses in the previous fiscal year and approximately 73% in the fiscal year under review.

The major components of selling, general and administrative expenses and their amounts are as follows:

(Million yen)

	Previous fiscal year (from April 1, 2016 to March 31, 2017)	Fiscal year under review (from April 1, 2017 to March 31, 2018)
Salaries and allowances	760	766
Provision for bonuses	35	34
Retirement benefit expenses	35	28
Research and development expenses	1,294	1,302
Depreciation	5	5
Provision for product warranties	177	254

(Securities)

Shares in subsidiaries and shares in affiliates

Previous fiscal year (As of March 31, 2017)

Shares in subsidiaries (whose balance sheet amount is ¥3,901 million) and shares in affiliates (whose balance sheet amount is ¥11 million) do not have any market prices, and determining their fair values is considered very difficult. They are therefore omitted.

Fiscal year under review (As of March 31, 2018)

(Million yen)

Classification	Balance sheet amount	Fair value	Difference
Shares in subsidiaries	3,389	42,845	39,456

(Note) Balance sheet amount of shares in subsidiaries whose fair values are very difficult to estimate

Classification	Balance sheet amount
Shares in subsidiaries	132

Since these shares in subsidiaries do not have any market prices, and their fair values are very difficult to estimate, they are not included in above shares in subsidiaries of ¥3,389 million.

## (Deferred Tax Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause		(Million yen)
	Previous fiscal year (As of March 31, 2017)	Fiscal year under review (As of March 31, 2018)
Deferred tax assets		
Allowance for doubtful accounts	15	21
Provision for bonuses	51	49
Reserve for retirement benefits	168	181
Provision for product warranties	54	77
Loss on devaluation of investment securities	121	121
Loss on devaluation of stocks of subsidiaries and affiliates	7	7
Loss on devaluation of inventories	176	119
Impairment loss	49	45
Accrued enterprise taxes	36	49
Stock-based compensation expense	182	196
Non-qualified contribution in-kind	849	763
Foreign tax credit carried forward	17	--
Other	92	90
Deferred tax assets subtotal	1,821	1,724
Valuation reserve	-1,356	-1,275
Deferred tax assets total	465	448
Deferred tax liabilities		
Valuation difference on available-for-sale securities	-1,306	-1,670
Deferred tax liabilities total	-1,306	-1,670
Net deferred tax assets (liabilities)	-841	-1,221

## 2. Breakdown of difference between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting by major cause

	Previous fiscal year (As of March 31, 2017)	Fiscal year under review (As of March 31, 2018)
Legally effective tax rate	30.7	30.7
(Adjustments)		
Residence tax on a per capita basis	1.0%	0.4%
Experiment and research expenses	-5.0%	-3.1%
Tax sparing	-9.1%	-5.1%
Items permanently excluded from nontaxable expenses, including entertainment costs	2.6%	1.6%
Items permanently excluded from gross revenue including Dividend income	-9.4%	-3.4%
Increase (decrease) in valuation reserve	6.0%	-1.7%
Other	-0.5%	0.0%
Actual effective tax rate after applying tax effect accounting	16.3%	19.3%

(Business Combination)

Not applicable.

(Important post-balance sheet events)

1. Resolution on stock option

The company resolved to issue subscription rights to shares at The 115th annual shareholders meeting and at the Board of Directors meeting, held on June 20, 2018 respectively.

The details of the resolution are described in Section 4. Situation of Submitting Company, 1. Shares of the Company, (2) Subscription rights to shares, (i) Stock option system.

2. Acquisition of treasury stock

At a meeting of the Board of Directors held on June 20, 2018, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

- |  |   |
|--|---|
| (i) Reason of the acquisition of treasury stock: | To implement flexible capital policy in response to changes in the management environment                   |
| (ii) Class of stock to be acquired:              | Common stock  |
| (iii) Number of shares that can be acquired:     | 1,000 thousand shares (maximum)<br>(Ratio to the number of issued shares (excluding treasury stock): 1.90%) |
| (iv) Value of shares to be acquired:             | ¥1,200 million (maximum)  |
| (v) Acquisition period:                          | From June 20, 2018 to November 9, 2018  |
| (vi) Method of acquisition:                      | Acquisition on the Tokyo Stock Exchange   |

## (iv) Supplementary schedule

## Schedule of Property, plant and equipment and other assets

(Million yen)

	Assets at beginning of the fiscal year under review	Increase in the fiscal year under review	Decrease in the fiscal year under review	Depreciation or amortization in the fiscal year under review	Assets at end of the fiscal year under review	Accumulated depreciation or amortization at end of the fiscal year under review
Property, plant and equipment						
Buildings	1,810	451	26	113	2,122	2,776
Structures	45	28	2	7	63	359
Machinery and equipment	255	95	39	48	262	2,362
Vehicles	0	--	0	0	0	31
Tools, furniture and fixtures	119	57	0	30	145	480
Land	450	0	42	--	409	--
Leased assets	17	--	--	7	9	28
Construction in progress	--	226	174	--	52	--
Total Property, plant and equipment assets	2,699	859	284	207	3,066	6,038
Intangible assets						
Software	46	2	--	14	34	--
Telephone subscription rights	10	--	1	--	8	--
Leased assets	1	--	--	1	0	--
Right of using water facilities	--	1	--	0	1	--
Total Intangible assets	58	3	1	16	44	--

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

Buildings	Nagaoka factory	Factory No.7 rebuilding	¥360 million
Buildings	Nagaoka factory	Factory No.8 renovation	¥61 million
Machinery and equipment	Nagaoka factory	Machine tool manufacturing equipment	¥95 million
Tools, furniture and fixtures	Nagaoka factory	Machine tool manufacturing tools	¥42 million

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

Land	Nagaoka factory	Decrease from sale	¥41 million
Machinery and equipment	Nagaoka factory	Decrease from sale	¥38 million
Buildings	Nagaoka factory	Decrease from retirement	¥26 million
Structures	Nagaoka factory	Decrease from retirement	¥2 million

## Schedule of allowances

(Million yen)

Classification	Assets at beginning of the fiscal year under review	Increase in fiscal year under review	Decrease in fiscal year under review	Assets at end of fiscal year under review
Allowance for doubtful accounts	51	69	51	69
Provision for bonuses	169	162	169	162
Provision for product warranties	177	371	294	254

(2) Details of major items in assets and liabilities

Information is omitted as consolidated financial statements were prepared.

(3) Other

Not applicable.

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

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

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

## Section 7. Reference Information on Submitting Company

### 1. Information on the parent company of the submitting company

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

### 2. Other reference information

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

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

The 114th fiscal year (from April 1, 2016 to March 31, 2017) Submitted to the director general of the Kanto Finance Bureau on June 22, 2017

#### (2) Internal control report and its attached documents

Submitted to the director general of the Kanto Finance Bureau on June 22, 2017

#### (3) Quarterly reports and confirmation documents

1st quarter of the 115th fiscal year (from April 1, 2017 to June 30, 2017) Submitted to the director general of the Kanto Finance Bureau on August 9, 2017

2nd quarter of the 115th fiscal year (from July 1, 2017 to September 30, 2017) Submitted to the director general of the Kanto Finance Bureau on November 14, 2017

3rd quarter of the 115th fiscal year (from October 1, 2017 to December 31, 2017) Submitted to the director general of the Kanto Finance Bureau on February 13, 2018

#### (4) Extraordinary report

Submitted to the director general of the Kanto Finance Bureau on June 26, 2017

An extraordinary report under Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, Etc. (Results of exercise of voting rights at the annual shareholders meeting)

Submitted to the director general of the Kanto Finance Bureau on September 29, 2017

An extraordinary report under Article 19, paragraph 2, Item 12 of the Cabinet Office Ordinance concerning Disclosure of Corporate Businesses Conditions, etc. (events that significantly affect the Company and its Group's financial positions, business results and cash flow situations).

#### (5) Report on state of purchase of Treasury stock

Reporting period (from June 1, 2017 to June 30, 2017) Submitted to Director General of Kanto Finance Bureau on July 13, 2017  
Reporting period (from July 1, 2017 to July 31, 2017) Submitted to Director General of Kanto Finance Bureau on August 9, 2017

Reporting period (from August 1, 2017 to August 31, 2017) Submitted to Director General of Kanto Finance Bureau on September 14, 2017

Reporting period (from September 1, 2017 to September 30, 2017) Submitted to Director General of Kanto Finance Bureau on October 12, 2017

Reporting period (from October 1, 2017 to October 31, 2017) Submitted to Director General of Kanto Finance Bureau on November 14, 2017

Reporting period (from November 1, 2017 to November 30, 2017) Submitted to Director General of Kanto Finance Bureau on December 14, 2017

Reporting period (from December 1, 2017 to December 31, 2017) Submitted to Director General of Kanto Finance Bureau on January 12, 2018

Reporting period (from January 1, 2018 to January 31, 2018) Submitted to Director General of Kanto Finance Bureau on February 14, 2018

Reporting period (from February 1, 2018 to February 28, 2018) Submitted to Director General of Kanto Finance Bureau on March 14, 2018

Reporting period (from March 1, 2018 to March 31, 2018) Submitted to Director General of Kanto Finance Bureau on April 13, 2018

Reporting period (from April 1, 2018 to April 30, 2018) Submitted to Director General of Kanto Finance Bureau on May 14, 2018

Reporting period (from May 1, 2018 to May 31, 2018) Submitted to Director General of Kanto Finance Bureau on June 14, 2018



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

Not applicable.

Audit Report and Internal Control Audit Report of Independent Auditor

June 20, 2018

Board of Directors  
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability  
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability  
Certified public accountant Eishi Daikoku

(Financial statements audit)

We have audited the consolidated financial statements—balance sheets, statements of income, statements of changes in net assets, statements of cash flows, important matters that become basis of presenting consolidated financial statements, other notes and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2017 to March 31, 2018, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

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 consolidated financial position of Tsugami Corporation and subsidiaries As of March 31, 2018 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

(Internal control audit)

We have audited the internal control report of Tsugami Corporation As of March 31, 2018 for audit certification under the provision of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

Responsibility of management for internal control report

Management is responsible for development and operation of internal control, and preparing and appropriately presenting internal control report in accordance with assessing standards generally accepted in Japan concerning internal control over financial reporting.

The internal control over financial reporting might not be able to prevent or detect misstatements in financial reporting completely.

Responsibility of the auditor

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

In the audits, procedures to obtain audit evidence for the assessment results of internal control over financial reporting in internal control report are conducted. The audit procedures are selected and applied based on a significance of effect on the reliability of financial reports. The audits also include an examination of the presentation of internal control report as a whole, including statements made by management about the scope of the assessment of internal control over financial reporting, assessment procedure, and assessment results. 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 internal control report in which Tsugami Corporation states that the internal control over financial reporting As of March 31, 2018 is valid presents fairly, in all material respects, the Company's evaluation of its internal control over financial reporting, in conformity with standards for assessment concerning internal control over financial reporting generally accepted in Japan.

Interest

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

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

Independent Auditor's Report

June 20, 2018

Board of Directors  
Tsugami Corporation

Ernst & Young ShinNihon LLC

Designated and engagement partner with limited liability  
Certified public accountant Kazunari Tsukada

Designated and engagement partner with limited liability  
Certified public accountant Eishi Daikoku

We have audited the financial statements—balance sheets, statements of income, statements of changes in net assets, significant accounting policies, other notes and supplementary schedules—of Tsugami Corporation for the fiscal year from April 1, 2017 to March 31, 2018, which are stated in the Financial Status section, for audit certification under the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Responsibility of management for 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 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 financial statements and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Tsugami Corporation and subsidiaries As of March 31, 2018 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

Interest

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

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