Stock code: 6101

June 1, 2009

To our shareholders,

Takao Nishijima, Chairman and CEO
TSUGAMI CORPORATION
1-9-10 Horidome-cho
Nihonbashi, Chuo-ku, Tokyo

Notice of the 106th Annual Shareholders Meeting

You are cordially invited to attend the 106th Annual Shareholders Meeting of TSUGAMI CORPORATION (the "Company"), to be held as set forth below. If you are unable to attend the meeting in person, you may exercise your voting rights in writing. Please review the attached reference materials and exercise your vote by indicating "for" or "against" for each agenda item listed on the enclosed proxy card, affix your seal and return it to us no later than 5:30 p.m. on Thursday, June 18, 2009.

Meeting Details

1. Date & Time 10:00am, Friday, June 19, 2009.

2. Venue Conference Room at the Company's Nagaoka Plant at 1-1-1 Higashizao, Nagaoka-shi, Niigata Prefecture. (Please refer to the attached map.)

3. Agenda:

Items to be reported

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Corporate Auditors for the 106th term, from April 1, 2008 to March 31, 2009, will be reported at the meeting.
2 The Non-Consolidated Financial Statements for the 106 th term, from April 1, 2008 to March 31, 2009, will be reported at the meeting.

Items to be resolved

Item 1: Partial amendments to the Articles of Incorporation

Item 2: Appointment of Seven Directors

Item 3: Appointment of One Statutory Auditor

Item 4: Appointment of One Reserve Statutory Auditor

Item 5: Appointment of the Accounting Auditor

Item 6: Revision of stock acquisition rights to be issued as stock options for a stock-linked compensation plan to directors and statutory auditors of the Company

Item 7: Delegation to the Company's Board of Directors of the determination of subscription requirements for stock acquisition rights to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers with specific titles of the Company and employees with similar positions

Item 8: Delegation to the Company's Board of Directors of the determination of subscription requirements for stock acquisition rights to be issued as stock options under conditions particularly favorable to directors, statutory auditors, and employees of the Company and directors of subsidiaries of the Company

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

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

(Attachment)

Business Report

(From April 1, 2008 to March 31, 2009)

I. Current Status of the Group

(1) Business Performance for the Fiscal Year Ended March 31, 2009

(i) Business Progress and Results

In the first half of the consolidated fiscal year under review, prices of raw materials rose in response to higher crude oil and other prices, while in the second half of the year Japan was caught in a major global economic slowdown originating from a very severe financial crisis. As a result, the Japanese economy faced extremely difficult conditions during the fiscal year under review, including a decline in capital investment caused by stalled exports and a slump in personal consumption. Influenced by these developments and the additional adverse factor of the rapid appreciation of the yen in exchange markets, the Japanese economy faced an economic crisis of unprecedented severity, described by many as a once-in-a-century phenomenon.

Looking at orders in the machine tool industry, overseas markets offset weaker domestic demand in the first half of the fiscal year under review. However, external demand fell sharply in all regions, with the rapid economic deceleration starting October 2008. Orders experienced a particularly heavy fall in 2009, declining at year-on-year rates in excess of 80% for three consecutive months from January to March. The operating environment remained difficult in all sectors, including HDD, a main target market for Tsugami Corporation (the "Company"), and in other IT fields and in the automobile sector.

In this environment, the Company and its affiliates (the "Group") continued to supply precision processing machinery that meet the demands for ecological and energy-saving measures in the automotive and related industries, higher accuracy in IT and related industries and other requirements in other industries based on precision processing know-how accumulated over a number of years. At the same time, the Group brought a number of new products to markets.

Consolidated business performance was influenced markedly by operating conditions, which declined rapidly in the second half of the fiscal year under review and subsequent months, with the financial crisis in the United States as the trigger. The Group, however, sought to minimize the impact of weaker orders on its business performance by restructuring and streamlining production bases and cutting expenses across the Group. The Group also took steps such as shifting production to plants in China to absorb the effects of the higher yen and improve price competitiveness, and made strategic preparations for a turnaround in orders in the future, including more rapid product development.

Consolidated net sales for the fiscal year under review declined 20.4% year on year, to 22,687 million yen, on weaker sales to the auto parts manufacturers and IT business operators that are the main customers of the Company, a reflection of the unexpectedly severe economic downturn. Consolidated net sales in Japan plunged 27.3% year on year, to 10,776 million yen. Consolidated exports meanwhile fell 12.9%, to 11,911 million yen. The export ratio rose from 48.0% for the previous fiscal year, to 52.5%.

Consolidated net sales for the machine tool business dropped 18.7% year on year, to 21,987 million yen. Looking at net sales by model, consolidated net sales for flagship automatic lathes were down 18.9% year on year, to 14,324 million yen, the result of a large fall in sales to HDD industry members, which combined with a decline in sales to auto parts manufacturers in Japan. Consolidated net sales for grinding machines also dropped 20.0% year on year, to 3,231 million yen, owing to a decline in sales to auto parts manufacturers in Japan and other customers. Consolidated net sales for machining centers fell a sharp 30.2% year on year, to 1,905 million yen, while consolidated net sales for rolling and other machines were down 3.9%, to 2,525 million yen. Consolidated net sales for specialized machines and other businesses came to 700 million yen, down 51.3% from the previous fiscal year.

As a result of the changes stated above, consolidated operating income declined 70.9% year on year, to 810 million yen. Consolidated ordinary income fell 77.3%, to 626 million yen. Influenced by lower share prices worldwide following the U.S. financial crisis, the Company posted a consolidated net loss of 873 million yen, resulting from factors such as a devaluation loss of 1,163 million yen, consisting of 887 million yen lost on the devaluation of shares in Tornos S.A., an alliance partner in Switzerland, a 276 million yen loss on the devaluation of shares in domestic business partners, and an impairment loss of 99 million yen.

(ii) Capital Investments Activities

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

Machine tool business	Nagaoka Plant	Additional installation of machine tool manufacturing facilities
Machine tool business	Shinshu Plant	Additional installation of machine tool manufacturing facilities
Machine tool business	Precision Tsugami (China) Corporation	Additional installation of machine tool manufacturing facilities

Total investments amounted to 798 million yen, funded through the Company's own resources and the issuing of corporate bonds.

(iii) Financing Activities

During the fiscal year under review, the Company issued corporate bonds of 1.5 billion yen.

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

Category	103^{rd} term ended March 31, 2006	104^{th} term ended March 31, 2007	105^{th} term ended March 31, 2008	106^{th} term ended March 31, 2009
Net sales	34,006	36,557	28,495	22,687
Ordinary income	5,363	5,535	2,756	626
Net income (loss)	5,530	3,447	1,629	-873
Net income (loss) per share	71.38 yen	46.36 yen	23.03 yen	-12.88 yen
Total assets	36,827	35,943	32,732	25,703
Net assets	23,272	23,450	21,916	19,718

Note: Effective from the 104^{th} term, the Company has applied the Accounting Standard for Presentation of Net Assets on the Balance Sheet (ASB Standard No.5, December 9, 2005) and the Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet (ASB Guidance No. 8, December 9, 2005).

(3) Status of Parent Company and Principal Subsidiaries

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
Tsugami Machinery Co., Ltd.	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
Tsugami General Service Co., Ltd.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of plants, and non-life insurance agency operations
Tsugami Precision Co., Ltd.	10 million yen	100.0%	Manufacturing of measuring equipment and prototype standard
Precision Tsugami (China) Corporation	51 million Chinese yuan	100.0%	Manufacturing and sales of machine tools

Note: Tsugami Corporation absorbed Tsugami Shimamoto Ltd. on January 1, 2009

(4) Future Challenges

(Medium- and long-term management challenges)

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

(i) Introduction of new products targeting growth fields

The Group is developing new products designed to respond fully to customer needed, targeting markets where future growth is likely, including auto parts that need to meet ecological and energy-saving demands, and small high-precision parts processing in the fields of IT, including sophisticating HDDs and digital cameras, telecommunications and medical care.

(ii) Business strategies targeting growth regions

The Group will aggressively build up its operations over the medium and long term with steps that include the expansion and upgrading of production, as well as sales and after-sales service organizations in markets where investor confidence is high, such as China, Southeast Asia and India. In an additional initiative, the Group will actively promote sales of its products in Europe, where its market penetration has been limited, through a subsidiary in Germany and through agents with whom it has recently aligned. The Group will also seek to benefit from an alliance in the joint manufacture and sale of machine tools with Tornos S. A. of Switzerland.

(iii) Management streamlining and customer satisfaction enhancement

The Group is seeking to unify sales, production and administrative organizations, including those of affiliates, and to streamline management as it seeks to increase its collective capabilities as a corporate group.

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

In addition to the above initiatives, the Group will actively initiate CSR activities associated with environmental protection, compliance and other issues, and it will put in maximum management effort as a corporation that is trusted by all its stakeholders, including shareholders and customers.

(Immediate Challenges)

The Group's business performance has been severely influenced to operating conditions, which declined rapidly in the second half of the fiscal year under review and the subsequent period with the financial crisis in the United States as the trigger. The Group, however, has been seeking to minimize the impact of weaker orders on its business performance by restructuring and streamlining production bases and cutting expenses across the Group. Moreover, the Group has been taking steps such as shifting production to plants in China to absorb the effects of the higher yen and improve price competitiveness. Moreover, the Group will strive to establish a foundation for future growth by strengthening the development capabilities of new products in preparation for a turnaround in orders in the future.

(5) Principal Businesses (as of March 31, 2009)

Manufacturing and sale of precision machine tools and precision tools

(6) Main Offices and Factories (as of March 31, 2009)

(i) Tsugami Corporation

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

(ii) Subsidiaries

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

(7) Employees (as of March 31, 2009)

(i) Employees of the Tsugami Group

Number of employees	Change from the end of the previous term
580 (404)	Down 11 (Down 60)

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

(ii) Employees of Tsugami Corporation

Number of employees	Change from the end of the previous term	Average age	Average service years
523 (190)	Up 111 (Down 54)	44.0 years old	18.8 years

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

(8) Principal Lenders (as of March 31, 2009)

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	0 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	100 million yen
The Hokuetsu Bank, Ltd.	100 million yen
The Daishi Bank, Ltd.	100 million yen
The Hachijuni Bank, Ltd.	100 million yen
Mitsubishi UFJ Trust and Banking Corporation	100 million yen

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

The Group adopts the basic policy of increasing its collective capabilities and returning profits to shareholders, through sustained and proactive investment in development projects that respond to changing social demands and through continued efforts to boost competitiveness and streamline management.

Based on this policy, the Group is united in its commitment to strengthen its business structure and secure stable dividends.

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

For the fiscal year ended March 31, 2009, the Company has decided to pay dividends of 10 yen per share, as per its initial plan, including interim dividends of 5 yen per share and year-end dividends of 5 yen per share.

The Company has also chosen to defer any decision on dividends for the fiscal year ending March 31, 2010, in light of the extremely uncertain outlook for a market recovery.

II. Current Status of the Company

(1) Shares (as of March 31, 2009)

(i) Number of authorized shares:	320,000,000
(ii) Number of shares outstanding:	68,019,379
(iii) Number of shareholders:	13,944

(iv) Shareholders holding at least one-tenth of all shares issued

Not applicable

(2) Status of Stock Acquisition Rights, etc.

(i) Stock acquisition rights held by directors (as of March 31, 2009)

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of stock acquisition rights		144	66
Type and number of shares underlying stock acquisition rights		Common stock: 144,000 (1,000 shares per stock acquisition right)	Common stock: 66,000 (1,000 shares per stock acquisition right)
Issue price of stock acquisition rights		Gratuitous	608 yen
Amount to be paid for the exercise of stock acquisition rights		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of stock acquisition rights		Partial exercise of each stock acquisition rights is not allowed. Other conditions shall be as set forth in the "Stock Acquisition Rights Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each stock acquisition rights is not allowed. Other conditions shall be as set forth in the "Stock Acquisition Rights Allocation Agreement," entered into between the Company and each holder.
Status of stock acquisition rights held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of stock acquisition rights held: 68 Number of shares to be issued: 68,000	Number of holders: 2 Number of stock acquisition rights held: 34 Number of shares to be issued: 34,000
	Outside directors	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -
	Auditors	Number of holders: 4 Number of stock acquisition rights held: 32 Number of shares to be issued: 32,000	Number of holders: 4 Number of stock acquisition rights held: 20 Number of shares to be issued: 20,000

Date of relevant resolution		June 23, 2006	June 22, 2007
Number of stock acquisition rights		51	88
Type and number of shares underlying stock acquisition rights		Common stock: 51,000 (1,000 shares per stock acquisition right)	Common stock: 88,000 (1,000 shares per stock acquisition right)
Issue price of stock acquisition rights		Gratuitous	513 yen
Amount to be paid for the exercise of stock acquisition rights		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of stock acquisition rights		Partial exercise of each stock acquisition rights is not allowed. Other conditions shall be as set forth in the “Stock Acquisition Rights Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of each stock acquisition rights is not allowed. Other conditions shall be as set forth in the “Stock Acquisition Rights Allocation Agreement,” entered into between the Company and each holder.
Status of stock acquisition rights held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of stock acquisition rights held: 16 Number of shares to be issued: 16,000	Number of holders: 2 Number of stock acquisition rights held: 46 Number of shares to be issued: 46,000
	Outside directors	Number of holders: - Number of stock acquisition right held: - Number of shares to be issued: -	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -	Number of holders: 4 Number of stock acquisition rights held: 25 Number of shares to be issued: 25,000
Date of relevant resolution		June 22, 2007	June 20, 2008
Number of stock acquisition rights		77	100
Type and number of shares underlying stock acquisition rights		Common stock: 77,000 (1,000 shares per stock acquisition right)	Common stock: 100,000 (1,000 shares per stock acquisition right)
Issue price of stock acquisition rights		Gratuitous	279 yen
Amount to be paid for the exercise of stock acquisition rights		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of stock acquisition rights		Partial exercise of each stock acquisition rights is not allowed. Other conditions shall be as set forth in the “Stock Acquisition Rights Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of stock acquisition rights is not allowed. Other conditions shall be as set forth in the “Stock Acquisition Rights Allocation Agreement,” entered into between the Company and each holder.
Status of stock acquisition rights held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of stock acquisition rights held: 30 Number of shares to be issued: 30,000	Number of holders: 5 Number of stock acquisition rights held: 59 Number of shares to be issued: 59,000
	Outside directors	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -	Number of holders: 1 Number of stock acquisition rights held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: - Number of stock acquisition rights held: - Number of shares to be issued: -	Number of holders: 4 Number of stock acquisition rights held: 24 Number of shares to be issued: 24,000

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

Stock acquisition rights associated with resolution by annual shareholders meeting held on June 20, 2008

- Number of stock acquisition rights
  350 (1,000 shares per stock acquisition right)
- Number of shares underlying stock acquisition rights
  350,000
- Amount to be paid for the exercise of stock acquisition rights
  Gratuitous
- Amount invested when exercising a stock acquisition right
  422,000 yen per unit (422 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the stock acquisition rights
  Issue price: 480 yen
  Amount per share to be credited to capital: 240 yen
- Period during which stock acquisition rights can be exercised
  From July 8, 2010 to June 30, 2013
- Conditions for exercise of stock acquisition rights
  Conditions for the exercise of the stock acquisition rights shall be as set out in the "Stock Acquisition rights Allocation Agreement," resolved by a meeting of the Company's Board of Directors, and entered into between the Company and individuals receiving the stock acquisition rights in accordance with the above resolution.
- Status of stock acquisition rights held by the Company's employees, etc.

	Number of stock acquisition rights	Number of shares to be issued	Number of holders
Employees of the Company	315	315,000	76
Directors of the Company's subsidiaries	35	35,000	4

Note Retirement of by resolution of a meeting of the Board of Directors held on March 13, 2009

Stock acquisition rights resolved by the annual shareholders meeting held on June 20, 2008

- Number of stock acquisition rights
  51 (1,000 shares per stock acquisition right)
- Number of shares underlying stock acquisition rights
  51,000
- Amount to be paid for the exercise of stock acquisition rights
  Gratuitous
- Amount invested when exercising a stock acquisition right
  1,000 yen per unit (1 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the stock acquisition rights
  Issue price: 280 yen
  Amount per share to be credited to capital: 140 yen
- Period during which stock acquisition rights can be exercised
  From July 8, 2008 to July 7, 2028
- Conditions for the exercise of the stock acquisition rights
  (i) In principle, a person having new stock acquisition rights may exercise them only if he or she relinquishes all positions of director (or executive officer in a company with a committees system), statutory auditor, executive officer with a specific title, and employee similar to these positions. These stock acquisition rights, however, can only be exercised from the day following the day on which the holder relinquishes the relevant position (the "Exercise Commencement Date") to the seventh day from the Exercise Commencement Date (or the business day, a day earlier to the Exercise Commencement Date, if the above date falls on a non-business day).
  (ii) Any conditions for the exercise of stock acquisition rights other than the above shall be approved by the Board of Directors.
- Status of stock acquisition rights held by the Company's employees, etc.

	Number of stock acquisition rights	Number of shares to be issued	Number of holders
Employees of the Company	51	51,000	18

(3) Officers

(i) Directors and Statutory Auditors (as of March 31, 2009)

Names	Responsibilities and the representative status for other companies
Takao Nishijima	Representative Director (Chairman and CEO)
Yoshiharu Kikuchi	Representative Director (Senior Executive Officer)
Nobuyuki Moriuchi	Director (Senior Executive Officer)
Toshiharu Niijima	Director (Managing Executive Officer)
Hiroshi Terai	Director (Executive Officer)
Takeo Nakagawa	Director; CEO of Fine Tech Corporation
Ikuo Oomiya	Standing Statutory Auditor
Kyouji Umeoka	Statutory Auditor
Kouichiro Watanabe	Statutory Auditor
Kazuo Fujimori	Statutory Auditor; President and COO of Tokyo Seimitsu Co., Ltd.

Notes
1. Mr. Takeo Nakagawa, the Director, is an outside director.
2. Kyouji Umeoka, Kouichiro Watanabe, and Kazuo Fujimori, the Statutory Auditors, are outside auditors.
3. Important concurrent positions of the Company's officers in the fiscal year under review
The details are stated in the items associated with outside officers.

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

Mr. Tadashi Narisawa, the Director, retired on March 31, 2009.

(iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	8 (1)	136 million yen (5 million yen)
Statutory Auditors (Outside Statutory Auditors included)	4 (3)	44 million yen (22 million yen)
Total (Outside Officers included)	12 (4)	180 million yen (27 million yen)

Notes
1. The above figures include one director who retired at the end of the 105th annual shareholders meeting held on June 20, 2008.
2. Total compensation, etc. for directors did not include salaries paid to employees concurrently holding a position as director.
3. The maximum amount of compensation, etc. for directors was resolved to be not more than cash compensation of 200 million yen per annum by the 103rd annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with stock acquisition rights allocated as stock options for a stock-linked compensation plan was resolved to be not more than 60 million yen per annum by the 104th annual shareholders meeting.
4. The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103 rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with stock acquisition rights allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104th annual shareholders meeting.
5. The total amount of compensation, etc. included the following compensation.
- Compensation in the form of stock options
8 directors: 25 million yen (including one million yen for one outside director)
4 statutory auditors: 8 million yen (including 4 million yen for 3 outside statutory auditors)

(iv) Matters concerning out officers

a. Posts held concurrently by outside officers (in the case of the executing persons of other companies) and relationships between the Company and other relevant companies
   - Mr. Takeo Nakagawa, Director, concurrently holds the position of Director; CEO of FINETECH Inc.
   - Mr. Kyouji Umeoka, Statutory Auditor, concurrently holds the position of Standing Statutory Auditor of Mori Seiki Co., Ltd. The Company has trading relationships, including sales of products, with Mori Seiki Co., Ltd.
   - Kouichiro Watanabe, Statutory Auditor concurrently, holds the position of Director and Senior Managing Executive Officer of the Daiichi Mutual Life Insurance Company. The Company has concluded insurance agreements, including corporate pension plans, with the Daiichi Mutual Life Insurance Company.
   - Mr. Kazuo Fujimori, the Statutory Auditor, concurrently holds the position of the President and COO of Tokyo Seimitsu Co., Ltd. The Company has trading relationships, including sales of products, with Tokyo Seimitsu Co., Ltd.

b. Posts held concurrently by outside officers as outside officers with other companies

   Mr. Takeo Nakagawa, the Director, concurrently holds the position of Outside Statutory Auditor of FANUC Ltd. and the position of Outside Director of Nippon Pillar Packing Co., Ltd.

c. Major activities in the fiscal year under review
   - Status of attendance at meetings of the Boards of Directors and Statutory Auditors

	Board of Directors Meetings (a total of 12 meetings)		Board of Statutory Auditors Meetings (a total of 5 meetings)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Takeo Nakagawa, Director	9	90.0%	—	—
Kyouji Umeoka, Statutory Auditor	9	75.0%	4	80.0%
Kouichiro Watanabe, Statutory Auditor	12	100.0%	5	100.0%
Kazuo Fujimori, Statutory Auditor	11	91.7%	5	100.0%

Note: The number of the meetings of the Board of Directors held during the year was different from other directors in the case of Mr. Takeo Nakagawa, Director, because he was elected to his position at the 105th annual shareholders meeting held on June 20, 2008.

The number of the meetings of the Board of Directors held during the year after Mr. Takeo Nakagawa assumed his office was 10.

   - Advice and Suggestions Provided at Meetings of the Boards of Directors and Statutory Auditors

     Takeo Nakagawa, Director, Kyouji Umeoka, Statutory Auditor, Kouichiro Watanabe, Statutory Auditor, Kazuo Fujimori, Statutory Auditor, provide the necessary advice and suggestions from the viewpoint of business management, including business appropriateness and efficiency.

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

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

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

(4) Status of Independent Auditor

(i) Name of the independent auditor: KPMG AZSA & Co.

(ii) Amount of Compensation

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

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

(iii) Details of non-audit services

The Company has entrusted advisory services for the development of internal control associated with financial reports, services other than the services stipulated in Paragraph 1 of Article 2 of the Certified Public Accountants Act (non-audit services), to the independent auditor.

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

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

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

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

There are no contracts in question.

(5) Systems for Securing the Appropriateness of Operations

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

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

(i) Systems for ensuring the duties of directors and employees are in compliance with the 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 practice.

b. The Company shall establish a "whistleblowing 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.

c. The Company shall set up an Audit Office, an organization under the direct control of the president, and carry out internal audits of compliance.

(ii) Systems for the storage and management of information concerning directors' execution of duties

The Company shall appropriately maintain and manage minutes of the Board of Directors, approval documents, documents associated with the execution of directors, 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 establish a risk management committee, through which the Company collects and analyses information about risks to identify any signs of the emergence of risks at their early stage. The Company shall also establish a risk management system by developing rules and manuals so that it can promptly and accurately respond to the situation if risks have materialized.

(iv) Systems for securing efficiency of directors' execution of duties

The Company shall hold regular meetings of the Board of Directors every month, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.

(v) Systems for securing the appropriate implementation of operations by the Group, comprising of the Company and its subsidiaries

a. With respect to compliance, the Tsugami Group Code of Conduct also applies to the Company's subsidiaries.

b. Representatives of subsidiaries shall attend monthly corporate management meetings to facilitate consideration of internal control between the Company and the subsidiaries, and ensure the appropriate execution of their operations by sharing information.

c. The internal audit division (the Audit Office) shall confirm that the subsidiaries operate in compliance with laws and ordinances, internal rules, and other rules for compliance.

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

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

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

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

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

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

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

(ix) Systems for ensuring the reliability of financial reporting

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

CONSOLIDATED BALANCE SHEET

(As of March 31, 2009)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		**LIABILITIES:**	
Current assets:	**16,486**	**Current liabilities:**	**3,855**
Cash and deposits	3,238	Trade notes and accounts payable	2,129
Trade notes and accounts receivable	4,677	Short-term borrowings	500
Inventories	8,180	Corporate bonds due for redemption within one year	300
Deferred tax assets	122	Reserve for bonus payment	46
Other current assets	367	Reserve for product warranties	75
Allowance for doubtful accounts	-100	Accrued income tax	142
Fixed assets:	**9,184**	Other current liabilities	661
Tangible fixed assets:	**6,633**	**Long-term liabilities:**	**2,129**
Buildings and structures	3,919	Corporate bonds	1,200
Machinery, equipment and vehicles	1,886	Reserve for retirement benefits	823
Land	591	Reserve for directors' retirement benefits	8
Other tangible fixed assets	235	Other long-term liabilities	96
Intangible fixed assets	**43**	**Total liabilities**	**5,984**
Investments and other assets:	**2,508**	**NET ASSETS:**	
Investment securities	1,840	**Shareholders' equity**	**20,019**
Investments in affiliates	218	**Common stock**	**10,599**
Deferred tax assets	335	**Capital surplus**	**4,138**
Other investments	114	**Retained earnings**	**5,373**
Deferred assets	**32**	**Treasury stock**	**-92**
Bond issuance expenses	32	**Valuation and translation adjustments:**	**-487**
		Unrealized gains on marketable securities	**-508**
		Translation adjustments	**20**
		Stock acquisition rights	**187**
		Total net assets	**19,718**
Total Assets	**25,703**	**Total Liabilities and Total Net Assets**	**25,703**

CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2008 to March 31, 2009)

(Million yen)

Account title	Amount
Net sales	**22,687**
Cost of sales:	**18,068**
Gross profit	**4,618**
Selling, general and administrative expenses:	3,808
Operating income	**810**
Non-operating income:	**149**
Interest received	1
Dividends received	37
Rent received	11
Insurance benefits received	26
Other non-operating income	73
Non-operating expenses:	**332**
Interest paid	31
Loss on sales of trade notes	106
Other non-operating expenses	194
Ordinary income	**626**
Extraordinary income:	**106**
Gain on sales of fixed asstes	1
Reversal of stock acquisition rights	105
Extraordinary expenses:	**1,488**
Loss on retirement of fixed assets	8
Impairment loss	99
Loss on retirement of inventories	31
Loss on devaluation of inventories	24
Loss on devaluation of investment securities	1,163
Other extraordinary expenses	160
Loss before taxes and other adjustments	**-754**
Corporate, inhabitant and enterprise taxes	60
Deferred taxes	58
Net loss	**-873**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2008 to March 31, 2009)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008	10,599	4,138	6,936	-50	21,623
Changes during the term					
Cash dividends paid			-679		-679
Net loss			-873		-873
Purchase of treasury stock				-84	-84
Disposal of treasury stock			-9	42	32
Net changes of items other than shareholders' equity					
Total changes during the term	–	–	-1,562	-41	-1,604
Balance as of March 31, 2009	10,599	4,138	5,373	-92	20,019

	Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Unrealized gains on marketable securities	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2008	40	26	66	226	21,916
Changes during the term					
Cash dividends paid					-679
Net loss					-873
Purchase of treasury stock					-84
Disposal of treasury stock					32
Net changes of items other than shareholders' equity	-548	-5	-554	-39	-593
Total changes during the term	-548	-5	-554	-39	-2,197
Balance as of March 31, 2009	-508	20	-487	187	19,718

Notes to Consolidated Financial Statements

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

(1) Scope of consolidation

(i) State of consolidated subsidiaries

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

(ii) State of non-consolidated subsidiaries

- Names of major non-consolidated subsidiaries:
  Tsugami (Thai) Co., Ltd.
  Tsugami GmbH.
- Reason for non-consolidation: These non-consolidated subsidiaries are excluded from the scope of consolidation because they are small in scale, and their total assets, net sales, net income or net loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and the like have no significant effect on consolidated financial statements.

(2) Application of equity method

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

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

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

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

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

Tsugami Corporation absorbed Tsugami Shimamoto Ltd., which had been its consolidated subsidiary until the previous consolidated fiscal year, effective January 1, 2009.

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

Among the consolidated subsidiaries, the balance sheet date of Precision Tsugami (China) Corporation is December 31.

Financial statements as of the date stated above are used for the production of consolidated financial statements. The required adjustments are made for consolidated accounting of important transactions that arose during the period from the above date to the consolidated book-closing date.

(5) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

- Securities without fair market value:

Cost accounting method using the moving average method

b. Valuation standard and valuation method for inventories

Primarily the cost accounting method using the moving average method (Balance sheet figures are calculated by means of the write-down method based on the reduction in profitability.)

(Changes in accounting policies)

The Company and its consolidated subsidiaries in Japan had previously calculated inventories owned for regular sales purposes primarily with the cost accounting method using the moving average method. Starting in the consolidated fiscal year under review, they are calculating such inventories primarily with the cost accounting method using the moving average method (with balance sheet figures calculated by means of the write-down method based on the reduction in profitability), in accordance with the application of the Accounting Standard for Measurement of Inventories (ASB Standard No. 9; July 5, 2006).

The switch caused operating income and ordinary income to fall ¥50 million, respectively, and the loss before taxes and other adjustments to rise ¥74 million from the previous consolidated fiscal year.

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

a. Tangible fixed assets (excluding leased assets)

The Company and its consolidated subsidiaries in Japan adopt the declining-balance method. The Company's consolidated subsidiaries overseas use the straight-line method.

However, buildings acquired on and after April 1, 1998 (excluding annexed facilities) are depreciated using the straight-line method.

The useful life of major assets is as follows:

Buildings and structures:	15-38 years
Machinery and transportation vehicle:	9 years

(Additional information)

Previously, service lives for machinery and equipment at the Company and its domestic consolidated subsidiaries was 10 years, but this was changed to 9 years from the consolidated fiscal year under review.

This was in response to the Corporate Tax Law amendment in fiscal 2008 concerning the service life of depreciable assets, in which the

Company and its domestic consolidated subsidiaries reviewed the service life of machinery and equipment, and made adjustments corresponding to the amended Corporate Tax Law.

As a result, operating income and ordinary income decreased by ¥40 million, and net loss before income taxes increased by ¥40 million.

b. Intangible fixed assets (excluding leased assets)

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

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

c. Leased assets

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

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

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

(iii) Amortization methods for important deferred assets

Expenses for issuing corporate bonds

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

(iv) Accounting standards for significant allowances

a. Allowance for doubtful accounts — To prepare for a loss on doubtful accounts, amounts expected to become uncollectible are provided for general receivables based on the rate of actual credit loss and for specific receivables, including doubtful receivables, based on consideration of their individual collectability.

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

c. Allowance for directors' bonuses — To prepare for bonus payment to the directors of the Company and its consolidated subsidiaries, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.

However, since the Company was unable to reasonably project the amount at the end of the consolidated fiscal year under review, this was not posted.

d. Allowance for retirement benefits — To prepare for retirement benefits paid to employees of the Company and its consolidated subsidiaries in Japan, an allowance is provided on the basis of estimated amounts of retirement benefit obligations and pension assets in the consolidated fiscal year under review.

e. Allowance for directors' retirement benefits

Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.

f. Allowance for product warranties

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

(Additional information)

The Company traditionally recorded repair expenses that arise in the after-sales, free-repair warranty period as expenses at the points where repair work resulted. However, starting in the consolidated fiscal year under review, the Company adopted a method of recording a reserve for product warrantees, based on factors including the past ratio of repairs.

This change was made with the objective of properly calculating periodic profit and loss, as the importance of expenses concerning repair services increased with the rising significance of the recent sophistication of technologies and upgraded quality levels, and also because of the accumulation of repair cost data.

The change caused consolidated operating income and consolidated ordinary income to increase by 10 million yen, and consolidated net loss before taxes and other adjustments to rise by 75 million yen.

(v) Other important matters for the production of consolidated financial statements

Accounting method for consumption taxes

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

(6) Matters relating to valuation method for assets and liabilities of consolidated subsidiaries

All assets and liabilities of consolidated subsidiaries are valued using the full fair value method.

(7) Changes in accounting policies

(Practical treatment of accounting at overseas subsidiaries in consolidated financial statements)

The Tentative Treatment for the Unification of Accounting Policies of Foreign Subsidiaries in Preparing Consolidated Financial Statements (Practical Issues Task Force No.18, issued on May 17, 2000) is applied from the consolidated fiscal year under review, and corrections which are necessary for consolidation settlement are applied.

The impact of this change on income and loss is immaterial.

(Accounting standards concerning lease transactions)

Starting the current consolidated fiscal year under review, the Accounting Standard for Lease Transactions (ASB Standard No.13 issued on March 30, 2007, which revised the former accounting standard for lease transactions issued on June 17, 1993, and the Guidance on Accounting Standard for Lease Transactions (ASB Guidance No.16, issued on March 30, 2007, which revised the former guidance issued on January 18, 1994 are applied. Accordingly, the accounting standards for finance lease transactions that do not involve transfer of ownership have been changed to the accounting methods for ordinary sales and purchase transactions, from the previous accounting methods for ordinary lease transactions.

Regarding financial leases in which ownership is not transferred which commenced prior to the first day of the fiscal year in which the new standards were applied, accounting treatment based on methods related to ordinary lease transactions is continuously applied.

The impact of this change on income and loss is immaterial.

2. Notes to Consolidated Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets 11,454 million yen

(3) Discount for bills receivable 812 million yen

Discount for export bills receivable 3,069 million yen

3. Notes to Consolidated Statements of Changes in Net Assets

(1) Matters concerning the total number of outstanding shares

Share type	Number of shares at the end of the previous consolidated fiscal year	Increase in shares in the current consolidated fiscal year	Decrease in shares in the current consolidated fiscal year	Number of shares at the end of the current consolidated fiscal year
Common shares	68,019 thousand	–	–	68,019 thousand

(2) Matters concerning the number of treasury stock

Share type	Number of shares at the end of the previous consolidated fiscal year	Increase in shares in the current consolidated fiscal year	Decrease in shares in the current consolidated fiscal year	Number of shares at the end of the current consolidated fiscal year
Common shares	130 thousand	433 thousand	111 thousand	453 thousand

Note The increase in the number of treasury stock by 433 thousand shares reflected an increase of 14 thousand shares with the acquisition of odd-lot shares and the purchase of 419 thousand shares of treasury stock.

The decrease in the number of treasury stock by 111 thousand shares resulted from the exercise of stock options.

(3) Matters concerning dividends

(i) Dividends paid

a. Matters concerning dividends resolved at the Board of Directors meeting on May 15, 2008

- Total amount of dividend 339 million yen
- Dividend per share 5 yen
- Record date March 31, 2008
- Effective date June 3, 2008

b. Matters concerning dividends resolved at the Board of Directors meeting on November 10, 2008

- Total amount of dividend 339 million yen
- Dividend per share 5 yen
- Record date September 30, 2008
- Effective date November 27, 2008

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

a. The following dividends will be submitted to the Board of Directors meeting on May 14, 2009 for approval.

- Total amount of dividend 337 million yen
- Dividend per share 5 yen
- Record date March 31, 2009
- Effective date June 2, 2009

(4) Matters concerning stock acquisition rights at the end of the consolidated fiscal year under review

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of Directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	144,000	51,000
Unexercised stock acquisition rights	144	51
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of Directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	66,000	77,000
Unexercised stock acquisition rights	66	77
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of Directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	88,000	51,000
Unexercised stock acquisition rights	88	51
	Resolved at the annual shareholders meeting on June 20, 2008	
Type of subject shares	Common shares	
Number of subject shares	100,000	
Unexercised stock acquisition rights	100	

4. Notes on Per-Share Information

(1) Net assets per share 289.07 yen

(2) Net loss per share -12.88 yen

NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2009)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		**LIABILITIES:**	
Current assets:	**16,061**	**Current liabilities:**	**4,035**
Cash and deposits	2,714	Trade notes payable	1,700
Trade notes receivable	226	Accounts payable	675
Accounts receivable	5,312	Short-term borrowings	500
Products, commodities	1,022	Corporate bonds due for redemption within one year	300
Goods in process	4,605	Accounts payable	237
Raw materials, supplies	1,780	Accrued expenses payable	169
Deferred tax assets	116	Accrued income tax	34
Accounts due	286	Reserve for product warranties	75
Advance paid	19	Reserve for bonus payment	123
Other current assets	82	Other current liabilities	218
Allowance for doubtful accounts	-104	**Long-term liabilities**	**2,112**
Fixed assets	**9,331**	Corporate bonds	1,200
Tangible fixed assets	**5,977**	Reserve for retirement benefits	815
Buildings	3,377	Other long-term liabilities	96
Structures	154	**Total liabilities**	**6,147**
Machinery and equipment	1,642	**NET ASSETS:**	
Vehicles	5	**Shareholders' equity**	**19,599**
Tools, equipment and fixtures	179	**Common stock**	**10,599**
Land	591	**Capital surplus**	**4,138**
Leased assets	26	Capital legal reserve	4,138
Construction in progress	1	**Retained earnings**	**4,954**
Intangible fixed assets	**26**	**Other retained earnings**	**4,954**
Investments and other assets	**3,327**	Deferred retained earnings	4,954
Investment securities	1,823	**Treasury stock**	**-92**
Shares in affiliates	136	**Valuation and translation adjustments**	**-508**
Investments in affiliates	926	**Unrealized gains on marketable securities**	**-508**
Deferred tax assets	335	**Stock acquisition rights**	**187**
Other investments	105		
Deferred assets	**32**		
Bond issuance expenses	32	**Total net assets**	**19,277**
Total assets	**25,425**	**Total Liabilities and Total Net Assets**	**25,425**

NON- CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2008 to March 31, 2009)

(Million yen)

Account title	Amount
Net sales	**22,043**
Cost of sales:	**18,241**
Gross profit	**3,802**
Selling, general and administrative expenses:	3,284
Operating income	**517**
Non-operating income:	**511**
Interest received	1
Dividends received	317
Rent received	83
Insurance benefits received	26
Other non-operating income	83
Non-operating expenses:	**404**
Interest paid	27
Leased asset expenses	77
Sales discount	5
Loss on sales of trade notes	106
Other non-operating expenses	186
Ordinary income	**625**
Extraordinary income:	**373**
Gain on sales of fixed asstes	4
Reversal of stock acquisition rights	105
Gain on extinguishment of tie-in shares	263
Extraordinary expenses:	**1,486**
Loss on retirement of fixed assets	7
Impairment loss	99
Loss on retirement of inventories	31
Loss on devaluation of inventories	24
Loss on devaluation of investment securities	1,163
Other extraordinary expenses	160
Loss before taxes and other adjustments	**-487**
Corporate, inhabitant and enterprise taxes	20
Deferred taxes	33
Net loss	**-540**

STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2008 to March 31, 2009)

(Million yen)

	Shareholders' equity			
		Capital surplus		Retained earnings
	Common stock	Capital legal reserve	Total capital surplus	Other retained earnings Deferred retained earnings
Balance as of March 31, 2008	10,599	4,138	4,138	6,183
Changes during the term				
Cash dividends paid				-679
Net loss				-540
Purchase of treasury stock				
Disposal of treasury stock				-9
Net changes of items other than shareholders' equity				
Total changes during the term	–	–	–	-1,229
Balance as of March 31, 2009	10,599	4,138	4,138	4,954

	Shareholders' equity		Valuation and translation adjustments	Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gains on marketable securities		
Balance as of March 31, 2008	-50	20,871	40	226	21,137
Changes during the term					
Cash dividends paid		-679			-679
Net loss		-540			-540
Purchase of treasury stock	-84	-84			-84
Disposal of treasury stock	42	32			32
Net changes of items other than shareholders' equity			-548	-39	-587
Total changes during the term	-41	-1,271	-548	-39	-1,859
Balance as of March 31, 2009	-92	19,599	-508	187	19,277

Notes to Non-Consolidated Financial Statements

1. Matters Concerning Significant Accounting Policies

(1) Valuation standard and valuation method for assets

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

(ii) Other securities:

- Securities with fair market value: Market value method based on the market value quoted at the end of the consolidated fiscal year (valuation differences are directly charged or credited to shareholders' equity, and the cost of securities sold is calculated using the moving-average method)
- Securities without fair market value: Cost accounting method using the moving average method

(iii) Valuation standard and valuation method for inventories

Primarily cost accounting method using the moving average method (Balance sheet figures are calculated by means of the write-down method based on the reduction in profitability.)

(Changes in accounting policies)

The Company had previously calculated inventories held for regular sales purposes with the cost accounting method using the moving average method. Starting in the consolidated fiscal year under review, the Company is calculating such inventories primarily with the cost accounting method using the moving average method (with balance sheet figures calculated by means of the write-down method based on profitability decline), in step with the application of the Accounting Standard for Measurement of Inventories (ASB Standard No. 9; July 5, 2006).

The switch caused operating income and ordinary income to fall ¥50 million, respectively, and the loss before taxes and other adjustments to rise ¥74 million from the previous consolidated fiscal year.

(2) Depreciation method for fixed assets

(i) Tangible fixed assets (excluding leased assets)

The Company adopts the declining-balance method. However, buildings acquired on or after April 1, 1998 (excluding annexed facilities) are depreciated using the straight-line method.

Useful life of major assets is as follows:

Buildings:	15 to 38 years
Machinery and equipment:	9 years
Tools, equipment and fixtures:	5 years

(Additional information)

Machinery and equipment had previously been depreciated over 10 years. Starting in the consolidated fiscal year under review, their useful life is changed to nine years.

The change reflected a review of the useful life made on the occasion of tax system reforms in fiscal 2007.

The useful life revision caused operating income and ordinary income to fall ¥40 million, respectively, and loss before taxes and other adjustments to rise ¥40 million from the previous consolidated fiscal year.

(ii) Intangible fixed assets (excluding leased assets)

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

(iii) Leased assets

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

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

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

(3) Long-term prepaid expenses

The straight-line method is used.

(4) Deferred assets

Expenses for issuing corporate bonds

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

(5) Accounting standards for allowances

(i) Allowance for doubtful accounts — To prepare for a loss on doubtful accounts, amounts expected to become uncollectible are provided for general receivables based on the rate of actual credit loss and for specific receivables, including doubtful receivables, based on consideration of their individual collectability.

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

(iii) Allowance for directors' bonuses — To prepare for bonus payment to the directors, an amount that needs to be paid in the fiscal year under review are provided as an estimate. However, since the Company was unable to reasonably project the amount at the end of the fiscal year under review, this was not posted.

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

The difference accrued as a result of an accounting standard change (¥2,086 million) is accounted for as expenditure, using an amount obtained by proportionally distributing the difference to a period of 15 years.

Any actuarial difference is accounted for as expenditure using the straight-line method in the fiscal year following the fiscal year of its accrual, using an amount obtained by proportionally distributing the difference to a certain number of years (five years) within the average remaining service period for employees at the time of the accrual.

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

(Additional information)

The Company traditionally recorded repair expenses that arise in the after-sales, free-repair warranty period as expenses at the points where repair work resulted. However, starting in the fiscal year under review, the Company adopted a method of recording a reserve for product warrantees, based on factors including the past ratio of repairs.

This change was made with the objective of properly calculating periodic profit and loss, as the importance of expenses concerning repair services increased with the rising significance of the recent sophistication of technologies and upgraded quality levels, and also because of the accumulation of repair cost data.

The change caused operating income and ordinary income to increase by 10 million yen, and net loss before taxes and other adjustments to rise by 75 million yen.

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

Accounting method for consumption taxes

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

(7) Changes in accounting policies

(Accounting standards concerning lease transactions)

Starting the current fiscal year under review, the Accounting Standard for Lease Transactions (ASB Standard No.13 issued on March 30, 2007, which revised the former accounting standard for lease transactions issued on June 17, 1993, and the Guidance on Accounting Standard for Lease Transactions (ASB Guidance No.16, issued on March 30, 2007, which revised the former guidance issued on January 18, 1994 are applied. Accordingly, the accounting standards for finance lease transactions that do not involve transfer of ownership have been changed to the accounting methods for ordinary sales and purchase transactions, from the previous accounting methods for ordinary lease transactions.

Regarding financial leases in which ownership is not transferred which commenced prior to the first day of the fiscal year in which the new standards were applied, accounting treatment based on methods related to ordinary lease transactions is continuously applied.

The impact of this change on income and loss is immaterial.

2. Notes to Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets	11,273 million yen
(3) Discount for bills receivable	812 million yen
Discount for export bills receivable	3,069 million yen

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

(i) Short-term monetary receivables	1,628 million yen
(ii) Short-term monetary payables	287 million yen

3. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

(i) Sales	4,107 million yen
(ii) Purchases	3,065 million yen
(iii) Transactions other than operating transactions	367 million yen

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

(1) Matters concerning the number of treasury stock

Share type	Number of shares at the end of the previous fiscal year	Increase in shares in the current fiscal year	Decrease in shares in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	130 thousand	433 thousand	111 thousand	453 thousand

Note The increase in the number of treasury stock by 433 thousand shares reflected an increase of 14 thousand shares with the acquisition of odd-lot shares and the purchase of 419 thousand shares of treasury stock.
The decrease in the number of treasury stock by 111 thousand shares resulted from the exercise of stock options.

5. Notes on Tax Effect Accounting

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

(Deferred tax assets)

Allowance for doubtful accounts	87
Allowance for employees' bonuses	50
Reserve for retirement benefits	331
Allowance for product warranties	30
Loss on devaluation of investment securities	89
Loss of devaluation of shares in affiliates	9
Loss on devaluation of inventories	40
Impairment loss	48
Enterprise taxes payable	5
Share-based remuneration expenses	61
Loss carried forward	682
Others	50
Sub total for deferred tax assets	1,489
Valuation allowance	-1,038
Total deferred tax assets	451

(2) Breakdown of major items that caused the difference between the statutory effective tax rate and the corporate tax and other burden rate after application of tax effect accounting

Such items are omitted from the statement because a loss before taxes and other adjustments resulted in the consolidated fiscal year under review.

6. Notes on Fixed Assets Used under Lease Contracts

(1) Amount corresponding to acquisition value at the end of the consolidated fiscal year, amount corresponding to aggregated depreciation, and amount corresponding to balance at the end of the fiscal year

	Amount corresponding to acquisition value	Amount corresponding to aggregated depreciation	Amount corresponding to balance at the end of the fiscal year
Tools, equipment and fixtures	44 million yen	34 million yen	10 million yen
Others	26 million yen	18 million yen	7 million yen
Total	70 million yen	53 million yen	17 million yen

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

Amount corresponding to future minimum lease payment at the end of the fiscal year

One year or less	10 million yen
More than one year	7 million yen
Total	17 million yen

7. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Share of voting rights (held externally) (%)	Relationships	Transaction contents	Transaction amount (million yen)	Account titles	Year-end balance (million yen)
Subsidiary	Precision Tsugami (China) Corporation	(Holding) Direct: 100.0%	Concurrent service by directors Manufacture and sales of the Company's products	Sales of products Acceptance of new shares	806 259	Accounts receivable —	1,167 –
Affiliate	REM SALES LLC	(Holding) Direct: 29.5%	Sales of the Company's products and parts	Sales of products and parts	2,360	Accounts receivable	50

Note: Business terms and policies for their determination, etc.
Terms for sales and purchases of the Company's products, etc. are determined with their market prices as reference data.

8. Notes on Per-Share Information

(1) Net assets per share 282.55 yen

(2) Net loss per share -7.98 yen

Accounting Audit Report on Consolidated Financial Statements

Independent Auditors' Report

May 12, 2009

To the Board of Directors of Tsugami Corporation

KPMG AZSA & Co.

Shigehisa Horinokita
Designated and Engagement Partner
Certified Public Accountant

Ryo Tanaka
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to conoslidated financial statements, for the consolidated fiscal year from April 1, 2008 to March 31, 2009, in accordance with Paragraph 4, Article 444 of the Company Law. Responsibility for preparation of these consolidated financial statements lies with the Company's management. Our responsibility is to express an opinion on these consolidated financial statements from an independent perspective.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to obtain reasonable assurance for the absence of material misstatements in these consolidated financial statements. An audit includes an examination, on a test basis, of the overall presentation of consolidated financial statements, including accounting principles used, the application method for the principles, and an assessment of estimates made by management. We believe that, as a result of our audits, we have obtained a reasonable basis upon which to express our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the state of consolidated properties and the state of consoldiated profit and loss of a corporate group that consists of the Company and its consolidated subsidiaries for the consolidated fiscal year specified above in conformity with business accounting standards generally accepted in Japan.

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

Accounting Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report

May 12, 2009

To the Board of Directors of Tsugami Corporation

KPMG AZSA & Co.

Shigehisa Horinokita
Designated and Engagement Partner
Certified Public Accountant

Ryo Tanaka
Designated and Engagement Partner
Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets, notes to non-conoslidated financial statements, and their supporting schedules, for the 106th fiscal year from April 1, 2008 to March 31, 2009, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law. Responsibility for preparation of these non-consolidated financial statements and their supporting schedules lies with the Company's management. Our responsibility is to express an opinion on these non-consllidated financial statements and their supporting schedules from an independent perspective.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to obtain reasonable assurance for the absence of material misstatements in these non-conoslidated financial statements and their supporting schedules. An audit includes examination, on a test basis, of the overall presentation of non-consolidated financial statements and their supporting schedules, including accounting principles used, the application method for the principles, and assessment of estimates made by management. We believe that, as a result of our audits, we have obtained a reasonable basis upon which to express our opinion.

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

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

Report by the Board of Statutory Auditors

Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 106th fiscal year from April 1, 2008 to March 31, 2009 prepared by Statutory Auditors.

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

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

The Statutory Auditors communicated with Directors, internal audit division members, other employees and other sources to prepare conditions for information gathering and audits in compliance with the audit criteria set by the Board and in accordance with the audit policy, allocated duties and the like. At the same time, the Statutory Auditors attended Board of Directors and other important meetings, received reports from Directors, employees and other sources on the state of the execution of their duties, requested explanations as needed, viewed important documents on decisions, and studied the state of operations and assets at Tsugami Corporation (the "Company") and its principal offices. The Statutory Auditors also monitored and verified the content of Board of Directors resolutions on the establishment of organizations as prescribed in Paragraphs 1 and 3, Article 100 of the Enforcement Regulations for the Company Law as a requisite for a system that ensures the execution of duties by directors in compliance with laws and the Articles of Incorporation and other proper operations of a joint stock company, and the state of a system (internal control system) established in accordance with said resolutions. With respect to subsidiaries, the Statutory Auditors sought to communicate and exchange information with their Directors and Statutory Auditors, and received from subsidiaries reports on their operations as needed. Based on the aforementioned methods, the Statutory Auditors examined business reports and their supporting schedules for the fiscal year under review.

Further, the Statutory Auditors monitored and verified independence maintenance and proper audit execution by Independent Auditors, received reports from the Independent Auditors on the state of the execution of their duties, and requested explanations as needed. In addition, the Statutory Auditors received a notice from the Independent Auditors, stating that they were developing the "system for ensuring proper duty execution" (items prescribed in respective paragraphs of Article 131 of the Corporate Calculation Regulations) in accordance with "Quality Control Standards for Auditing" (Business Accounting Council Standard issued on October 28, 2005) and the like, and requested explanations as needed.

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

2. Results of the Audit

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

(a) The business report and its supporting schedules present fairly the state of the Company in conformity with the relevant laws and the Articles of Incorporation.

(b) No misconduct or material fact contrary to the relevant laws or the Articles of Incorporation has been found with respect to the execution of Directors' duties.

(c) The contents of Board of Directors resolutions on the internal control system are fair and reasonable. No item requiring special mention has been found with respect to the execution of Directors' duties concerning said internal control system.

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

The methods and results of the audit conducted by KPMG AZSA & Co., Accounting Auditors, are fair and reasonable.

(3) Results of the audit of consolidated financial statements

The methods and results of the audit conducted by KPMG AZSA & Co., Accounting Auditors, are fair and reasonable.

May 13, 2009

Board of Statutory Auditors
Tsugami Corporation

Ikuo Oomiya, Standing Statutory Auditor
Kyoji Umeoka, Statutory Auditor
Koichiro Watanabe, Statutory Auditor
Kazuo Fujimori, Statutory Auditor

Note: Statutory Auditors Kyoji Umeoka, Koichiro Watanabe and Kazuo Fujimori are External Corporate Auditors, prescribed in Item 16, Article 2 and Paragraph 3, Article 335 of the Company Law.

Reference Materials for the Annual Shareholders Meeting

Item 1: Partial amendments to the Articles of Incorporation

1. Reason for the amendments

The Company intends to make the following amendments to its current Articles of Incorporation in response to the enforcement of the Law Amending the Partial Revision of the Commercial Code Concerning Book-Entry Transfer of Corporate Securities for Rationalization of Settlements Related to the Trading of Equities" (Law No. 88 of 2004, hereafter the "Settlement Rationalization Law").

(1) The Company is deemed to have adopted a resolution in favor of discontinuing the provision for the issuing of share certificates in its Articles of Incorporation on the date when the so-called dematerialization of share certificates took force (January 5, 2009) in accordance with the provisions of Article 6 of the supplementary regulations for the Settlement Rationalization Act. Accordingly, the Company intends to eliminate Article 7 (issuance of share certificates) from its Articles of Incorporation, and to delete and correct the wording therein pertaining to share certificates.

(2) The Company intends to delete and correct the wording in its Articles of Incorporation pertaining to beneficial shareholders and the register of beneficial shareholders in response to the repeal of the "Act Concerning Storage and Transfer of Share Certificates and the Like."

(3) The Company intends to provide for the register of lost share certificates in the supplementary regulations for its Articles of Incorporation as it is required to produce and provide such register until the day one year after the day following the enforcement of the Settlement Rationalization Act.

(4) The Company intends to make other required changes, including addition and elimination of regulations and the wording, in its Articles of Incorporation.

2. Details of the amendments

The details of the proposed amendments are as follows:

(Underlines denote sections for amendment.)

Current articles of incorporation	Amended articles of incorporation
<u>(Issuing of share certificates)</u> <u>Article 7: The Company shall issue share certificates for its shares.</u>	(Deleted)
(Share trading unit <u>and non-issuance of share certificates for shares of less than one trading unit</u>)	(Share trading unit)
Article <u>8</u>: The trading unit for the Company's shares shall be 1,000 shares. <u>The Company shall not issue share certificates for shares of less than one trading unit.</u>	Article <u>7</u>: The trading unit for the Company's shares shall be 1,000 shares. (Deleted)

Current articles of incorporation	Amended articles of incorporation
(Rights in connection with shares less than one trading unit) Article 9: The Company's shareholders (inclusive of beneficial shareholders, used in the same way hereinafter) may not exercise rights in connection with shareholdings of less than one trading unit with the exception of such rights stated below. 1. Rights prescribed in the respective items of Paragraph 2, Article 189 of the Company Law 2. Rights of claim prescribed in Paragraph 1, Article 166 of the Company Law 3. Rights to receive offered shares and stock acquisition rights in accordance with the number of shares owned	(Rights in connection with shares less than one trading unit) Article 8: The Company's shareholders may not exercise rights in connection with shareholdings of less than one trading unit with the exception of such rights stated below. 1. Rights prescribed in the respective items of Paragraph 2, Article 189 of the Company Law 2. Rights of claim prescribed in Paragraph 1, Article 166 of the Company Law 3. Rights to receive offered shares and stock acquisition rights in accordance with the number of shares held
(Types of share certificates issued) Article 10: The Board of Directors shall decide the types of share certificates issued by the Company.	(Deleted)
(Administrator of the shareholders' register) Article 11: 1. The Company shall appoint the administrator of the shareholders' register. 2. The administrator of the shareholders' register and the location where the administrator performs its administrative duties shall be established by resolution of the Board of Directors, and published. 3. Production and provision of the shareholder's register (inclusive of beneficial shareholders, used in the same way hereinafter), the original register of stock acquisition rights, and the register of lost share certificates for the Company, and administrative duties pertaining to other shareholders' registers, other original registers of stock acquisition rights and other registers of lost share certificates shall be delegated to the administrator of the shareholders' register. The Company shall not engage in any of such operations.	(Administrator of the shareholders' register) Article 9: 1. The Company shall appoint the administrator of the shareholders' register. 2. The administrator of the shareholders' register and the location where the administrator performs its administrative duties shall be established by resolution of the Board of Directors, and published. 3. Production and provision of the shareholder's register and the original register of stock acquisition rights for the Company, and administrative duties pertaining to other shareholders' registers and other original registers of stock acquisition rights shall be delegated to the administrator of the shareholders' register. The Company shall not engage in any such operations.

Current articles of incorporation	Amended articles of incorporation
(Share handling regulations) Article 12: In addition to relevant laws or these Articles of Incorporation, share handling regulations established by the Board of Directors shall stipulate the handling of the Company's shares and related commissions. Articles 13 to 41: (Provisions omitted) (Established)	(Share handling regulations) Article 10: In addition to relevant laws or these Articles of Incorporation, share handling regulations established by the Board of Directors shall stipulate the handling of the Company's shares, related commissions, procedures for the exercise of shareholder rights and the like. Articles 11 to 39: (Unchanged) Supplementary regulations Article 1: The Company's register of lost share certificates shall be provided at the location where the administrator of the shareholders' register performs administrative duties. Administrative duties pertaining to the statement or recording in the register of lost share certificates shall be delegated to the administrator of the shareholders' register. The Company shall not engage in any such duties. Article 2: In addition to the rules set out in relevant laws or in these Articles of Incorporation, share handling regulations established by Board of Directors shall stipulate the statement or recording in the register of lost share certificates. Article 3: These supplementary regulations and this article shall be deleted effective January 6, 2010.

Item 2: Appointment of Seven Directors

The term of office for all seven Directors shall expire at the close of this Annual Shareholders Meeting. We therefore propose the reappointment of the seven Directors.

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

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
1	Takao Nishijima (December 14, 1947)	May 1970	Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)	10 thousand
		February 1999	Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.	
		May 1999	General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.	
		June 2000	Director and General Manager of the Sales Development Division, Control Headquarters	
		April 2003	Representative Director, Chairman and CEO	
		April 2006	Representative Director, Chairman and CEO (current positions)	
2	Yoshiharu Kikuchi (April 17, 1948)	April 1971	Joined the Company	35 thousand
		June 2000	Director and Leader of the Automatic Lathe Group, Nagaoka Factory	
		June: 2001	Managing Director and Leader of the Automatic Lathe Group, Nagaoka Factory	
		April 2002	Managing Director and General Manager of the Technology Headquarters, Nagaoka Factory	
		April 2004	Director, Senior Executive Officer and General Manager of the Sales Headquarters	
		April 2006	Representative Director, Director and Senior Executive Officer (current positions)	

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
3	Nobuyuki Moriuchi (January 22, 1948)	April 1970	Joined the Fuji Bank, Limited (now Mizuho Bank, Ltd.)	0
		April 1997	Joined Tokyo Seimitsu Co., Ltd.	
		June 2004	Vice President of ACCRETECH USA, INC.	
		April 2006	Managing and Executive Officer in charge of the Overseas Division, Sales Headquarters	
		April 2008	Senior Executive Officer and General Manager of the Overseas Sales Headquarters	
		June 2008	Director and Senior Executive Officer (current positions)	
4	Toshiharu Niijima (November 14, 1954)	November 1979	Joined the Company	14 thousand
		October 2003	Leader of the Automatic Lathe Group, Technology Headquarters	
		April 2005	Executive Officer and Deputy General Manager of the Technology Headquarters	
		April 2006	Managing Executive Officer and General Manager of the Technology Headquarters	
		June 2008	Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory	
		April 2009	Senior Executive Officer and General Manager of the Nagaoka Factory (current positions)	

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
5	Toshio Honma (August 2, 1952)	April 1975	Joined the Hokuetsu Bank, Ltd.	0
		April 2002	Manager of the Nagaoka Shinsan Branch of the Hokuetsu Bank, Ltd.	
		April 2006	Manager of the Naoetsu Branch of Hokuetsu Bank, Ltd.	
		April 2008	Managing Executive Officer and General Manager of the Administrative Division of the Company (current positions)	
6	Takeo Nakagawa (October 12, 1938)	May 1999	Professor Emeritus at the University of Tokyo (current post)	20 thousand
		October 2000	CEO of Fine Tech Corporation (current positions)	
		June 2007	Auditor at FUNUC LTD. (current position)	
		June 2008	Director of the Company (current position)	
7	Mitsuhiro Masumi (July 29, 1942)	April 1965	Joined the Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)	0
		June 1993	Director of the Sakura Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)	
		June 1996	Managing Director of the Sakura Bank, Ltd.	
		June 1999	Executive Director and Executive Officer of the Sakura Bank, Ltd.	
		June 2000	President of Sakura Mortgage Co., Ltd.	
		June 2001	President of Mitsui Finance Service Co., Ltd. (now SMBC Finance Service Co., Ltd.)	
		March 2002	President of SMBC Mortgage Co., Ltd.	
		June 2003	Director of Sanki Engineering Co., Ltd. (current position)	
		April 2007	Auditor at TOHO Co., Ltd. (current position)	

Notes:
1. No special interest exists between the Company and each of the candidates nominated above.
2. Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi are candidates for the position of outside directors.
3. The Company requests the appointment of Mr. Takeo Nakagawa as its outside director based on its assessment that Mr. Nakagawa possesses deep insight and experience in the manufacturing industry in general, and can advise the Company’s management from a broad perspective. Mr. Nakagawa is currently serving the Company as its outside director. His term of office as an outside director, however, will reach one year at the close of this annual shareholders meeting.
4. The Company requests the appointment of Mr. Mitsuhiro Masumi as its outside director based on

its assessment that Mr. Masumi can advise the Company's management from a broad perspective based on the deep insight and abilities he has developed through his extensive business experience.

5. The Tokyo Summary Court issued a summary order for a penalty payment to Sanki Engineering Co., Ltd. on charges that the general manager of its sales department obstructed an auction in connection with construction work ordered by the Defense Facilities Administration Agency in February 2006 while Mr. Mitsuhiro Masumi was serving Sanki Engineering as its outside director. In an associated move, the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism ordered Sanki Engineering to suspend piping operations in connection with public works for 30 days within the jurisdictions of the Kanto Regional Development Bureau.
   Mr. Masumi has properly and regularly performed his legal duties as a director seeking to prevent said fact from occurring. After the fact did occur, Mr. Masumi has been performing his duties properly with actions, including confirmation of the sufficient function of the Board of Directors and other meetings and measures to prevent a recurrence.
6. The Japan Fair Trade Commission issued retraction orders to TOHO Co., Ltd. in connection with the representation for its horse meat products in December 2007 and the representation for its charcoal-roasted liquid coffee products in December 2008 in accordance with the provisions of Paragraph 1, Article 6 of the Act against Unjustifiable Premiums and Misleading Representations while Mr. Mitsuhiro Masumi was serving TOHO as its outside auditor.
   Mr. Masumi has made recommendations and raised cautions from the perspective of compliance at Board of Directors, Board of Statutory Auditors and other meetings on a regular basis. Following the issuance of the retraction orders, Mr. Masumi has been fulfilling his responsibilities as an outside auditor with actions that include the provision of opinions aimed at bolstering the internal control system for preventing recurrence and confirming that the function to prevent a recurrence is operating sufficiently.
7. The Company currently has an agreement limiting liability with Mr. Takeo Nakagawa. The Company plans to renew this agreement when the appointment of Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi as directors is approved. The Company also plans to conclude a new agreement limiting liability with Mr. Mitsuhiro Masumi upon the appointment approval.
   With respect to said agreement, the Company's Articles of Incorporation prescribes that "the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside directors, in accordance with the provisions of Paragraph 1, Article 427 of the Companies Act" and that "liabilities based on such agreement shall be limited to the amount stipulated in law."

Item 3: Appointment of One Statutory Auditor

The term of office for Statutory Auditor, Mr. Kazuo Fujimori, will expire at the close of this Annual Shareholders Meeting. We therefore request the appointment of one statutory auditor.

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

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

Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
Kunimasa Ohta (February 16, 1949)	April 1971	Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)	3 thousand
	April 1996	General Manager of the Kobe Branch of the Fuji Bank, Limited	
	June 1999	Director and General Manager of the Accounting Headquarters of Toho Rayon Co., Ltd.	
	June 2002	Director of Tokyo Seimitsu Co., Ltd.	
	April 2003	President and Executive Officer of the operating company for Tokyo Seimitsu Co., Ltd. (current positions)	
	June 2004	Representative Director of the same company	
	October 2004	Representative Director and Chief Financial Officer of the same company (current positions)	

Notes:
1. No special interest exists between the Company and the candidate nominated above.
2. Mr. Kunimasa Ohta is a candidate for the position of outside statutory auditor.
3. The Company requests the appointment of Mr. Kunimasa Ohta as its outside statutory auditor based on its assessment that Mr. Ohta can fulfill audit functions by taking advantage of the deep insight and abilities he has developed through his extensive business experience.
4. The Company plans to conclude an agreement limiting liability with Mr. Kunimasa Ohta upon the approval of his appointment as an outside statutory auditor.
   With respect to said agreement, the Company's Articles of Incorporation prescribes that "the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside statutory auditors, in accordance with the provisions of Paragraph 1, Article 427 of the Companies Act" and that "liabilities based on such agreement shall be limited to the amount stipulated in law."

Item 4: Appointment of One Reserve Statutory Auditor

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

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

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

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

Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
Teruaki Makuta (November 9, 1956)	April 1979	Joined the Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)	0
	May 2001	Deputy General Manager of the Hong Kong Branch of the Mitsui Bank, Ltd.	
	April 2004	General Manager of the Hiratsuka Corporate Sales Department of the Mitsui Bank, Ltd.	
	May 2007	Manager of the Control Headquarters of the Company	
	April 2009	Executive Officer, General Manager of the Administration Division and General Manager of the International Administration Division of the Company (current positions)	

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

Item 5: Appointment of the Accounting Auditor

The term of office for KPMG AZSA & Co., the current accounting auditor for the Company, will expire at the close of this Annual Shareholders Meeting. The Company is performing accounting and book-closing operations at the Administration Division located within its Nagaoka Factory. In consideration of audit efficiency and audit costs, we request the appointment of Ernst & Young ShinNihon LLC with its office in Nagaoka as our new accounting auditor.

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

The candidate for the position of accounting auditor is as follows:

Name	Ernst & Young ShinNihon LLC	
Offices	(In Japan)	
	Address of the principal office	2-2-3 Uchisaiwaicho, Chiyoda-ku, Tokyo
	Other offices	Offices in 32 locations including Sapporo, Sendai, Nagaoka, Chiba, Shizuoka, Nagoya, Kyoto, Osaka, Kobe and Fukuoka
	(Overseas)	Offices in 31 locations including New York
History	April 2000	Showa Ota & Co. (established in October 1985) merged with Century Audit Corporation (established in January 1986), and changed its name to Century Ota Showa & Co.
	July 2001	Century Ota Showa & Co. changed its name to Shin Nihon & Co.
	July 2008	Shin Nihon & Co. changed its name to Ernst & Young ShinNihon LLC.
Brief overview	Capital stock	721 million yen
	Staffing	
	Certified public accountants	2,533
	Part-qualified accountants and the like	2,161
	Others	1,625
	Total	6,319
	Number of audit clients	4,462

(As of April 28, 2009)

Item 6: Revision of stock acquisition rights to be issued as stock options for a stock-linked compensation plan to directors and statutory auditors of the Company

The 104th annual shareholders' meeting has approved the following:

- The maximum amount of annual compensation relating to stock acquisition rights to be allotted to the directors and statutory auditors of the Company as stock options for a stock-linked compensation plan (the fair value of a stock acquisition right multiplied by the number of stock acquisition rights to be allotted) shall be 60 million yen per year for the directors and 20 million yen per year for the statutory auditors.
- The maximum total number of stock acquisition rights to be issued within one year of each fiscal year's annual shareholders' meeting shall be 76 for directors and 25 for statutory auditors.

  Considering recent stock prices, we request shareholders to approve a revision to change the maximum total number of stock acquisition rights to be issued within one year of the annual shareholders' meeting to 300 for the directors and 100 for the statutory auditors.

  The amount of compensation for directors does not include compensation received by employees who concurrently serve as directors.

  There are six directors and four statutory auditors. If item 2 and item 3 are approved in their original forms, there will be seven directors and four statutory auditors.

  We wish to revise the number of stock acquisition rights to be issued and the compensation relating to them as follows:

1. The maximum amount of annual compensation to be allotted to the directors and statutory auditors of the Company as stock options for a stock-linked compensation plan (the fair value of a stock acquisition right multiplied by the number of stock acquisition rights to be allotted) shall be 60 million yen per year for directors and 20 million yen per year for statutory auditors as approved in the 104th annual shareholders' meeting.
2. The details of stock acquisition rights to be issued as stock options for a stock-linked compensation plan for the directors and statutory auditors of the Company shall be as follows:

   (1) Total number of stock acquisition rights

   The maximum total number of stock acquisition rights to be issued within one year of each fiscal year's annual shareholders' meeting shall be 300 for directors and 100 for statutory auditors.

   (2) Type and number of shares underlying stock acquisition rights

   Directors and statutory auditors shall be eligible for the issuing of a maximum of 300,000 and 100,000 common shares of the Company, respectively, by exercising stock acquisition rights to be issued within one year of each fiscal year's annual shareholders' meeting.

   If the Number of Target Shares specified below is adjusted, the maximum numbers of common shares described above will be adjusted accordingly:

   The number of shares underlying a stock acquisition right (hereinafter the "Number of Target Shares") shall be 1,000.

   If the Company carries out a stock split (or gratis allocation of common shares of the Company) or a reverse stock split for its common stock, and if, as a result, an adjustment of the Number of Target Shares is appropriate, the Company shall make the necessary adjustment as specified in the following mathematical expression:

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Stock split (or reverse stock split) ratio}$$

(3) Amount to be paid for the exercise of stock acquisition rights
The value of the property to be contributed when a stock acquisition right is exercised shall be one yen, which is the amount to be paid in for one of the shares that can be delivered through the exercise of the stock acquisition right, multiplied by the Number of Target Shares.

(4) Period during which stock acquisition rights can be exercised
The stock acquisition rights can be exercised within 20 years of the day following the day when the stock acquisition rights are allotted.

(5) Constraint on acquisitions of stock acquisition rights through transfers
An acquisition of stock acquisition rights through a transfer shall require a resolution of the Board of Directors to approve it.

(6) Other conditions associated with the exercise of stock acquisition rights
In principle, a person having stock acquisition rights may exercise them only if he or she relinquishes all positions of director (or executive officer in a company with a committees system), statutory auditor, executive officer with a specific title, and employee similar to these positions.
If the person meeting the above criterion exercises stock acquisition rights, he or she may exercise them only within seven business days of the day when he or she has relinquished the positions specified above.
Other conditions for the exercise of stock acquisition rights shall be specified by the Board of Directors.

Item 7: Delegation of the decision about the offering of stock acquisition rights as stock options for a stock-linked compensation plan to the Board of Directors with conditions particularly favorable to executive officers with specific titles of the Company and employees with similar positions

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

1. Reason for offering of the stock acquisition rights for subscription under especially favorable conditions
   The Company has been granting stock acquisition rights as stock options for a stock-linked compensation plan since 2005 to the Company's titled executive officers and employees with similar titles. The grants were designed to establish a closer link between the Company's stock prices and results and the titled executive officers and employees so that they share with shareholders not only benefits from high stock prices, but also the risks of low stock prices, bolstering their morale and enthusiasm for improving business results. The Company will continue this year to grant stock acquisition rights as stock options for a stock-linked compensation plan to the Company's titled executive officers and employees with similar titles.
   Meanwhile, following the review of the remuneration system for titled executive officers, etc., the Company has abolished the existing retirement benefits system.
2. The outline and the numerical limit of the stock acquisition rights whose offering terms may be determined based on the resolution made at the above general meeting of shareholders scheduled
   (1) The numerical limit of the stock acquisition rights, the offering terms of which may be determined based on the above delegation
   The maximum number of the stock acquisition rights as described in below (3) shall be 111.
   The total number of the Company's shares that are issued in exchange of the exercise of the stock acquisition rights shall be limited to a maximum of 111,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the above stock acquisition rights.
   (2) No transfer of cash shall be required for the stock acquisition rights, the offering terms of which may be determined based on the above delegation
   (3) The outline of the stock acquisition rights, the offering terms of which may be determined based on the above delegation
   (i) Type and the number of shares that are the object of the stock acquisition rights
   The type of shares that are the object of the stock acquisition rights shall be common stocks of the Company. The number of shares for each stock acquisition right (the "Number of Granted Shares") shall be 1000 shares.
   However, if a share-split (including a gratis allotment of common stocks of the Company; the same shall apply below regarding the descriptions of the share-split) or a reverse share-split is conducted for common stocks of the Company after the date of resolution at the above general meeting of shareholders (the "Resolution Date"), the Number of Granted Shares shall be adjusted by applying the following formula, with fractions of less than one share rounded down to the nearest one share:

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

The above adjustment shall be applied only to the number of the shares that are the object of the stock acquisition rights that have not been exercised at the time of the adjustment. In addition to the above case, if an adjustment of the Number of Granted Shares is considered to be necessary for unavoidable reasons, the Company shall carry out the adjustment deemed reasonable.

(ii) Amount of assets contributed on exercise of the stock acquisition rights
The amount of assets contributed upon exercise of each stock acquisition right is calculated by multiplying the paid-in value of 1 yen per share delivered upon exercise of each stock acquisition right by the Number of Granted Shares.

(iii) Exercise period of the stock acquisition rights
Within 20 years from the day following the allotment date of the stock acquisition rights

(iv) Matters concerning the increase in capital and capital reserve when shares are issued upon exercise of the stock acquisition rights

i. The amount of increase in capital when shares are issued with the exercise of the stock acquisition rights shall be one half of the maximum amount of increase in capital, etc., which is calculated in accordance with Paragraph 1 of Article 17 of the Corporate Calculation Regulation, and fractions of less than 1 yen shall be rounded up to the nearest 1 yen.

ii. The amount of increase in the capital reserve when shares are issued upon exercise of the stock acquisition rights shall be the amount calculated by deducting the amount of capital to be increased as stated in the preceding paragraph i from the maximum amount of increase in capital, etc., as stated in the same paragraph i above.

(v) Restriction on acquiring the stock acquisition rights by assignment Acquisition of the stock acquisition rights by assignment shall require approval by a resolution of the Board of Directors.

(vi) Provisions concerning the acquisition of the stock acquisition rights If a proposal for a merger agreement in which the Company ceases to exist, or a proposal for a stock swap agreement or a stock transfer plan in which the Company will become a wholly owned subsidiary, is approved at a general meeting of shareholders of the Company, the Company may acquire the stock acquisition rights on the date stipulated separately by the Company's Board of Directors.

(vii) Fractions of less than 1 share occurring on exercise of the stock acquisition rights
If a fraction of less than 1 share to be delivered to the holder of the stock acquisition rights occurs upon exercise of the stock acquisition rights, it shall be rounded down to the nearest 1 share.

(viii) Other conditions for exercise of the stock acquisition rights

i. In principle, a holder of the stock acquisition rights may exercise the stock acquisition rights within the period described in Provision (iii) above, only when the holder no longer holds a position as the Company's director (including an executive officer in a company with a committee), corporate auditor, titled executive officer, and/or employee with a similar title. In this case, the holder may only exercise the stock acquisition rights within a period of seven days from the next day of the date when he/she loses the above titles.

ii. Any other conditions associated with the exercise of the stock acquisition rights shall be determined by the resolution of a meeting of the Company's Board of Directors.

Item 8: Delegation of the decision about the offering of stock acquisition rights as stock options for a stock-linked compensation plan to the Board of Directors under conditions particularly favorable to directors, statutory auditors, and employees of the Company and directors of subsidiaries of the Company

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

New stock acquisition rights to be issued to directors and statutory auditors of the Company under conditions particularly favorable to them are compensation that is not monetary, and their value is not fixed. We therefore ask shareholders to approve a method for calculating the value of the stock acquisition rights that will be allocated as compensation.

Based on the approval of the 104th Annual General Shareholders' Meeting, the maximum amount of annual compensation relating to stock acquisition rights to be allotted as stock compensation-type stock options shall be 60 million yen for the directors of the Company and 20 million yen for the statutory auditors of the Company. Apart from the compensation to the directors and statutory auditors, we ask shareholders to approve the features of stock acquisition rights as compensation and the method for calculating their value that are described in 2 below.

There are six directors and four statutory auditors. If item 2 and item 3 are approved in their original forms, there will be seven directors and four statutory auditors.

1. Reason for offering of the stock acquisition rights for subscription under especially favorable conditions
   The Company intends to grant the stock acquisition rights to its directors, corporate auditors, and employees, as well as to the directors of the Company's subsidiaries to bolstering their morale and enthusiasm for improving consolidated results of the Company.
2. The outline and the numerical limit of the stock acquisition rights, the offering terms of which may be determined based on the resolution made at the above general meeting of shareholders scheduled
   (1) The numerical limit of the stock acquisition rights, the offering terms of which may be determined based on the above delegation
   The maximum number of the stock acquisition rights as described in point (3) below shall be 800 (including 160 for the Company's directors and 24 for the Company's corporate auditors.
   The total number of the Company's shares that are issued in exchange for the exercise of the stock acquisition rights shall be limited to a maximum of 800,000 shares of the Company's common stock (including 160,000 shares for the Company's directors and 24,000 shares for the Company's corporate auditors. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the stock acquisition rights (the maximum number shall apply to the Company's directors and the Company's corporate auditors.
   (2) No transfer of cash shall be required for the stock acquisition rights, the offering terms of which may be determined based on the above delegation.
   (3) The outline of the stock acquisition rights, the offering terms of which may be determined based on the above delegation
      (i) Type and the number of shares that are the object of the stock acquisition rights
      The type of shares that are the object of the stock acquisition rights shall be common stocks of the

Company. The number of shares for each stock acquisition right (the “Number of Granted Shares”) shall be 1000 shares.

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

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

The above adjustment shall be applied only to the number of the shares that are the object of the stock acquisition rights that have not been exercised at the time of the adjustment.

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

(ii) Amount of assets contributed on exercise of the stock acquisition rights

The amount of assets contributed upon exercise of each stock acquisition right is calculated by multiplying the paid-in value per share (the “Exercise Price”) delivered upon exercise of each stock acquisition right by the Number of Granted Shares.

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

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

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

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

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

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

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

(iii) Exercise period of the stock acquisition rights

From the date, two years after the date following the Allotment Date, to June 30, 2014

(iv) Matters concerning the increase in capital and capital reserve when shares are issued upon exercise of the stock acquisition rights

i. The amount of increase in capital when shares are issued upon exercise of the stock acquisition rights shall be one half of the maximum amount of increase in capital, etc., which is calculated in accordance with Paragraph 1 of Article 17 of the Corporate Calculation Regulation, and fractions of less than 1 yen shall be rounded up to the nearest 1 yen.

ii. The amount of increase in capital reserve to be increased when shares are issued upon exercise of the stock acquisition rights shall be the amount calculated by deducting the amount of increase in capital as stated in the preceding paragraph i from the maximum amount of increase in capital, etc., as stated in the same paragraph i above.

(v) Restriction on acquiring the stock acquisition rights by assignment

Acquisition of the stock acquisition rights by assignment shall require approval by a resolution of the Board of Directors.

(vi) Provisions concerning the acquisition of the stock acquisition rights

If a proposal for a merger agreement in which the Company ceases to exist, or a proposal for a stock swap agreement or a stock transfer plan in which the Company will become a wholly owned subsidiary, is approved at a general meeting of shareholders of the Company, the Company may acquire the stock acquisition rights free of charge on the date stipulated separately by the Company's Board of Directors.

(vii) Fractions of less than 1 share occurring on exercise of the stock acquisition rights

If a fraction of less than 1 share to be delivered to the holder of the stock acquisition rights occurs upon exercise of the stock acquisition rights, it shall be rounded down to the nearest 1 share.

(viii) Other conditions associated with the exercise of the stock acquisition rights shall be determined in accordance with a resolution made by a meeting of the Board of Directors, or the "Stock Acquisition Rights Allotment Agreement," which is concluded with the grantee, in accordance with a resolution of a meeting of the Board of Directors.

(ix) Other conditions governing the exercise of stock acquisition rights shall be specified in resolutions of the Board of Directors of the Company and agreements on the granting of stock acquisition rights to be concluded between the Company and the recipients of stock acquisition rights based on the resolutions.

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