[Translation]
Stock code: 6101
May 25, 2018

To our shareholders,

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

Notice of the 115th Annual Shareholders Meeting

You are cordially invited to attend the 115th 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 by any of the following means. Please review the attached reference materials and exercise your vote.

[In the case of exercise of the voting rights in writing]
Please 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 Tuesday, June 19, 2018.

[In the case of online exercise of the voting rights]

Please access the website for exercise of the voting rights that the Company designates (https://evote.tr.mufg.jp/), enter the site using the login ID and password indicated on the enclosed proxy card, and exercise your vote by indicating "for" or "against" for each agenda item according to the instructions on the screen no later than 5:30 p.m. on Tuesday, June 19, 2018.

For online exercise of the voting rights, please read the instructions provided in "Procedures for Online Exercise of the Voting Rights" on pages 3 and 4 hereinbelow.

Meeting Details

1. Date & Time 10:00 am, Wednesday, June 20, 2018

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

3. Agenda:

Items to be reported

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Statutory Auditors for the 115th term, from April 1, 2017 to March 31, 2018, will be reported at the meeting.
2 The Non-Consolidated Financial Statements for the 115th term, from April 1, 2017 to March 31, 2018, 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 (Other Than Directors Who Are Members of the Audit and Supervisory Committee)

Item 3: Appointment of Four Directors Who Are Members of the Audit and Supervisory Committee

Item 4: Setting of Amount of Compensation, etc. for Directors (Other Than Directors Who Are Members of the Audit and Supervisory Committee)

Item 5: Setting of Amount of Compensation, etc. for Directors Who Are Members of the Audit and Supervisory Committee

Item 6: Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers of the Company and employees with similar positions

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

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

<Procedures for Online Exercise of the Voting Rights>

For online exercise of the voting rights, please read the following instructions before exercise of the voting rights.
If attending the meeting in person, it is not necessary to follow the procedures for sending the proxy card by mail or online exercise of the voting rights.

Details of Online Exercise of the Voting Rights

1. Website for Exercise of the Voting Rights
   (1) You can exercise your voting rights online only when you access to the site for exercise of the voting rights that the Company designates (https://evote.tr.mufg.jp/) through a personal computer, smartphone or mobile phone (i-mode, EZweb, Yahoo! Keitai)*. (However, the site is not available from 2:00 a.m. to 5:00 a.m. each day.)
   *"i-mode," "EZweb" and "Yahoo!" are the trademark or registered trademark of NTT DOCOMO, INC., KDDI CORPORATION, and Yahoo! Inc. of America, respectively.
   (2) You may not exercise the voting rights through a personal computer or smartphone according to the environment in which you use the Internet, specifically, if a firewall and other similar programs are used in connection with the Internet, if an anti-virus software program is running, if a proxy server is used, and if TLS encryption communication is not designated.
   (3) When you use a mobile phone in exercise of your voting rights, you are required to use any of the following services: i-mode, EZweb or Yahoo! Keitai. In addition, for the security purposes, you may not exercise your voting rights with any mobile phone on which neither TLS communication encryption nor transmission of mobile phone data is available.
   (4) You can exercise your voting rights online no later than 5:30 p.m. on Tuesday, June 19, 2018. However, you are recommended to exercise your voting rights early and if you have any questions, please contact the help desk.

2. Method of Online Exercise of the Voting Rights
   (1) On the website for exercise of the voting rights (https://evote.tr.mufg.jp/), enter the site using the login ID and temporary password stated in the proxy card and input data to indicate "for" or "against" according to the instructions on the screen.
   (2) It should be acknowledged that to prevent unauthorized access ("identity fraud") and alteration of the vote that you cast by any other persons, you will be required to change the "temporary password" on the site for exercise of the voting rights.

(3) Every time the shareholders meeting is called, a new login ID and temporary password will be provided by notice.

3. Treatment of the Voting Rights If They Are Exercised More Than Once

(1) It should be acknowledged that if you exercise the voting rights redundantly both by mail and online, the vote that you cast online will be treated as a valid vote.

(2) If you exercise your voting rights online more than once, the final vote that you cast will be valid. In addition, if you exercise your voting rights redundantly using more than one means from a personal computer, smartphone and mobile phone, the final vote that you cast will be valid.

4. Costs charged for access to the website for exercise of the voting rights

You are required to bear the costs charged for access to the website for exercise of the voting rights (such as Internet access fees). In addition, if you use a mobile phone, etc., fees for packet communication and other mobile phones services will be charged, which you are also required to bear.

End.

Contact for the System, etc.
Stock Transfer Agency Department, Mitsubishi UFJ Trust and Banking Corporation (help desk)
- Telephone: 0120-173-027 (Time for acceptance of inquiries: 9:00 a.m. to 9:00 p.m., toll-free)

(Attachment)

Business Report

(From April 1, 2017 to March 31, 2018)

I. Current Status of the Group

(1) Business Performance for the Fiscal Year Ended March 31, 2018

(i) Business Progress and Results

During the consolidated fiscal year under review, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") have kept steady growth in both domestic, U.S. and European markets, and showed strong growth in the Chinese market. In this environment, the Group sought to boost sales in auto parts-related sectors and conventional industries. As a result, consolidated net sales for the fiscal year under review increased 40.3% year on year, to ¥57,576 million. Consolidated net sales in Japan increased 23.0% year on year, to ¥12,670 million. Consolidated exports increased 46.1% year on year, to ¥44,905 million. The export ratio increased 3.1% from 74.9% for the previous fiscal year, to 78.0%.

A breakdown of consolidated net sales by machinery category shows that sales of mainstay Automatic lathes rose 40.1% year on year, to ¥47,949 million, sales of Grinding machines increased 26.7%, to ¥4,221 million, sales of Machining centers fell 46.1%, to ¥269 million, and sales of Rolling machines and other specialized machines rose 76.1%, to ¥4,795 million.

Consolidated operating income increased 125.1% year on year, to ¥6,942 million. Consolidated ordinary income increased 128.5% year on year, to ¥6,510 million and consolidated net income attributable to owners of parent increased 58.5% year on year, to ¥4,171 million for the fiscal year under review.

(ii) Capital Investments Activities

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

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

Total investments amounted to ¥1,658 million, funded through the Company's own funds.

b. Important capital investment plans decided during the consolidated fiscal year under review are as follows:

PRECISION TSUGAMI (CHINA) CORPORATION	A plan was decided to establish a new company and construct a new plant in Anhui Province, China. Total amount of investment: approx. 200 million yuan

(iii) Financing Activities

During the consolidated fiscal year under review, Precision Tsugami (China) Corporation Limited, a consolidated subsidiary of the Company, went public on the Main Board of the Hong Kong Stock Exchange and conducted public offering and private placement of equity to increase its capital and raised funds by a total amount of 411.6 million HKD (equivalent to ¥5,930 million), as shown below.

Date	Category	Number of issued shares	Issue price per share	Amount of funds raised (equivalent amount in Japanese yen)
September 25, 2017	Public offering	60,000 thousand shares	5.6HKD	336 million HKD (4,838 million yen)
October 13, 2017	Third party allotment	13,500 thousand shares	5.6HKD	75.6 million HKD (1,091 million yen)

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

Category	112th term ended March 31, 2015	113th term ended March 31, 2016	114th term ended March 31, 2018	115th term ended March 31, 2018
Net sales	54,132	40,132	41,050	57,576
Ordinary income	7,745	1,095	2,848	6,510
Net income attributable to owners of parent	5,297	877	2,630	4,171
Net income per share	74.37 yen	13.04 yen	41.91 yen	74.71 yen
Total assets	56,829	47,859	50,127	62,656
Net assets	37,279	32,594	31,462	37,516
Net asset per share	522.94 yen	473.78 yen	510.43 yen	585.58 yen

(3) Status of Parent Company and Principal Subsidiaries

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
TSUGAMI MACHINERY CO., LTD	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
TSUGAMI GENERAL SERVICE CO., LTD.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations
PRECISION TSUGAMI (CHINA) CORPORATION	517 million yuan	70.8% (70.8%)	Manufacturing and sales of machine tools
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	35 million yuan	70.8% (70.8%)	Manufacturing and sales of machine tool castings
TSUGAMI KOREA Co., Ltd.	1,000 million won	100.0%	Sales of machine tools
Precision Tsugami (China) Corporation Limited	381 million Hong Kong dollar	70.8	Holding company
Precision Tsugami (Hong Kong) Limited	767 million Hong Kong dollar	70.8% (70.8%)	Holding company
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	495 million Indian rupee	90.9% (15.1%)	Manufacturing and sales of machine tools

Note) 1. The figure in the parenthesis is the indirect ownership of voting rights.

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

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

(4) Challenges to Address

(Challenges in the medium to long term)

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

(i) Introduction of new products targeting growth fields

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

(ii) Business strategies targeting growth regions

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

(iii) Management streamlining and customer satisfaction enhancement

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

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

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

(5) Principal Businesses (as of March 31, 2018)

Manufacturing and sale of precision machine tools

(6) Main Offices and Factories (as of March 31, 2018)

(i) Tsugami Corporation

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

(ii) Subsidiaries

Name	Address
TSUGAMI MACHINERY CO., LTD	Kawasaki City, Kanagawa Prefecture
TSUGAMI GENERAL SERVICE CO., LTD.	Nagaoka City, Niigata Prefecture
PRECISION TSUGAMI (CHINA) CORPORATION	Zhejiang, China
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	Zhejiang, China
TSUGAMI KOREA Co., Ltd.	Anyang-Si, South Korea
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	Oragadam, Dt. Tamil Nadu, India

(7) Employees (as of March 31, 2018)

(i) Employees of the Tsugami Group

Number of employees	Change from the end of the previous term
2,419 (88)	Up 460 (Down 7)

(Note) The number of employees consists of full-time workers excluding part-time and temporary workers. The annual average number of part-time and temporary workers is presented in brackets. The number of employees rose 460 from the end of the previous fiscal year, mainly attributable to the increase at PRECISION TSUGAMI (CHINA) CORPORATION and the inclusion of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED in the scope of consolidation from the consolidated fiscal year under review.

(ii) Employees of Tsugami Corporation

Number of employees	Change from the end of the previous term	Average age	Average service years
368 (70)	Down 71 (Down 13)	43.3 years old	18.4 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, 2018)

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	¥800 million
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥800 million
The Hokuetsu Bank, Ltd	¥800 million
Mizuho Bank, Ltd.	¥400 million
The Daishi Bank, Ltd.	¥200 million
THE HACHIJUNI BANK,LTD.	¥200 million

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

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

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

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

The Company has decided to pay an annual dividend of ¥18 per share, an interim dividend of ¥9, and a year-end dividend of ¥9, in the fiscal year ended March 31, 2018.

The Company plans to pay an annual dividend of ¥18 per share, an interim dividend of ¥9 and a year-end dividend of ¥9, in the fiscal year ending March 31, 2019.

II. Current Status of the Company

(1) Shares (as of March 31, 2018)

(i) Number of authorized shares: 320,000,000

(ii) Number of shares outstanding: 55,000,000

(Note) Number of shares outstanding decreased 9,919,379 compared with the end of the previous fiscal year due to a retirement of treasury stock on October 20, 2017.

(iii) Number of shareholders: 7,422

(iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	2,592	4.88
The Dai-ichi Life Insurance Company, Limited	2,100	3.95
The Master Trust Bank of Japan, Ltd. (trust account)	1,895	3.56
MSCO CUSTOMER SECURITIES (Standing agency: Morgan Stanley MUFG Securities Co., Ltd.)	1,799	3.39
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW (Standing agency: Mizuho Bank, Ltd. Custody & Proxy Department)	1,796	3.38
Japan Trustee Services Bank, Ltd. (trust account)	1,711	3.22
Sumitomo Mitsui Banking Corporation	1,516	2.85
The Hokuetsu Bank, Ltd.	1,484	2.79
Tsugami Customers' Shareholding Association	1,110	2.09
Japan Trustee Services Bank, Ltd. (trust account 5)	1,001	1.88

Notes
1. In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
2. The 2,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.49% of the stock).
3. Although the Company holds 1,918 thousand shares of treasury stock, it is excluded from the list of major shareholders.

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

(i) Subscription rights to shares held by directors (as of March 31, 2018)

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

Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		14	29
Type and number of shares underlying subscription rights to shares		Common shares: 14,000 (1,000 shares per subscription rights to share)	Common shares: 29,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: 1 Number of subscription rights to shares held: 29 Number of shares to be issued: 29,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 22, 2007	June 20, 2008
Number of subscription rights to shares		18	32
Type and number of shares underlying subscription rights to shares		Common shares: 18,000 (1,000 shares per subscription rights to share)	Common shares: 32,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	279 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: 2 Number of subscription rights to shares held: 28 Number of shares to be issued: 28,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

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

Date of relevant resolution		June 19, 2009	June 18, 2010
Number of subscription rights to shares		6	51
Type and number of shares underlying subscription rights to shares		Common shares: 6,000 (1,000 shares per subscription rights to share)	Common shares: 51,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	532 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 7, 2009 to July 6, 2029	From July 6, 2010 to July 5, 2030
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 18, 2010	June 17, 2011
Number of subscription rights to shares		4	92
Type and number of shares underlying subscription rights to shares		Common shares: 4,000 (1,000 shares per subscription rights to share)	Common shares: 92,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	408 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 6, 2010 to July 5, 2030	From July 5, 2011 to July 4, 2031
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 80 Number of shares to be issued: 80,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 2 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 17, 2011	June 15, 2012
Number of subscription rights to shares		16	95
Type and number of shares underlying subscription rights to shares		Common shares: 16,000 (1,000 shares per subscription rights to share)	Common shares: 95,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	459 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 5, 2011 to July 4, 2031	From July 3, 2012 to July 2, 2032
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000	Number of holders: 4 Number of subscription rights to shares held: 85 Number of shares to be issued: 85,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 2 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 15, 2012	June 21, 2013
Number of subscription rights to shares		7	119
Type and number of shares underlying subscription rights to shares		Common shares: 7,000 (1,000 shares per subscription rights to share)	Common shares: 119,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	445 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 3, 2012 to July 2, 2032	From July 9, 2013 to July 8, 2033
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 4 Number of subscription rights to shares held: 104 Number of shares to be issued: 104,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 21, 2013	June 20, 2014
Number of subscription rights to shares		8	139
Type and number of shares underlying subscription rights to shares		Common shares: 8,000 (1,000 shares per subscription rights to share)	Common shares: 139,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	452 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 9, 2013 to July 8, 2033	From July 8, 2014 to July 9, 2034
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 4 Number of subscription rights to shares held: 104 Number of shares to be issued: 104,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: 3 Number of subscription rights to shares held: 20 Number of shares to be issued: 20,000

Date of relevant resolution		June 18, 2015	June 22, 2016
Number of subscription rights to shares		115	155
Type and number of shares underlying subscription rights to shares		Common shares: 115,000 (1,000 shares per subscription rights to share)	Common shares: 155,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		526 yen	272 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 7, 2015 to July 6, 2035	From July 8, 2016 to July 7, 2036
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 4 Number of subscription rights to shares held: 76 Number of shares to be issued: 76,000	Number of holders: 4 Number of subscription rights to shares held: 105 Number of shares to be issued: 105,000
	Outside directors	Number of holders: 3 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 4 Number of subscription rights to shares held: 27 Number of shares to be issued: 27,000	Number of holders: 4 Number of subscription rights to shares held: 35 Number of shares to be issued: 35,000

Date of relevant resolution		June 22, 2016	June 21, 2017
Number of subscription rights to shares		3	107
Type and number of shares underlying subscription rights to shares		Common shares: 3,000 (1,000 shares per subscription rights to share)	Common shares: 107,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	706 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 8, 2016 to July 7, 2036	From July 7, 2017 to July 6, 2037
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 6 Number of subscription rights to shares held: 73 Number of shares to be issued: 73,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 9 Number of shares to be issued: 9,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 3 Number of shares to be issued: 3,000	Number of holders: 5 Number of subscription rights to shares held: 25 Number of shares to be issued: 25,000

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

Subscription rights to shares associated with resolution by annual shareholders meeting held on June 21, 2017

- Number of subscription rights to shares
  86 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares
  86,000
- Amount to be paid for the exercise of subscription rights to shares
  Gratuitous
- Amount invested when exercising a subscription rights to share
  ¥1,000 per unit (¥1 per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares
  Issue price: ¥707
  Amount per share to be credited to capital: ¥354
- Period during which subscription rights to shares can be exercised
  From July 7, 2017 to July 6, 2037
- Conditions for exercise of subscription rights to shares
  (i) A holder of the subscription rights to shares may exercise the subscription rights to shares within the Exercise period only when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
  (ii) The conditions for the exercise of the subscription rights to shares other than the above shall require approval by a resolution of the Board of Directors.
- Status of subscription rights to shares held by the Company's employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	86	86,000	25

(3) Officers

(i) Directors and Statutory Auditors (as of March 31, 2018)

Position	Name	Responsibility and important concurrent post
Representative Director, Chairman and CEO	Takao Nishijima	
Representative Director, COO	Toshiharu Niijima	COO, Technology
Representative Director, CFO	Toshio Honma	CFO
Director	Byun Jae-Hyun	President of TSUGAMI KOREA Co., Ltd.
Director	Nobuyuki Nagai	Nagaoka plant manager
Director	Wang Xiaokun	Vice president of PRECISION TSUGAMI (CHINA) CORPORATION
Director	Takeo Nakagawa	CEO of Fine Tech Corporation
Director	Shigeru Nishiyama	
Director	Kunio Shimada	Representative partner at Shimada Hamba & Osajima
Standing Statutory Auditor	Keiji Hayazaki	
Standing Statutory Auditor	Kenji Yoneyama	
Statutory Auditor	Morikuni Uchigasaki	
Statutory Auditor	Hitoshi Yoshida	President and CEO of TOKYO SEIMITSU CO., LTD., Director, Dai-ichi Life Holdings, Inc.
Statutory Auditor	Hideo Teramoto	Representative Director, Vice Chairman, The Dai-ichi Life Insurance Company, Limited

Notes
1. Directors Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada are outside directors.
2. Mr. Morikuni Uchigasaki, Mr. Hitoshi Yoshida and Mr. Hideo Teramoto, the Statutory Auditors, are outside auditors.
3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors, and Statutory Auditor Mr. Hideo Teramoto as independent auditors.
4. Changes in Directors and Statutory Auditors in the fiscal year under review
   Statutory Auditor Kenji Yamada retired from his position at the close of the 114th Annual Shareholders Meeting held on June 21, 2016 due to the expiration of his term of office. Mr. Kenji Yoneyama was elected and assumed office as a Statutory Auditor at the annual shareholders meeting.

(ii) 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 Non-Executive Directors Takeo Nakagawa, Shigeru Nishiyama, and Kunio Shimada and Statutory Auditors Morikuni Uchigasaki, Hitoshi Yoshida, and Hideo Teramoto 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.

(iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	9 (3)	¥215 million (¥29 million)
Statutory Auditors (Outside Statutory Auditors included)	6 (3)	¥64 million (¥29 million)
Total (Outside Officers included)	15 (6)	¥279 million (¥58 million)

(Notes) 1. The above figures include one statutory auditor who retired on June 21, 2017.

2. The maximum amount of compensation, etc. for directors was resolved to be not more than cash compensation of ¥250 million per annum by the 109th annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than ¥80 million per annum by the 109th annual shareholders meeting.

3 The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of ¥60 million per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than ¥20 million per annum.

4 The total amount of compensation, etc. included the following compensation.

- Compensation in the form of stock options

9 directors: ¥51 million (including ¥5 million for 3 outside directors)

6 statutory auditors: ¥15 million (including ¥5 million for 3 outside statutory auditors)

(iv) Matters concerning out officers

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

Position, Name	Company name	Post	Relationship
Director, Takeo Nakagawa	Fine Tech Corporation FANUC LTD. OSG CORPORATION	CEO Auditor Director	The Company has trading relationships, including sales of products, with Fine Tech Corporation, and trading relationships, including purchase of products, with FANUC LTD. No special interests exist between the Company and OSG CORPORATION.
Director, Shigeru Nishiyama	Mitsui Sugar Co., Ltd.	Auditor	No special interests exist between the Company and Mitsui Sugar Co., Ltd.
Director, Kunio Shimada	Shimada Hamba & Osajima Hulic Reit, Inc.	Representative partner Supervisory Officer	No special interests exist between the Company and both Shimada Hamba & Osajima and Hulic Reit, Inc.
Statutory Auditor, Hitoshi Yoshida	Tokyo Seimitsu Co., Ltd.	President and CEO	The Company has trading relationships, including purchase of products, with Tokyo Seimitsu Co., Ltd.
Statutory Auditor, Hideo Teramoto	Dai-ichi Life Holdings, Inc. The Dai-ichi Life Insurance Company, Limited	Director Representative Director, Vice Chairman	The Company has concluded insurance agreements, including corporate pension plans, with The Dai-ichi Life Insurance Company, Limited.

b. Major activities in the fiscal year under review

Names	Major activities
Takeo Nakagawa, Director	He attended 10 of the 11 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed based on his insight into the entire manufacturing industry, from the viewpoint of an experienced corporate manager.
Shigeru Nishiyama, Director	He attended 10 of the 11 meetings of the Board of Directors meetings held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Kunio Shimada, Director	He attended 11 of the 11 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced lawyer.
Morikuni Uchigasaki, Statutory Auditor	He attended 10 of the 11 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hitoshi Yoshida, Statutory Auditor	He attended 9 of the 11 meetings of the Board of Directors held in the fiscal year under review and 4 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hideo Teramoto, Statutory Auditor	He attended 10 of the 11 meetings of the Board of Directors held in the fiscal year under review and 4 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.

(4) Status of Independent Auditor

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

(ii) Amount of Compensation

	Amount to be paid
Compensation to be paid to independent auditors for the fiscal year under review	¥33 million
The total amount of cash and other assets to be paid by the Company and subsidiaries to independent auditors	¥36 million

Notes
1. The auditing contract between the Company and the independent auditor makes no distinction between auditing services based on the Company Law and auditing services based on the Financial Instruments and Exchange Law. Since no real distinction can be made in practice, the amount of compensation to be paid for the fiscal year under review represents the total amount.
2. The Board of Statutory Auditors has carried out an inspection necessary for deciding whether the independent auditor's audit plan, its performance of its duties, and its basis for estimating its compensation are appropriate or not and has agreed on the amount of compensation for the independent auditor.
3. Financial statements of PRECISION TSUGAMI (CHINA) CORPORATION and TSUGAMI PRECISION ENGEINEERING INDIA PRIVATE LTD are audited by certified public accountants, not the independent auditor.

(iii) Nonaudit work

The Company paid the accounting auditor a consideration for the preparatory work for the change in accounting standards to the international accounting standards.

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

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

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

There are no contracts in question.

(5) Systems for Ensuring the Appropriate Implementation of Operations and the Operation of the Systems

The Company has been developing systems (internal control systems) to ensure the appropriateness of operations and the reliability of financial reports in its effort to achieve sustainable growth in corporate value.
The Company's Board of Directors has adopted basic policies of internal control systems as follows:

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

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

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

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

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

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

The Company shall appropriately maintain and manage the minutes of the Board of Directors, approval documents, documents associated with the directors' executions of their duties, and other related information in accordance with internal rules, such as the document management rules and information security management rules.

(iii) Rules and systems concerning risk management

To manage the diverse risks associated with its business activities, and to prevent such risks from materializing, the Company shall have a risk management committee through which it will collect and analyze information about risks to identify any indications that risks are emerging at an early stage. The Company shall also establish a risk management system by developing rules and manuals so that it can promptly and accurately respond to the situation if risks have materialized.

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

a. 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.

b. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.

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

a. A system for reporting to the Company matters related to the execution of duties by the Directors of subsidiaries, and the like shall be put into operation.

The Company shall set the Group Companies Management Regulations, and hold a meeting for reporting the business of its subsidiaries every month in order to accurately understand the details of the management of the subsidiaries. The Company's subsidiaries shall report their monthly results, financial position and other important information at such meetings.

b. Regulations and other systems relating to the management of risk loss at subsidiaries

The Company shall hold meetings of the Risk Management Committee as needed, understand the risks and take appropriate measures for preventing or minimizing various risks that surround Group operations in compliance with risk management rules and essential risk management execution rules.

c. System for ensuring efficient execution of duties by the Directors of subsidiaries, and the like

The Company shall respect the management independence of its subsidiaries. At the same time, the Company shall ensure efficiency by discussing important matters with the subsidiaries in advance at regular, monthly management meetings, and the like, and by asking the subsidiaries to resolve such matters at the meetings of their Board of Directors.

d. Systems for ensuring the conformity of the execution of duties by the Directors, and the like, and the employees of subsidiaries with laws, regulations and Articles of Incorporation

1) The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.
2) The Directors, etc., of the Company's subsidiaries shall take part in regular monthly management meetings and advance discussions on internal control.
3) The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.

(vi) Matters concerning applicable employees in cases where statutory auditors request the assignment of employees who should assist them in their duties

a. The Company may assign employees (auxiliary employees) who should assist statutory auditors in cases where statutory auditors request their assignment.

b. The Company shall work to strengthen its system of auxiliary employees from the viewpoint of ensuring the effectiveness of the audit, taking into account corporate size, business type, management risks and other company-specific circumstances.

(vii) Matters concerning the independence of employees from Directors stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions statutory auditors provide to the concerned employees

a. The Company shall work to ensure the independence of auxiliary employees from Directors.

b. The Company shall address issues, including clarification of the following items necessary for ensuring the independence of auxiliary employees.

1) The authority that auxiliary employees have
2) Organizations which auxiliary employees belong to
3) Elimination of the chain of command Directors have over auxiliary employees
4) Granting of consent rights to statutory auditors regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees

(viii) System concerning reports to statutory auditors

a. A system that enables the directors and employees of the Company to submit reports to statutory auditors.
The directors and employees of the Company shall report the following items without delay to statutory auditors concerning the execution of their duties.

1) Items concerning important facts that may affect the Company significantly when such facts are found
2) Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found
3) Results of internal audits performed by the internal audit division (the Audit Office)
4) The operational status for the Whistle-blowing System and the details of reports

b. A system that enables the Directors, statutory auditors and employees of subsidiaries or individuals who received reports from them to submit reports to the statutory auditors of the Company

1) The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the statutory auditors of the Company without delay when they find such acts or facts.
2) The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the statutory auditors of the Company.

(ix) System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to statutory auditors for the reason of having submitted such reports

The Company shall work to establish a system that prevents the unfavorable treatment of individuals who submitted the reports stated in the foregoing paragraph to statutory auditors for the reason for having submitted such reports.

(x) Matters concerning procedures for the advance payment or the refunding of expenses that arise in connection with duty execution by statutory auditors or policies on processing expenses or debts that arise in connection with the execution of other concerned duties

The Company shall promptly comply with the concerned request when a statutory auditor requests the advance payment of expenses, etc., in connection with the execution of his or her duties unless the requested expenses, etc., could be proven as unnecessary for the execution of the duties by the concerned statutory auditor.

(xi) Other systems for ensuring the effectiveness of audits performed by statutory auditors

a. Statutory auditors shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.

b. Statutory auditors shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.

c. Statutory auditors shall stay in close cooperation with the internal audit division (the Audit Office). Statutory auditors may ask the internal audit division to perform investigations as needed.

(xii) System for ensuring the reliability of financial reports

a. The Company shall establish the Internal Control Reporting System for ensuring the reliability of financial reports and submitting internal control reports effectively and appropriately as prescribed in the Financial Instruments and Exchange Act.

b. The Company shall continually evaluate internal control systems and take the necessary steps in order to correct them in order to ensure the compliance of such systems with the Financial Instruments and Exchange Act, other laws and regulations.

c. The internal audit division (the Audit Office), as a responsible division, shall implement monitoring, evaluation and assist in improving the operation of internal control systems.

(xiii) Systems for excluding antisocial forces

a. The Company shall systematically deal with antisocial forces that threaten social order and sound corporate activities with a resolute attitude.

b. The Company shall deal with antisocial forces in cooperation with police, lawyers and external specialized agencies, such as corporate defense councils, when cases of unreasonable demand by such forces, and the like emerge.

(Operation of systems for ensuring the appropriate implementation of operations)

The status of operation of systems for ensuring the appropriate implementation of operations in the fiscal year under review is as follows:

(i) Compliance system

The Company distributes the Tsugami Group Code of Conduct, which stipulates its compliance policy, to all of its employees, and continuously takes steps to comply with laws and ordinances and the Articles of Incorporation. The Company works to increase the effectiveness of the compliance system chiefly by establishing a "whistle-blowing system" and implementing internal audits of compliance by the internal audit division (the Audit Office).

(ii) Risk management system

Under the risk management rules and the essential risk management execution rules, the Company took appropriate measures. The Company held risk management committee meetings from time to time and monitored and determined the status of risk in the Group. The status of risk was reported to the Board of Directors and discussed from time to time. In this way, the Company works to enhance risk management.

(iii) Directors' execution of duties

Under the Board of Directors Rules, the Company, in principle, holds a meeting of the Board of Directors every month. The Board of Directors makes resolutions on matters specified in laws and ordinances or the Articles of Incorporation and important management matters and oversees the directors' execution of their duties. The Company elects outside directors to strengthen the Board of Directors' function of overseeing the directors' execution of duties.

(iv) Group management system

Under the Group Companies Management Regulations, corporate management meetings and meeting for reporting the business of its subsidiaries are held every month. At these meetings, the subsidiaries report their monthly results and financial status and other important information. The internal audit division (the Audit Office) regularly carries out operations audits of important subsidiaries.

(v) Statutory auditors' execution of duties

The statutory auditors hold meetings of the Board of Statutory Auditors regularly and participate in other important meetings, including meetings of the Board of Directors and corporate management meetings. The statutory auditors view important documents on the execution of duties and request explanations from the Company's directors and employees as needed. The statutory auditors exchange information with the Company's directors, independent auditors, and the internal audit division (the Audit Office) regularly to ensure the effectiveness of audits.

CONSOLIDATED BALANCE SHEET

(As of March 31, 2018)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		**LIABILITIES:**	
Current assets:	**44,165**	**Current liabilities:**	**22,821**
Cash and deposits	10,286	Trade notes and accounts payable	14,035
Trade notes and accounts receivable	14,482	Short-term loans payable	3,200
Merchandise and finished goods	7,063	Income taxes payable	1,068
Work in process	4,953	Provision for bonuses	275
Raw materials and supplies	5,347	Advances received	2,166
Consumption taxes receivable	1,046	Provision for product warranties	457
Deferred tax assets	525	Other	1,618
Other	516	**Non-current liabilities:**	**2,318**
Allowance for doubtful accounts	-56	Deferred tax liabilities	1,550
Non-current assets:	**18,490**	Provision for directors' retirement benefits	21
Property, plant and equipment:	**9,145**	Net defined benefit liability	716
Buildings and structures	4,985	Other	29
Machinery, equipment and vehicles	3,029	**Total non-current liabilities**	**25,139**
Land	409	**NET ASSETS:**	
Leased assets	9	**Shareholders' equity:**	**26,594**
Construction in progress	416	Capital stock	12,345
Other	294	Capital surplus	2,806
Intangible assets:	**696**	Retained earnings	13,257
Investments and other assets:	**8,648**	Treasury stock	-1,814
Investment securities	8,278	**Accumulated other comprehensive income:**	**4,489**
Shares of subsidiaries and associates	11	Valuation difference on available-for-sale securities	4,149
Investments in capital of subsidiaries and associates	67	Foreign currency translation adjustment	409
Long-term loans receivable	3	Remeasurements of defined benefit plans	-69
Deferred tax assets	3	**Subscription rights to shares**	**656**
Other	282	**Non-controlling interests**	**5,776**
		Total net assets	**37,516**
Total Assets	**62,656**	**Total Liabilities and Total Net Assets**	**62,656**

CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2017 to March 31, 2018)

(Million yen)

Account title	Amount
Net sales	**57,576**
Cost of sales:	**43,021**
Gross profit	**14,554**
Selling, general and administrative expenses	**7,612**
Operating income	**6,942**
Non-operating income:	**332**
Interest income	58
Dividend income	158
Insurance income	66
Other	48
Non-operating expenses:	**764**
Interest expenses	124
Loss on sales of notes payable	154
Foreign exchange losses	119
Payment fee	269
Other	95
Ordinary income	**6,510**
Extraordinary income:	**308**
Gain on sales of non-current assets	36
Gain on sales of investments securities	97
Gain on sales of investments in capital of affiliate	81
Gain on reversal of subscription rights to shares	2
Subsidy income	90
Extraordinary losses:	**378**
Loss on retirement of non-current assets	342
Loss on sales of non-current assets	5
Loss from performance of warranty against defects	30
Income before taxes and other adjustments	**6,440**
Corporate, inhabitant and enterprise taxes	1,715
Deferred taxes	41
Net income	**4,684**
Net income attributable to non-controlling interests	513
Net income attributable to owners of parent	**4,171**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2017 to March 31, 2018)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	12,345	478	17,250	-2,986	27,087
Change during the consolidated fiscal year					
Cash dividends paid			-978		-978
Change in ownership interest of parent due to transactions with non-controlling interests		2,806			2,806
Net income attributable to owners of parent			4,171		4,171
Purchase of treasury stock				-6,842	-6,842
Disposal of treasury stock			-25	376	350
Retirement of treasury stock		-478	-7,159	7,637	--
Changes in items other than shareholders' equity during the consolidated fiscal year (net)					
Total change during the consolidated fiscal year	--	2,327	-3,992	1,171	-492
Balance as of March 31, 2018	12,345	2,806	13,257	-1,814	26,594

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

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: 8
- Names of major consolidated subsidiaries: TSUGAMI MACHINERY CO., LTD.
  TSUGAMI GENERAL SERVICE CO., LTD.
  PRECISION TSUGAMI (CHINA) CORPORATION
  Shinagawa Precision Machinery (Zhejiang) Co., Ltd.
  TSUGAMI KOREA Co., Ltd.
  Precision Tsugami (China) Corporation Limited
  Precision Tsugami (Hong Kong) Limited
  TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

(ii) State of non-consolidated subsidiaries

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

(2) Application of equity method

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

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

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

- Names of major companies: TSUGAMI (THAI) CO., LTD.
  TSUGAMI EUROPE GmbH
  TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED
  TSUGAMI Universal Pte. Ltd.
- 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 PRECISION ENGINEERING INDIA PRIVATE LIMITED which had been included in the scope of Non-consolidated subsidiaries or affiliates accounted for by the equity method in the previous fiscal year, is included in consolidated subsidiaries from the fiscal year under review because of increasing their significance.

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

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

(5) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

b. Valuation standard and valuation method for inventories

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

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

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

The straight-line method is mainly adopted.

The significant service lives are summarized as follows:

Buildings and structures:	15-38 years
Machinery, equipment and vehicles:	9 years

b. Intangible 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 assets: The straight-line method is used.

c. Leased assets

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

(iii) Accounting standards for significant allowances

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

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

c. Allowance for directors' retirement benefits

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

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

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

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

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

a. Accounting standards for Net defined benefit liability

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

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

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

b. Accounting method for consumption taxes

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

2. Changes in accounting policy

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

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

The manufacturing bases of the Group are located at the Company and its subsidiaries in China. With the expansion of the Chinese market, the Company has been shifting manufacturing to its subsidiaries in China. In addition, in the previous fiscal year, the Company integrated the domestic manufacturing function to Nagaoka Factory, sold other plants and

conducted a review of other domestic bases. In the current fiscal year and thereafter, Nagaoka Factory will play the role as headquarters for the Group's manufacture and development, and the Company expects stable operation that is resistant to order trends.
As a result, the Company changed the method of depreciation from the declining-balance method to the straight-line method in order to carry out a cost allocation for property, plant and equipment that reflects the actual conditions of the Company and its domestic consolidated subsidiaries.
Compared with the previous depreciation method, operating income, ordinary income and income before income taxes and other adjustments in the consolidated fiscal year under review each increased by ¥23 million.

3. Changes in Method of Presentation

(Consolidated Balance Sheet)

"Advances received" which had been included in "Other" of current liabilities in the previous consolidated fiscal year, was posted as a separate item in the consolidated fiscal year under review because of an increase in its importance in terms of the amount.
"Advances received" in the previous consolidated fiscal year was ¥905 million.

5. Notes to Consolidated Balance Sheets

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

(2) Aggregated depreciation for property, plant and equipment: ¥10,171 million

(3) Amount of discount for bills receivable: ¥1,533 million

Amount of discount for export bills receivable: ¥2,692 million

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

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

Trade notes: ¥0 million

Amount of discount for bills receivable: ¥252 million

5. Notes to Consolidated Statements of Changes in Net Assets

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

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	64,919 thousand	--	9,919 thousand	55,000 thousand

Note: The decrease of outstanding shares was due to the retirement of treasury stock of 9,919 thousand shares.

(2) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	4,930 thousand	7,461 thousand	10,473 thousand	1,918 thousand

Note: The increase in common shares of treasury stock of 7,461 thousand shares due to the purchase of 7,455 thousand shares on the Tokyo Stock Exchange, and the purchase of 6 thousand shares of odd-lot shares.
The decrease in common shares of treasury stock of 10,473 thousand shares was due to the exercise of stock options of 554 thousand shares and the retirement of treasury stock of 9,919 thousand shares.

(3) Matters relating to dividends

(i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 12, 2017

- Total amount of dividend ¥479 million
- Dividend per share ¥8
- Record date March 31, 2017
- Effective date May 29, 2017

Matters relating to dividends resolved at the Board of Directors meeting on November 13, 2017

- Total amount of dividend ¥498 million
- Dividend per share ¥9
- Record date September 30, 2017
- Effective date November 30, 2017

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

The following dividends will be submitted to the Board of Directors meeting on May 12, 2018 for approval.

- Total amount of dividend ¥477 million
- Dividend per share ¥9
- Record date March 31, 2018
- Effective date May 28, 2018

Dividend resources are planned to be retained earnings.

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

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	59,000	22,000
Unexercised subscription rights to shares	59	22
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	14,000	29,000
Unexercised subscription rights to shares	14	29
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	24,000	37,000
Unexercised subscription rights to shares	24	37
	Resolved at the annual shareholders meeting on June 20, 2008	Resolved at the Board of directors meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	8,000	93,000
Unexercised subscription rights to shares	8	93
	Resolved at the annual shareholders meeting on June 19, 2009	Resolved at the Board of directors meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	21,000	51,000
Unexercised subscription rights to shares	21	51
	Resolved at the annual shareholders meeting on June 18, 2010	Resolved at the Board of directors meeting on June 17, 2011
Type of subject shares	Common shares	Common shares
Number of subject shares	14,000	92,000
Unexercised subscription rights to shares	14	92
	Resolved at the annual shareholders meeting on June 17, 2011	Resolved at the annual shareholders meeting on June 15, 2012
Type of subject shares	Common shares	Common shares
Number of subject shares	32,000	28,000
Unexercised subscription rights to shares	32	28

	Resolved at the Board of directors meeting on June 15, 2012	Resolved at the Board of directors meeting on June 21, 2013
Type of subject shares	Common shares	Common shares
Number of subject shares	95,000	119,000
Unexercised subscription rights to shares	95	119
	Resolved at the annual shareholders meeting on June 21, 2013	Resolved at the annual shareholders meeting on June 21, 2013
Type of subject shares	Common shares	Common shares
Number of subject shares	50,000	29,000
Unexercised subscription rights to shares	50	29
	Resolved at the Board of directors meeting on June 20, 2014	Resolved at the annual shareholders meeting on June 20, 2014
Type of subject shares	Common shares	Common shares
Number of subject shares	139,000	50,000
Unexercised subscription rights to shares	139	50
	Resolved at the annual shareholders meeting on June 20, 2014	Resolved at the Board of directors meeting on June 18, 2015
Type of subject shares	Common shares	Common shares
Number of subject shares	44,000	115,000
Unexercised subscription rights to shares	44	115
	Resolved at the annual shareholders meeting on June 18, 2015	Resolved at the Board of directors meeting on June 22, 2016
Type of subject shares	Common shares	Common shares
Number of subject shares	61,000	155,000
Unexercised subscription rights to shares	61	155
	Resolved at the annual shareholders meeting on June 22, 2016	Resolved at the Board of directors meeting on June 21, 2017
Type of subject shares	Common shares	Common shares
Number of subject shares	106,000	107,000
Unexercised subscription rights to shares	106	107
	Resolved at the annual shareholders meeting on June 21, 2017	
Type of subject shares	Common shares	
Number of subject shares	82,000	
Unexercised subscription rights to shares	82	

7. Notes on Financial Instruments

(1) Situation of financial instruments

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

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

Short-term loans payable are used for operating funds.

(2) Market values of financial instruments

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2018. (Million yen)

		Carrying amount on the consolidated balance sheet (*)	Market value (*)	Difference
(i)	Cash and deposits	10,286	10,286	--
(ii)	Trade notes and accounts receivable	14,482	14,482	--
(iii)	Investment securities			
	Other securities	8,277	8,277	--
(iv)	Trade notes and accounts payable	(14,035)	(14,035)	--
(v)	Short-term loans payable	(3,200)	(3,200)	--

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

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

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

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

(iii) Investment securities, Other securities

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

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

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

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

8. Notes on Per Share Information

(1) Net assets per share ¥585.58

(2) Net income per share ¥74.71

9. Notes on Important Post-Balance Sheet Events

(Establishment of a significant new company and acquisition of significant non-current assets)

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

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

(1) Outline of a new company

(i) Trade name: Precision Tsugami (Anhui) Corporation

(ii) Location: Bowang High-tech Industrial Development Zone, Ma'anshan, Anhui Province

(iii) Representative: Chairman, Tang Donglei

(iv) Business: Manufacture and sale of CNC high precision machine tools and metal castings

(v) Capital: Renminbi (RMB) 50 million

(vi) Establishment: April 18, 2018

(vii) Fiscal year: End of December

(viii) Share Holding: Share held by PTC (100%)

(2) Content of the Investment

(i) Investment Content: Making the investment agreement with Industrial development zone and Construction of a new plant

(ii) Total investment amount: approx. RMB200 million

(Breakdown, Land and construction of plant: approx. RMB110 million

Production machinery and equipment: approx. RMB85 million

General working capital: approx. RMB5 million)

(iii) Production capacity of a new company:

Metal castings: 18,000 ton per year

Machine tools: 1,200 unit per year

(iv) Future schedule:

Commencement of the plant construction from around August 2018

Production will start at the beginning of 2020.

10. Other notes

(Business combination, etc.)

(Transaction under common control, etc.)

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

(1) Overview of the transaction

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

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

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

(ii) Date of business combination

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

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

(iii) Legal form of business combination

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

(b) Secondary offering of the subsidiary's shares

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

(iv) Company name after combination

No change

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

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

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

(2) Overview of accounting

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

NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2018)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		**LIABILITIES:**	
Current assets:	**20,023**	**Current liabilities:**	**13,327**
Cash and deposits	3,290	Trade notes payable	5,795
Trade notes receivable	100	Trade accounts payable	2,754
Accounts receivable	7,484	Short-term loans payable	3,200
Merchandise and finished goods	4,311	Accounts payable	197
Work in process	1,851	Accrued expenses payable	238
Raw materials and supplies	1,778	Income taxes payable	513
Consumption taxes receivable	803	Provision for product warranties	254
Deferred tax assets	268	Provision for bonuses	162
Other	200	Other	212
Allowance for doubtful accounts	-66	**Non-current liabilities**	**2,114**
Non-current assets:	**16,547**	Deferred tax liabilities	1,489
Property, plant and equipment	**3,066**	Provision for retirement benefits	594
Buildings	2,122	Other	29
Structures	63	**Total liabilities**	**15,441**
Machinery and equipment	262	**NET ASSETS:**	
Vehicles	0	**Shareholders' equity:**	**16,323**
Tools, furniture and fixtures	145	**Capital stock**	**12,345**
Land	409	**Retained earnings:**	**5,793**
Leased assets	9	Legal retained earnings	147
Construction in progress	52	Other retained earnings:	5,645
Intangible assets:	**44**	Retained earnings brought forward	5,645
Telephone subscription right	8	**Treasury stock**	**-1,814**
Software	34	**Valuation and translation adjustments:**	**4,149**
Leased assets	0	Valuation difference on available-for-sale securities	4,149
Other	1		
Investments and other assets:	**13,436**	**Subscription rights to shares**	**656**
Investment securities	8,278		
Shares of subsidiaries and associates	3,521		
Investments in capital of subsidiaries and associates	847		
Long-term loans receivable from subsidiaries and affiliates	573		
Other	216	**Total net assets**	**21,129**
Total Assets	**36,570**	**Total Liabilities and Total Net Assets**	**36,570**

NON- CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2017 to March 31, 2018)

(Million yen)

Account title	Amount
Net sales	**33,821**
Cost of sales:	**28,068**
Gross profit	**5,752**
Selling, general and administrative expenses:	**4,302**
Operating loss	**1,450**
Non-operating income:	**607**
Interest income	12
Dividend income	491
Insurance income	58
Other	45
Non-operating expenses:	**289**
Interest expenses	28
Sales discount	13
Loss on sales of notes payable	73
Foreign exchange losses	104
Other	70
Ordinary income	**1,767**
Extraordinary income:	**2,124**
Gain on sales of non-current assets	33
Gain on sales of investments securities	97
Gain on sales of investments in capital of affiliate	81
Gain on sales of shares of subsidiaries	1,909
Gain on reversal of subscription rights to shares	2
Extraordinary losses:	**83**
Loss on retirement of non-current assets	48
Loss on sales of non-current assets	4
Loss from performance of warranty against defects	30
Income before taxes	**3,808**
Corporate, inhabitant and enterprise taxes	720
Deferred taxes	16
Net income	**3,072**

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2017 to March 31, 2018)

(Million yen)

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

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

Notes to Non-Consolidated Financial Statements

1. Matters Concerning Significant Accounting Policies

(1) Valuation standard and valuation method for assets

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

(ii) Other securities:

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

(iii) Valuation standard and valuation method for inventories

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

(2) Depreciation method for non-current assets

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

The straight-line method is adopted.

The significant service lives are summarized as follows:

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

(ii) Intangible 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

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

(3) Accounting standards for allowances

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

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

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

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

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

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

Accounting method for consumption taxes

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

2. Changes in accounting policy

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

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

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

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

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

3. Changes in Method of Presentation

(Non- Consolidated Statements of Income)

"Rent income" which had been posted as a separate item in the previous fiscal year, was included in "Other" of the non-operating income in the fiscal year under review because of the amount decrease in its importance in terms of the amount.

"Rent income" in the fiscal year under review was ¥15 million.

"Rental asset expenses" which had been posted as a separate item in the previous fiscal year, was included in "Other" of the non-operating expenses in the fiscal year under review because of the amount decrease in its importance in terms of the amount.

"Rental asset expenses" in the fiscal year under review was ¥22 million.

4. Notes to Non-Consolidated Balance Sheets

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

(2) Aggregated depreciation for property, plant and equipment ¥6,038 million

(3) Amount of discount for bills receivable ¥1,533 million

Amount of discount for export bills receivable ¥2,692 million

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

Investments and other assets ¥3 million

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

(i) Short-term monetary receivables ¥3,228 million

(ii) Long-term monetary receivables ¥576 million

(iii)Short-term monetary payables ¥1,382 million

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

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

Trade notes:	¥0 million
Amount of discount for bills receivable:	¥252 million

5. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

(1) Transactions by business transactions

Sales	¥9,666 million
Purchases	¥11,627 million
Selling, general and administrative expenses	¥145 million

(2) Transactions other than business transactions

Dividend income	¥333 million
Other	¥28 million

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

Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current fiscal year	Increase in shares in the fiscal year under review	Decrease in shares in the fiscal year under review	Number of shares at the end of the fiscal year under review
Common shares	4,930 thousand	7,461 thousand	10,473 thousand	1,918 thousand

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

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

7. Deferred Tax Accounting

The major causes for the generation of deferred tax assets are the denials of provision for retirement benefits, provision for product warranties, reduction in valuation of inventories and reserve for bonus payment, etc., while the major cause for the generation of deferred tax liabilities is unrealized gains on marketable securities.

8. Notes on Non-current assets Used under Lease Contracts

Not applicable.

9. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	PRECISION TSUGAMI (CHINA) CORPORATION	(Owning) Indirect: 70.8%	Manufacture and sales of products of the Company Purchase of products of the company Concurrent service by directors	Sales of the Company's products and parts	6,733	Accounts receivable	1,094
				Purchase of products of the company (Note1)	10,641	Accounts payable	1,242
Subsidiary	TSUGAMI KOREA CO., LTD.	(Owning) Direct: 100.0%	Sales of the Company's products and parts Concurrent service by directors	Sales of the Company's products and parts (Note1)	353	Accounts receivable	342
Subsidiary	TSUGAMI Universal Pte. Ltd.	(Owning) Direct: 80.0%	Sales of the Company's products and parts Concurrent service by directors	Sales of the Company's products and parts (Note1)	373	Accounts receivable	352
Subsidiary	TSUGAMI PRECISION ENGINEERING INDIA PVT.LTD.	(Owning) Direct: 81.0% Indirect: 9.9%	Manufacture and sales of products of the Company Concurrent service by directors	Sales of the Company's products and parts (Note1)	1,154	Accounts receivable	1,150
				Lending of funds (Note2)	--	Long-term loans receivable	561

Business terms and policies for their determination, etc.

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

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

10. Notes on Per Share Information

(1) Net assets per share ¥385.68

(2) Net income per share ¥55.03

11. Notes on Important Post-Balance Sheet Events

Not applicable.

Accounting Audit Report on Consolidated Financial Statements

Independent Auditors' Report

May 9, 2018

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Kazunari Tsukada
Designated Limited Partner and Operating Partner
Certified Public Accountant

Eishi Daikoku
Designated Limited Partner and Operating Partner
Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to conoslidated financial statements, for the consolidated fiscal year from April 1, 2017 to March 31, 2018, in accordance with Paragraph 4, Article 444 of the Company Law.

Responsibility of management for consolidated financial statements

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

Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the consolidated financial statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these consolidated financial statements and conduct audits based on the audit plan.
In the audits, procedures to obtain audit evidence for the amounts and disclosure of consolidated financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these consolidated financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of consolidated financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of consolidated financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.
We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor's opinion

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

Interest

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

Accounting Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report

May 9, 2018

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Kazunari Tsukada
Designated Limited Partner and Operating Partner
Certified Public Accountant

Eishi Daikoku
Designated Limited Partner and Operating Partner
Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements and their supporting schedules of changes in net assets, notes to non-conoslidated financial statements, and their supporting schedules, for the 115th fiscal year from April 1, 2017 to March 31, 2018, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law.

Responsibility of management for non-consolidated financial statements

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

Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the non-consolidated financial and their supporting schedules statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these non-consolidated financial statements and their supporting schedules and conduct audits based on the audit plan.
In the audits, procedures to obtain audit evidence for the amounts and disclosure of non-consolidated financial statements and their supporting schedules are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these non-consolidated financial statements and their supporting schedules due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of non-consolidated financial statements and their supporting schedules to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of non-consolidated financial statements and their supporting schedules as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.
We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

Auditor's opinion

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

Interest

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

Report by the Board of Statutory Auditors

Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 115th fiscal year from April 1, 2017 to March 31, 2018 prepared by Statutory Auditors.

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

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

The Statutory Auditors communicated with Directors, internal audit division members, other employees and other sources to prepare conditions for information gathering and audits in compliance with the audit criteria set by the Board and in accordance with the audit policy, allocated duties and the like. At the same time, the Statutory Auditors attended Board of Directors and other important meetings, received reports from Directors, employees and other sources on the state of the execution of their duties, requested explanations as needed, viewed important documents on decisions, and studied the state of operations and assets at Tsugami Corporation (the "Company") and its principal offices.

The Statutory Auditors also expressed their opinions about the content of Board of Directors resolutions on the establishment of organizations as prescribed in Paragraphs 1 and 3, Article 100 of the Enforcement Regulations for the Company Law as a requisite for a system that ensures the execution of duties by directors that are described in the Business Report in compliance with laws and the Articles of Incorporation and other proper operations of the corporate group consisting of a joint stock company and its subsidiaries, and the state of a system (internal control system) established in accordance with the resolutions, based on regular reports from directors and employees about the state of the development and operation of the system and explanations that the Statutory Auditors requested as needed. With respect to subsidiaries, the Statutory Auditors sought to communicate and exchange information with their Directors and Statutory Auditors, and received from subsidiaries reports on their operation as needed. Based on the aforementioned methods, the Statutory Auditors examined business reports and their supporting schedules for the fiscal year under review.

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

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

2. Results of the Audit

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

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

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

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

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

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

(3) Results of the audit of consolidated financial statements

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

May 10, 2018

Board of Statutory Auditors
Tsugami Corporation

Keiji Hayazaki, Standing Statutory Auditor
Kenji Yoneyama, Standing Statutory Auditor
Morikuni Uchigasaki, Statutory Auditor
Hitoshi Yoshida, Statutory Auditor
Hideo Teramoto, Statutory Auditor

(Note) Statutory Auditors Morikuni Uchigasaki, Hitoshi Yoshida and Hideo Teramoto are outside statutory auditors stipulated in Article 2, Item 16 and Article 335, Paragraph 3 of the Company Law.

Reference Materials for the Annual Shareholders Meeting

Item 1: Partial Amendments to the Articles of Incorporation

1. Reasons for Amendment

(1) Amendments relating to change of the company form to a company with an audit and supervisory committee

The Company intends to change its company form to a company with an audit and supervisory committee to strengthen the governance system of the Board of Directors and increase swiftness in business execution by delegating part of the authority for business execution of the Board of Directors to Directors. For the said change, new provisions for the audit and supervisory committee and its members, which are necessary for the change of the company form to a company with an audit and supervisory committee, will be established, the provisions for statutory auditors and the board of statutory auditors will be deleted, and any necessary amendments shall be made to the related provisions.

(2) Change of the share unit number

According to the "Action Plan for Consolidating Trading Units" which is promoted by the Japanese stock exchanges, the share unit number will be changed from one thousand (1,000) shares to one hundred (100) shares.

(3) Others

Necessary amendments for the purpose, calling, etc. will be made.

2. Provisions to Be Amended

The provisions to be amended are as follows.

The resolution of this Item shall come into effect on October 1, 2018, for the amendment to Article 7 (Share Unit Number) and upon the conclusion of this Annual Shareholders Meeting for the other amendments.

(The underlined parts show the amendments.)

Current Provisions of Articles of Incorporation	Proposed Amendments
Chapter 1: General Provisions	Chapter 1: General Provisions
Articles 1 to 2 (omitted)	Articles 1 to 2 (not amended)
(Purpose)	(Purpose)
Article 3 (omitted)	Article 3 (not amended)
1. to 6. (omitted)	1. to 6. (not amended)
(New provisions)	7. Engineering guidance and consulting relating to those set forth in the respective Items above
7. (Omitted)	8. (Not amended)

Current Provisions of Articles of Incorporation	Proposed Amendments
(Organs) Article 4 (omitted) 1. (Omitted) 2. Statutory auditors 3. Board of statutory auditors 4. (Omitted)	(Organs) Article 4 (not amended) 1. (Not amended) 2. Audit and supervisory committee (Deleted) 3. (Not amended)
Article 5 (omitted)	Article 5 (not amended)
Chapter 2: Shares	Chapter 2: Shares
Article 6 (omitted) (Share Unit Number) Article 7: The share unit number of the Company shall be one thousand (1,000) shares.	Article 6 (not amended) (Share Unit Number) Article 7: The share unit number of the Company shall be one hundred (100) shares.
Articles 8 to 10 (omitted)	Articles 8 to 10 (not amended)
Chapter 3: Shareholders Meeting	Chapter 3: Shareholders Meeting
(Calling) Article 11: The Annual Shareholders Meeting shall be called in June every year. The extraordinary shareholders meeting shall be called from time to time as necessary. The shareholders meeting shall be held in Tokyo Metropolis, Niigata Prefecture or Nagano Prefecture.	(Calling) Article 11: The Annual Shareholders Meeting shall be called in June every year. The extraordinary shareholders meeting shall be called from time to time as necessary.
Articles 12 to 17 (omitted)	Articles 12 to 17 (not amended)

Current Provisions of Articles of Incorporation	Proposed Amendments
Chapter 4: Directors and the Board of Directors	Chapter 4: Directors and the Board of Directors
(Number of Directors) Article 18: The Company shall have not more than ten (10) Directors.	(Number of Directors) Article 18: The Company shall have not more than ten (10) Directors (other than Directors who are members of the audit and supervisory committee) and not more than five (5) Directors who are members of the audit and supervisory committee.
(Method of Appointment) Article 19: (New provisions) (Omitted)	(Method of Appointment) Article 19: Directors shall be appointed by distinguishing between Directors who are members of the audit and supervisory committee and Directors who are not members of the audit and supervisory committee at the shareholders meeting.
2. (Omitted) (New provisions)	2. (Not amended) 3. (Not amended) 4. The appointment of Directors who are members of the audit and supervisory committee to fill any future vacancy shall remain in effect until the commencement of the Annual Shareholders Meeting for the last fiscal year ending within two (2) years from the said appointment.

Current Provisions of Articles of Incorporation	Proposed Amendments
(Term of Office) Article 20: The term of office for Directors shall continue until the conclusion of the Annual Shareholders Meeting for the last fiscal year ending within one (1) year from their appointment.	(Term of Office) Article 20: The term of office for Directors (other than Directors who are members of the audit and supervisory committee) shall continue until the conclusion of the Annual Shareholders Meeting for the last fiscal year ending within one (1) year from their appointment.
(New provisions)	2. The term of office for Directors who are members of the audit and supervisory committee shall continue until the conclusion of the Annual Shareholders Meeting for the last fiscal year ending within two (2) years from their appointment.
(New provisions)	3. The term of office for a Director who is a member of the audit and supervisory committee appointed to fill a vacancy of a Director who is a member of the audit and supervisory committee who retires before expiry of the term of office shall continue until the expiry of the term of office of the said retiring Director who is a member of the audit and supervisory committee.
(Representative Director and Directors with Special Titles) Article 21: The Board of Directors shall appoint a representative director by its resolution.	(Representative Director and Directors with Special Titles) Article 21: The Board of Directors shall elect and appoint a representative director from among the Directors (other than Directors who are members of the audit and supervisory committee) by its resolution.
2. The Board of Directors may appoint chairman, vice-chairman, president, vice-president, senior managing director, managing director and corporate adviser by its resolution.	2. The Board of Directors may elect and appoint chairman, president and several other Directors with special titles from among the Directors (other than Directors who are members of the audit and supervisory committee) by its resolution.

Current Provisions of Articles of Incorporation	Proposed Amendments
(Convener of and Notice of Calling Meeting of the Board of Directors) Article 22: Unless otherwise provided for under laws, the meeting of the Board of Directors shall be called by chairman. In the absence of chairman, president shall act for him. In the absence of president, the other Directors shall act for him in the order which the Board of Directors designates. The notice of calling the meeting of the Board of Directors shall be issued to each Director and each statutory auditor at least four (4) days prior to the date of the said meeting; provided, however, that if it is urgently necessary, this period of notice may be shortened. 2. When all the Directors and statutory auditors give consent, the meeting of the Board of Directors may be held without following the procedures for calling it.	(Convener of and Notice of Calling Meeting of the Board of Directors) Article 22: Unless otherwise provided for under laws, the meeting of the Board of Directors shall be called by chairman. In the absence of chairman, president shall act for him. In the absence of president, the other Directors shall act for him in the order which the Board of Directors designates. The notice of calling the meeting of the Board of Directors shall be issued to each Director at least four (4) days prior to the date of the said meeting; provided, however, that if it is urgently necessary, this period of notice may be shortened. 2. When all the Directors give consent, the meeting of the Board of Directors may be held without following the procedures for calling it.
Articles 23 to 24 (omitted)	Articles 23 to 24 (not amended)
(New provisions)	(Delegation of Authority to Decide Important Business Execution) Article 25 : The Board of Directors may delegate the authority to decide important business execution (other than the matters set forth in the respective Items of Paragraph 5, Article 339-13 of the Companies Act), in whole or in part, to Directors according to the provisions of Paragraph 6, Article 399-13 of the Companies Act.

Current Provisions of Articles of Incorporation	Proposed Amendments
(Roles of the Board of Directors) Article 25 (Omitted)	(Roles of the Board of Directors) Article 26 (not amended)
(Compensation, etc.) Article 26: Compensation, bonuses and other economic benefits which the Company pays Directors in consideration of their execution of duties (hereinafter referred to as "Compensation, etc.") shall be determined by a resolution of the shareholders meeting.	(Compensation, etc.) Article 27: Compensation, bonuses and other economic benefits which the Company pays Directors in consideration of their execution of duties shall be determined by distinguishing between those for Directors who are not members of the audit and supervisory committee and those for Directors who are members of the audit and supervisory committee by a resolution of the shareholders meeting.
(Agreement on Limitation of Liability of Directors) Article 27 (Omitted)	(Agreement on Limitation of Liability of Directors) Article 28 (not amended)
Chapter 5: Statutory Auditors and Board of Statutory Auditors	Chapter 5: Audit and Supervisory Committee
(Number of Statutory Auditors) Article 28: The Company shall have not less than three (3) statutory auditors.	(Deleted)
(Method of Appointment) Article 29: Statutory Auditors shall be appointed at the shareholders meeting.	(Deleted)
2. A resolution for appointment of statutory auditors shall be passed by a majority of the voting rights of the shareholders present at the meeting who have one third (1/3) or more of the voting rights of the shareholders entitled to exercise the voting rights.	(Deleted)

Current Provisions of Articles of Incorporation	Proposed Amendments
(Term of Office) Article 30: The term of office for statutory auditors shall continue until the conclusion of the Annual Shareholders Meeting for the last fiscal year ending within four (4) years from their appointment; provided, however, that the term of office for a statutory auditor appointed to fill a vacancy of a statutory auditor who retires before expiry of his term of office shall continue until the expiry of the said term of office of the said retiring statutory auditor.	(Deleted)
(Standing Statutory Auditors) Article 31: The board of statutory auditors shall appoint the standing statutory auditors by a resolution.	(Deleted)
(Notice of Calling Meeting of the Board of Statutory Auditors) Article 32: The notice of calling the meeting of the board of statutory auditors shall be issued to each statutory auditor at least four (4) days prior to the date of the said meeting; provided, however, that if it is urgently necessary, this period of notice may be shortened.	(Deleted)
2. When all the statutory auditors give consent, the meeting of the board of statutory auditors may be held without following the procedures for calling it.	(Deleted)
(Resolution of the Board of Statutory Auditors) Article 33: Unless otherwise provided for under laws, a resolution of the board of statutory auditors shall be passed by a majority of the statutory auditors.	(Deleted)

Current Provisions of Articles of Incorporation	Proposed Amendments
(Compensation, etc.) Article 34: Compensation, etc. for statutory auditors shall be determined by a resolution of the shareholder meeting.	(Deleted)
(Agreement on Limitation of Liability of Statutory Auditors) Article 35: The Company may execute an agreement on the limitation of liability for damages due to negligence in duties as provided for under Paragraph 1, Article 423 of the Companies Act with statutory auditors according to the provisions of Paragraph 1, Article 427 of the Companies Act; provided, however, the limited amount of liability for damages under the said agreement shall be the amount stipulated under laws.	(Deleted)
(New provisions)	(Standing Members of the Audit and Supervisory Committee) Article 29: The audit and supervisory committee may appoint the standing member of the audit and supervisory committee by its resolution.
(New provisions)	(Notice of Calling Meeting of the Audit and Supervisory Committee) Article 30: The notice of calling the meeting of the audit and supervisory committee shall be issued to each member of the audit and supervisory committee at least four (4) days prior to the date of the said meeting; provided, however, that if it is urgently necessary, the said period of notice may be shortened. 2. When all the members of the audit and supervisory committee give consent, the meeting of the audit and supervisory committee may be held without following the procedures for calling it.

Current Provisions of Articles of Incorporation	Proposed Amendments
Chapter 6: Accounts Articles 36 to 39 (omitted)	Chapter 6: Accounts Articles 31 to 34 (not amended)
	Chapter 7: Supplementary Provisions (Transitional Measures for Limitation of Liability of Statutory Auditors)
(New provisions)	Article 35: The Company shall apply the former provisions to the agreement on the limitation of liability in relation to the acts of statutory auditors (including former statutory auditors) before the conclusion of the 115th Annual Shareholders Meeting as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act.
(New provisions)	Article 36: The amendments to Article 7 (Share Unit Number) shall come into effect on October 1, 2018, on which day these Supplementary Provisions shall be deleted.

Item 2: Appointment of Seven Directors (excluding directors who are members of the audit and supervisory committee)

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

In addition, the Company will change its company form to a company with an audit and supervisory committee subject to approval of the proposed Item 1 "Partial Amendments to the Articles of Incorporation."

We therefore propose the appointment of seven Directors (other than Directors who are members of the audit and supervisory committee).

The resolution to approve this proposed Item will come into effect subject to the condition that the amendments to the Articles of Incorporation proposed in Item 1 above come into effect.

The seven candidates for the position of Director (other than Directors who are members of the audit and supervisory committee) are as follows:

(The person marked with an asterisk is a candidate for new Director.)

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 1999	Joined the Company General Manager of the Sales Development Division of the Company Managing Director of Tsugami Kohan Co., Ltd.	10 thousand
		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	
		April 2012	Representative Director, Chairman and CEO (current positions)	
2	Byun Jae- Hyun (July 10, 1956)	January 2010	Joined the Company President of TSUGAMI KOREA Co., Ltd.	0
		June 2012	Director, Senior Executive Officer, Overseas division President of TSUGAMI KOREA Co., Ltd.	
		September 2014	Director, Senior Advisor President of TSUGAMI KOREA Co., Ltd. (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	*Kameswaran Balasubramanian (March 28, 1960)	1983	Master of Science (physics), Indian Institutes of Technology Delhi Founder and President of PROTECK MACHINERY LTD. (current position)	0
		April 2013	Director, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.	
		April 2014	President, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position)	
4	*Donglei TANG (November 27, 1962)	November 2005	Joined the Company	0
		June 2010	Director, Managing Executive Officer in Charge of China Operations of the Company Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION	
		February 2017	Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION Director of Precision Tsugami (Hong Kong) Limited Executive director of Precision Tsugami (China) Corporation Limited (current positions)	
5	*Nobuaki Takahashi (February 10, 1964)	April 1987	Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)	0
		April 2011	Head of Mizonokuchi corporate business office of Sumitomo Mitsui Banking Corporation	
		April 2013	Manager of Credit Review Dept. of Sumitomo Mitsui Banking Corporation	
		April 2016	Head of Credit Review Dept. of Sumitomo Mitsui Banking Corporation	
		April 2018	Senior adviser, administration of the Company (current position)	
6	Shigeru Nishiyama (March 4, 1948)	June 1971	Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)	0
		June 2006	Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.	
		December 2008	Representative Director, President of HORAI Co., Ltd.	
		June 2010	Representative Director, CEO of HORAI Co., Ltd.	
		June 2013	Director of the Company (current position)	
		June 2013	Auditor at Mitsui Sugar Co., Ltd. (current position)	

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
7	*Hitoshi Yoshida (November 26, 1959)	April 1983	Joined TOKYO SEIMITSU CO., LTD.	0
		June 2005	Director of TOKYO SEIMITSU CO., LTD.	
		October 2007	President of the Metrology Company of TOKYO SEIMITSU CO., LTD.	
		June 2011	Representative Director of TOKYO SEIMITSU CO., LTD.	
		August 2013	Vice President of PRECISION TSUGAMI (CHINA) CORPORATION and General Manager of Sales Division I	
		April 2015	President and CEO of TOKYO SEIMITSU CO., LTD. (current position)	
		June 2015	Statutory Auditor of the Company (current position)	

Notes
1. Mr. Shigeru Nishiyama and Mr. Hitoshi Yoshida are candidates for the position of outside directors.
2. The Company requests the appointment of Shigeru Nishiyama and Mr. Hitoshi Yoshida as its outside directors based on its assessment that they possess deep insight and experience in general, and can advise the Company's management from a broad perspective.
3. Mr. Shigeru Nishiyama served as Director of Sumitomo Mitsui Financial Group, Inc. (the financial holding company of Sumitomo Mitsui Banking Corporation) until June 2008. The Sumitomo Mitsui Financial Group, Inc. is one of the Company's main financial institutions.
   In addition, Mr. Hitoshi Yoshida concurrently holds the position of President and CEO of TOKYO SEIMITSU CO., LTD. The Company has purchased products, etc. (amounting to ¥156 million in the fiscal year ended March 31, 2018) from TOKYO SEIMITSU CO., LTD., but these purchases are insignificant and the Company believes that Mr. Hitoshi Yoshida is capable of executing the duties of outside director appropriately. No special interest exists between the Company and each of the other candidates for the position of Director.
4. Although Mr. Shigeru Nishiyama is currently outside director of the Company, his term of office as outside director is five years at the close of this annual shareholders meeting. Mr. Hitoshi Yoshida is currently outside auditor of the Company, his term of office as outside auditor is three years at the close of this annual shareholders meeting.
5. The Company has executed an agreement with Mr. Shigeru Nishiyama on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the provisions of Paragraph 1, Article 427 thereof. The Company has executed an agreement with Mr. Hitoshi Yoshida on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the provisions of Paragraph 1, Article 427 thereof as an outside auditor. When Mr. Nishiyama and Mr. Yoshida are reappointed as Directors, the Company will execute an agreement with these three Directors on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the Articles of Incorporation of the Company and the provisions of Paragraph 1, Article 427 of the Companies Act. In addition, the limited amount of liability for damages under the said agreement shall be the minimum liability stipulated under laws.

Item 3: Appointment of Four Directors (directors who are members of the audit and supervisory committee)

The Company will change its company form to a company with an audit and supervisory committee subject to approval of the proposed Item 1 "Partial Amendments to the Articles of Incorporation."

We therefore propose the appointment of four Directors who are members of the audit and supervisory committee.

The resolution to approve this proposed Item will come into effect subject to the condition that the amendments to the Articles of Incorporation proposed in Item 1 above come into effect.

The four candidates for the position of Director who are members of the audit and supervisory committee are as follows:

(The person marked with an asterisk is a candidate for new Director.)

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	*Kenji Yoneyama (March 7, 1965)	April 1988	Joined The Hokuetsu Bank, Ltd.	0
		April 2011	Head of the Ishiyama Branch of The Hokuetsu Bank, Ltd.	
		April 2013	Head of the Kanda Branch of The Hokuetsu Bank, Ltd.	
		April 2015	Advisor of accounting of the Company	
		October 2015	General manager of finance and administration	
		April 2016	General manager of accounting	
		April 2017	Senior advisor of accounting	
		June 2017	Standing statutory auditor of the Company (current position)	
2	*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	
		June 2002	Director of Nippon Pillar Packing Co., Ltd.	
		June 2007	Auditor at FANUC Ltd. (current position)	
		June 2008	Outside director of the Company (current position)	
		February 2014	Director of OSG CORPORATION (current position)	
		April 2015	CEO of Fine Tech Corporation (current position)	

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	*Koichi Maruno (July 29, 1956)	April 1980	Joined the Daiichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited)	0
		March 2015	Outside auditor of SHIZUOKA GAS Co., Ltd. (current position)	
		October 2016	Senior Managing Executive Officer of Dai-ichi Life Holdings, Inc.	
		October 2016	Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited	
		April 2017	Representative Director, President of The Dai-ichi Life Research Institute INC(current position)	
4	*Kunio Shimada (August 16, 1959)	April 1986	Registered as an attorney	0
		October 1991	Registered as an attorney in New York State	
		June 2000	Managing Director of Mizuho Servicing Co., Ltd. (current position)	
		July 2010	Representative partner at Shimada Hamba & Osajima (current position)	
		June 2011	Director of the Company (current position)	
		November 2013	Supervisory Officer of Hulic Reit, Inc. (current position)	

Notes
1. Mr. Takeo Nakagawa, Mr. Koichi Maruno and Mr. Kunio Shimada are candidates for the position of outside directors.
2. The Company requests the appointment of Mr. Takeo Nakagawa, Mr. Koichi Maruno and Mr. Kunio Shimada as its outside directors based on its assessment that they can fairly and objectively audit the business execution of the Board of Directors of the Company by making the best use of their deep insight and experience in general.
3. Mr. Takeo Nakagawa concurrently holds the position of Director and CEO of Fine Tech Corporation. The Company has sold products, etc. (amounting to ¥7 million in the fiscal year ended March 31, 2018) to Fine Tech Corporation, but these sales are insignificant and the Company believes that these transactions have no impact on Mr. Takeo Nakagawa's independence and that Mr. Takeo Nakagawa is capable of executing the duties of outside and independent director appropriately. No special interest exists between the Company and each of the other candidates for the position of Director.
4. Mr. Takeo Nakagawa and Mr. Kunio Shimada meet the requirements for independent officer under the rules of the Tokyo Stock Exchange and the Company notified the Tokyo Stock Exchange that Mr. Takeo Nakagawa and Mr. Kunio Shimada were independent officers of the Company. In addition, the Company judges that Mr. Koichi Maruno meets the standards for independence that the Tokyo Stock Exchange establishes and when Mr. Koichi Maruno is appointed as Director, the Company will notify the Tokyo Stock Exchange that Mr. Koichi Maruno is an independent officer of the Company.
5. Although Mr. Takeo Nakagawa and Mr. Kunio Shimada are currently outside directors of the Company, their term of office as outside director is 10 years for Mr. Takeo Nakagawa and seven years for Mr. Kunio Shimada at the close of this annual shareholders meeting.
6. The Company has executed an agreement with Mr. Takeo Nakagawa and Mr. Kunio Shimada on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the provisions of Paragraph 1, Article 427 thereof. When Mr. Takeo Nakagawa, Mr. Koichi Maruno and Mr. Kunio Shimada are appointed as Directors, the Company will execute an agreement with these three Directors on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the Articles of Incorporation of the Company and the provisions of Paragraph 1, Article 427 of the Companies Act. In addition, the limited amount of liability for damages under the said agreement shall be the minimum liability stipulated under laws.

Item 4: Setting of Amount of Compensation, etc. for Directors (Other Than Directors Who Are Members of the Audit and Supervisory Committee)

The Company will change its company form to a company with an audit and supervisory committee subject to approval of the proposed Item 1 "Partial Amendments to the Articles of Incorporation."
We therefore request abolition of the current amount of compensation, etc. and setting of a new amount of compensation, etc. for Directors (other than Directors who are members of the audit and supervisory committee).

The amount of compensation, etc. for Directors of the Company and the amount of compensation, etc. in the form of subscription rights to shares to be allocated as stock options for a stock-linked compensation plan, both of which were approved at the 109th Annual Shareholders Meeting held on June 15, 2012, are respectively "not more than ¥250 million per year (excluding salary for employees)" and "not more than ¥80 million per year with the upper limit to the total number of the subscription rights to shares issued in each fiscal year, which is 300 units (1,000 shares per unit)."
The current number of Directors is not more than ten (10) persons. When the proposed Item 1 "Partial Amendments to the Articles of Incorporation" is approved and passed, the number of Directors (other than Directors who are members of the audit and supervisory committee) will not be more than ten (10) persons, same as the current number of Directors.

We therefore request the setting of the same amount of compensation, etc. as the current amount.
However, when the proposed Item 1 is approved and passed, the share unit number will be changed from 1,000 shares to 100 shares on October 1, 2018. Accordingly, the "upper limit to the total number of the subscription rights to shares, which is 300 units (1,000 shares per unit)" will be changed to the "upper limit to the total number of the subscription rights to shares, which is 3,000 units (100 shares per unit).
The subscription rights to shares to be allocated as stock options for a stock-linked compensation plan will not be granted to outside directors.

The terms and conditions for the subscription rights to shares to be allocated as stock options for a stock-linked compensation plan will not be changed from those already approved, except for the terms and conditions for exercise of those rights described below: the provision that "in principle, a holder of the subscription rights to shares may exercise the subscription rights to shares, only when the holder no longer holds a position as the Company's Director, statutory auditor, executive officer, and/or employee with a similar title" will be changed to the provision that "in principle, a holder of the subscription rights to shares may exercise the subscription rights to shares, only when the holder no longer holds a position as the Company's Director (other than a Director who is a member of the audit and supervisory committee), Director who is a member of the audit and supervisory committee, executive officer, and/or employee with a similar title" when the proposed Item 1 described above is approved and passed.

Item 5: Setting of Amount of Compensation, etc. for Directors Who Are Members of the Audit and Supervisory Committee

The Company will change its company form to a company with an audit and supervisory committee subject to approval of the proposed Item 1 "Partial Amendments to the Articles of Incorporation."
We therefore request the setting of the new amount of compensation, etc. for Directors who are members of the audit and supervisory committee.

The amount of compensation, etc. for statutory auditors of the Company and the amount of additional compensation, etc. in the form of subscription rights to shares to be allocated as stock options for a stock-linked compensation plan, both of which were approved at the 103rd Annual Shareholders Meeting held on June 23, 2006, are respectively "not more than ¥60 million per year" and "not more than ¥20 million per year."
The current number of statutory auditors is five (5) persons. When the proposed Item 1 "Partial Amendments to the Articles of Incorporation" is approved and passed, the number of Directors who are members of the audit and supervisory committee will be not more than five (5) persons, same as the current number of statutory auditors.
We request the setting of the new amount of compensation, etc. for Directors who are members of the audit and supervisory committee at "not more than ¥80 million per year" which is equivalent to the sum of the current amount of additional compensation, etc. in the form of subscription rights to shares to be allocated as stock options for a stock-linked compensation plan, which is "not more than ¥20 million per year," which will be abolished upon change of the company form to a company with an audit and supervisory committee, and the current amount of compensation, etc., which is "not more than ¥60 million per year."

Item 6: Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors with conditions particularly favorable to executive officers of the Company and employees with similar positions

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

1. Reason for offering of the subscription rights to shares for subscription under especially favorable conditions
   The Company has been granting subscription rights to shares as stock options for a stock-linked compensation plan. The grants were designed to establish a closer link between the Company's stock prices and results and the officers and employees so that they share with shareholders not only benefits from high stock prices, but also the risks of low stock prices, bolstering their morale and enthusiasm for improving business results.
2. The outline and the numerical limit of the subscription rights to shares whose offering terms may be determined based on the resolution made at the above general meeting of shareholders scheduled
   (1) The numerical limit of the subscription rights to shares, the offering terms of which may be determined based on the above delegation
   The maximum number of the subscription rights to shares as described in below (3) shall be 970.
   The total number of the Company's shares that are issued in exchange of the exercise of the subscription rights to shares shall be limited to a maximum of 970,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the above subscription rights to shares.
   (2) No transfer of cash shall be required for the subscription rights to shares, the offering terms of which may be determined based on the above delegation
   (3) The outline of the subscription rights to shares, the offering terms of which may be determined based on the above delegation
   (i) Type and the number of shares that are the object of the subscription rights to shares
   The type of shares that are the object of the subscription rights to shares shall be common stocks of the Company. The number of shares for each subscription right to shares (the "Number of Granted Shares") shall be 100 shares. However, if a share-split (including a gratis allotment of common stocks of the Company; the same shall apply below regarding the descriptions of the share-split) or a reverse share-split is conducted for common stocks of the Company after the date of resolution at the above general meeting of shareholders (the "Resolution Date"), the Number of Granted Shares shall be adjusted by applying the following formula, with fractions of less than one share rounded down to the nearest one share:

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

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

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

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

(iii) Exercise period of the subscription rights to shares

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

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

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

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

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

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

(vi) Provisions concerning the acquisition of the subscription rights to shares

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

(vii) Fractions of less than 1 share occurring on exercise of the subscription rights to shares

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

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

i. In principle, a holder of the subscription rights to shares may exercise the subscription rights to shares within the period described in Provision (iii) above, only when the holder no longer holds a position as the Company's director (excluding directors who are members of the audit and supervisory committee), directors who are members of the audit and supervisory committee, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.

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