[Translation]
Stock code: 6101
June 1, 2020

To our shareholders,

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

Notice of the 117th Annual Shareholders Meeting

You are cordially invited to attend the 117th 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.
Recently, there has been a situation in which the Japanese government and prefectural governors requested that residents voluntarily stay at home as part of the measures to prevent the spread of the COVID-19 coronavirus. In response, after careful consideration, the Company decided to hold the Annual Shareholders Meeting by implementing appropriate measures to prevent infections.
Shareholders are requested to consider refraining from attending in person on the day of the meeting, regardless of health, and to exercise voting rights as much in advance as possible in writing (by postal mail) or via the Internet from the perspective of preventing the spread of infections.

[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 16, 2020.

[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 16, 2020.
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 17, 2020

2. Venue Sakura-no-ma, third floor of Hotel New Otani Nagaoka
2-8-35 Daimachi, Nagaoka, Niigata Prefecture
(Note that the venue of this meeting is different from the previous Annual Shareholders Meeting.)

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 Audit and Supervisory Committee for the 117th term, from April 1, 2019 to March 31, 2020, will be reported at the meeting.
2 The Non-Consolidated Financial Statements for the 117th term, from April 1, 2019 to March 31, 2020, will be reported at the meeting.

Items to be resolved

Item 1: Appointment of Seven Directors (Other Than Directors Who Are Members of the Audit and Supervisory Committee)

Item 2: Appointment of Five Directors Who Are Members of the Audit and Supervisory Committee

Item 3: 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.

Request to shareholders:

- Shareholders who are considering attending the Annual Shareholders Meeting in person are requested to give due consideration to prevent the spread of COVID-19 by checking the epidemic situation and their physical conditions at the time of the meeting, and by taking preventive measures, such as wearing a face mask.
- From the viewpoint of mitigating the risk of the spread of infection and business continuity of the Company, there is a possibility that only some of the officers will attend the Annual Shareholders Meeting this year, regardless of their health on the day of the meeting.
- Alcohol disinfectant will be available for the use of shareholders near the reception area at the venue.
- Note that some operations staff of the Annual Shareholders Meeting will wear face masks.
- The Company plans to facilitate proceedings for the Annual Shareholders Meeting compared to the past.

If any amendments are made to reference materials for the Annual Shareholders Meeting, the business report, or non-consolidated or consolidated financial statements, or if significant changes occur in the administration of the meeting due to changes in the situation concerning COVID-19, the relevant information will be posted on the Company website indicated above.

<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 16, 20. 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) Using a personal computer or mobile phone
      - On the website for exercise of voting rights, please enter the login ID and temporary password printed on the proxy card and indicate "for" or "against" according to the instructions on the screen.
      - Please note that shareholders using the website for the exercise of voting rights will be requested to change the temporary password on the website to prevent unauthorized access (identity theft) by a third party other than the shareholder, and fraudulent exercise of voting rights.
      - Each time a shareholders meeting is convened, you will be notified of a new login ID and a temporary password.
   (2) Using a smartphone
      - Reading the login QR code printed on the proxy card using a smartphone will connect you to the website for the exercise of voting rights, and you will be able to exercise your voting rights. (You will not need to enter your login ID or temporary password.)
      - You can use the QR code only once to log in for security reasons.
        If you use the QR code a second time, you will be required to enter your login ID and temporary password.
      - Depending on your smartphone, you may not be able to log in using the QR code. If you are not able to log in using the QR code, please exercise your voting rights via the method described in 2 (1) Using a personal computer or mobile phone.
        *The QR code is a registered trademark of DENSO WAVE Incorporated.

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

(1) Please note that if you exercise voting rights both in writing and online, the votes cast online will be considered valid.

(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.

5. Method for receiving notice of the shareholders meeting

You can receive the notice of the shareholders meeting by e-mail next time. If you would like to receive the notice by e-mail, please perform the procedure on the website for exercise of voting rights using a personal computer or a smartphone. (You cannot perform this procedure with a non-smartphone.)

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, 2019 to March 31, 2020)

1. Current Status of the Group

(1) Business Performance for the Fiscal Year Ended March 31, 2020

(i) Business Progress and Results

During the consolidated fiscal year under review, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") were in a persistently severe environment in which both domestic and overseas markets remained in an adjustment phase. Recently, this was exacerbated by the spread of the COVID-19 coronavirus.

As a result, consolidated revenue for the fiscal year under review decreased 28.0% year on year, to ¥49,310 million. Consolidated revenue in Japan declined 28.3% year on year, to ¥9,792 million. Consolidated exports decreased 27.9% year on year, to ¥39,518 million. The export ratio came to 80.1%.

A breakdown of consolidated revenue by machinery category shows that revenue of mainstay automatic lathes declined 30.4% ear on year, to ¥38,885 million, revenue of grinding machines decreased 31.3%, to ¥3,495 million, revenue of machining centers, rolling machines and other specialized machines dipped 15.2%, to ¥3,371 million.

Consolidated operating profit declined 55.5% year on year, to ¥4,549 million. Consolidated profit attributable to owners of parent decreased 67.7% year on year, to ¥2,001 million for the fiscal year under review.

Starting with the fiscal year under review, the Company is applying the International Financial Reporting Standards (IFRS) in place of the Japanese generally accepted accounting principles (JGAAP). Figures for the previous consolidated fiscal year announced in accordance with the JGAAP have been reclassified to conform to the IFRS.

(ii) Capital Investments Activities

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

The Company's Nagaoka Factory	Construction of a new business system
PRECISION TSUGAMI (CHINA) CORPORATION	Additional installation of equipment for producing machine tools
Precision Tsugami (Anhui) Corporation	A new plant for manufacturing machine tools, casting and components*
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	A new plant for manufacturing machine tools, casting and components*

(*Capital investment for the subject property is yet to be completed.)

Total investments amounted to ¥3,378 million, funded through the Company's own funds.

(iii) Financing Activities

The Group did not issue any bonds or shares to raise funds in the fiscal year under review.

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

(Million yen)

Category	114th term ended March 31, 2017	115th term ended March 31, 2018	116th term ended March 31, 2019		117th term ended March 31, 2020
	Japanese GAAP	Japanese GAAP	Japanese GAAP	IFRS	IFRS
Net sales or Revenue	41,050	57,576	67,447	68,486	49,310
Ordinary income or Profit before tax	2,848	6,510	10,154	10,384	4,259
Net income attributable to shareholders of parent or Profit attributable to owners of parent	2,630	4,171	6,033	6,192	2,001
Net income per share or Basic earnings per share	41.91 yen	74.71 yen	114.94 yen	117.98 yen	38.60 yen
Total assets	50,127	62,362	64,217	69,692	61,860
Net assets or Total equity	31,462	37,516	40,065	40,072	39,073
Net asset per share or Equity attributable to owners of parent per share	510.43 yen	585.58 yen	632.63 yen	641.69 yen	628.14 yen

Notes 1. Starting with the 117th fiscal year, the Company has been preparing consolidated financial statements that conform to the IFRS. Figures for the 116th fiscal year under the IFRS are also shown for reference purposes.

2. In cases where notation of titles of account, etc. are different between the JGAAP and the IFRS, both notations are shown.

(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 Limited	381 million Hong Kong dollar	70.8	Holding company
Precision Tsugami (Hong Kong) Limited	767 million Hong Kong dollar	100.0 (100.0)	Holding company
PRECISION TSUGAMI (CHINA) CORPORATION	517 million yuan	100.0 (100.0)	Manufacturing and sales of machine tools
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	35 million yuan	100.0 (100.0)	Manufacturing and sales of machine tool castings
Precision Tsugami (Anhui) Corporation	50 million yuan	100.0 (100.0)	Manufacturing and sales of machine tools and metal castings
TSUGAMI KOREA Co., Ltd.	1,000 million won	100.0	Sales of machine tools
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	495 million Indian rupee	90.9 (15.1)	Manufacturing and sales of machine tools

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

(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, 2020)

Manufacturing and sale of precision machine tools

(6) Main Offices and Factories (as of March 31, 2020)

(i) Tsugami Corporation

Name	Address
Head office	Chuo-ku, Tokyo
Sales offices	Tokyo, Nagaoka, Chino, 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
Precision Tsugami (Anhui) Corporation	Anhui Province, 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, 2020)

(i) Employees of the Tsugami Group

Number of employees	Change from the end of the previous term
2,223 (95)	Down 75 (Up 1)

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 decreased by 75 from the end of the previous fiscal year, mainly attributable to the decrease at PRECISION TSUGAMI (CHINA) CORPORATION.

(ii) Employees of Tsugami Corporation

Number of employees	Change from the end of the previous term	Average age	Average service years
451 (80)	Up 2 (Down 1)	43.4 years old	18.8 years

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

(8) Principal Lenders (as of March 31, 2020)

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	¥1,500 million
MUFG Bank, Ltd.	¥1,200 million
The Hokuetsu Bank, Ltd	¥800 million
Mizuho Bank, Ltd.	¥800 million
The Daishi Bank, Ltd.	¥400 million
THE HACHIJUNI BANK,LTD.	¥300 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 ¥24 per share, an interim dividend of ¥12, and a year-end dividend of ¥12, in the fiscal year ended March 31, 2020.

The Company plans to pay an annual dividend of ¥24 per share, an interim dividend of ¥12 and a year-end dividend of ¥12, in the fiscal year ending March 31, 2021.

2. Current Status of the Company

(1) Shares (as of March 31, 2020)

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

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

(iii) Number of shareholders: 8,807

(iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	4,327	8.36
Japan Trustee Services Bank, Ltd. (trust account)	3,101	5.99
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	2,592	5.01
The Dai-ichi Life Insurance Company, Limited	2,100	4.06
THE BANK OF NEW YORK MELLON 140051	1,534	2.96
Sumitomo Mitsui Banking Corporation	1,516	2.93
The Hokuetsu Bank, Ltd.	1,484	2.86
THE BANK OF NEW YORK 133652	1,102	2.13
Tsugami Customers' Shareholding Association	1,094	2.11
J.P.MORGAN CHASE BANK 385151	942	1.82

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 (2.47% of the stock).

3. Although the Company holds 3,291 thousand shares of treasury stock, it is excluded from the list of major shareholders.

Status of Share Acquisition Rights, etc.

(i) Status of share acquisition rights held by officers (as of March 31, 2020)

Date of resolution to issue share acquisition rights			June 24, 2005	June 23, 2006
Number of share acquisition rights			35	22
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 35,000 shares (1,000 shares per share acquisition right)	Common stock: 22,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			Free of charge	608 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 1, 2005 to June 30, 2025	July 21, 2006 to July 20, 2026
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 1 Number of the rights held: 35 Number of subject shares: 35,000 shares	Number of persons holding the rights: 1 Number of the rights held: 22 Number of subject shares: 22,000 shares
		Outside Directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -

Date of resolution to issue share acquisition rights			June 22, 2007	June 20, 2008
Number of share acquisition rights			29	24
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 29,000 shares (1,000 shares per share acquisition right)	Common stock: 24,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			513 yen	279 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 10, 2007 to July 9, 2027	July 8, 2008 to July 7, 2028
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 1 Number of the rights held: 29 Number of subject shares: 29,000 shares	Number of persons holding the rights: 1 Number of the rights held: 20 Number of subject shares: 20,000 shares
		Outside directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: 1 Number of the rights held: 4 Number of subject shares: 4,000 shares

Date of resolution to issue share acquisition rights			June 19, 2009	June 18, 2010
Number of share acquisition rights			52	29
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 52,000 shares (1,000 shares per share acquisition right)	Common stock: 29,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			123 yen	532 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 7, 2009 to July 6, 2029	July 6, 2010 to July 5, 2030
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 1 Number of the rights held: 45 Number of subject shares: 45,000 shares	Number of persons holding the rights: 1 Number of the rights held: 25 Number of subject shares: 25,000 shares
		Outside Directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 1 Number of the rights held: 7 Number of subject shares: 7,000 shares	Number of persons holding the rights: 1 Number of the rights held: 4 Number of subject shares: 4,000 shares

Date of resolution to issue share acquisition rights			June 17, 2011	June 17, 2011
Number of share acquisition rights			57	10
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 57,000 shares (1,000 shares per share acquisition right)	Common stock: 10,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			408 yen	Free of charge
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 5, 2011 to July 4, 2031	July 5, 2011 to July 4, 2031
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 1 Number of the rights held: 45 Number of subject shares: 45,000 shares	Number of persons holding the rights: 1 Number of the rights held: 10 Number of subject shares: 10,000 shares
		Outside directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 2 Number of the rights held: 12 Number of subject shares: 12,000 shares	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -

Date of resolution to issue share acquisition rights			June 15, 2012	June 21, 2013
Number of share acquisition rights			60	71
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 60,000 shares (1,000 shares per share acquisition right)	Common stock: 71,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			459 yen	445 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 3, 2012 to July 2, 2032	July 9, 2013 to July 8, 2033
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 2 Number of the rights held: 50 Number of subject shares: 50,000 shares	Number of persons holding the rights: 2 Number of the rights held: 56 Number of subject shares: 56,000 shares
		Outside Directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -	Number of persons holding the rights: 1 Number of the rights held: 5 Number of subject shares: 5,000 shares
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 2 Number of the rights held: 10 Number of subject shares: 10,000 shares	Number of persons holding the rights: 2 Number of the rights held: 10 Number of subject shares: 10,000 shares

Date of resolution to issue share acquisition rights			June 20, 2014	June 18, 2015
Number of share acquisition rights			71	56
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 71,000 shares (1,000 shares per share acquisition right)	Common stock: 56,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			452 yen	526 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 8, 2014 to July 7, 2034	July 7, 2015 to July 6, 2035
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 2 Number of the rights held: 56 Number of subject shares: 56,000 shares	Number of persons holding the rights: 2 Number of the rights held: 40 Number of subject shares: 40,000 shares
		Outside directors	Number of persons holding the rights: 1 Number of the rights held: 5 Number of subject shares: 5,000 shares	Number of persons holding the rights: 2 Number of the rights held: 8 Number of subject shares: 8,000 shares
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 2 Number of the rights held: 10 Number of subject shares: 10,000 shares	Number of persons holding the rights: 2 Number of the rights held: 8 Number of subject shares: 8,000 shares

Date of resolution to issue share acquisition rights			June 22, 2016	June 22, 2016
Number of share acquisition rights			75	3
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 75,000 shares (1,000 shares per share acquisition right)	Common stock: 3,000 shares (1,000 shares per share acquisition right)
Amount of payment for share acquisition rights			272 yen	Free of charge
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 8, 2016 to July 7, 2036	July 8, 2016 to July 7, 2036
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 2 Number of the rights held: 55 Number of subject shares: 55,000 shares	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
		Outside Directors	Number of persons holding the rights: 2 Number of the rights held: 10 Number of subject shares: 10,000 shares	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 2 Number of the rights held: 10 Number of subject shares: 10,000 shares	Number of persons holding the rights: 1 Number of the rights held: 3 Number of subject shares: 3,000 shares

Date of resolution to issue share acquisition rights			June 21, 2017	June 20, 2018
Number of share acquisition rights			47	430
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 47,000 shares (1,000 shares per share acquisition right)	Common stock: 43,000 shares (100 shares per share acquisition right)
Amount of payment for share acquisition rights			706 yen	771 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share	One yen per share
Exercise period			July 7, 2017 to July 6, 2037	July 7, 2018 to July 6, 2038
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.	Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 2 Number of the rights held: 27 Number of subject shares: 27,000 shares	Number of persons holding the rights: 4 Number of the rights held: 430 Number of subject shares: 43,000 shares
		Outside directors	Number of persons holding the rights: 2 Number of the rights held: 6 Number of subject shares: 6,000 shares	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: 3 Number of the rights held: 14 Number of subject shares: 14,000 shares	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -

Date of resolution to issue share acquisition rights			June 19, 2019
Number of share acquisition rights			560
Class and number of shares to be delivered upon exercise of share acquisition rights			Common stock: 56,000 shares (100 shares per share acquisition right)
Amount of payment for share acquisition rights			753 yen
Value of assets to be paid in upon the exercise of share acquisition rights			One yen per share
Exercise period			July 6, 2019 to July 5, 2039
Conditions of exercise			Partial exercise of each share acquisition right shall not be allowed. Other conditions of exercise shall be stipulated in the agreement concerning the allocation of share acquisition rights to be concluded between the Company and the eligible person.
Status of holding the rights by officers	Directors (excluding those who are Audit & Supervisory Committee members)	Directors (excluding Outside Directors)	Number of persons holding the rights: 5 Number of the rights held: 560 Number of subject shares: 56,000 shares
		Outside Directors	Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -
	Directors (Audit & Supervisory Committee members)		Number of persons holding the rights: - Number of the rights held: - Number of subject shares: -

(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 19, 2019

- Number of subscription rights to shares
  900 (100 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares
  90,000
- Amount to be paid for the exercise of subscription rights to shares
  Gratuitous
- Amount invested when exercising a subscription rights to share
  ¥100 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: ¥753
  Amount per share to be credited to capital: ¥377
- Period during which subscription rights to shares can be exercised
  From July 6, 2019 to July 5, 2039
- 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	900	90,000	26

(2) Officers

(i) Directors and Statutory Auditors (as of March 31, 2020)

Position	Name	Responsibility and important concurrent post
Representative Director, Chairman and CEO	Takao Nishijima	
Representative Director, CFO	Hiroaki Kazama	
Director	Byun Jae-Hyun	President of TSUGAMI KOREA Co., Ltd.
Director	Kameswaran Balasubramanian	President of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.
Director	Tang Donglei	President of PRECISION TSUGAMI (CHINA) CORPORATION
Director	Shigeru Nishiyama	
Director	Hitoshi Yoshida	President and CEO of TOKYO SEIMITSU CO., LTD.,
Director (Standing members of the Audit and Supervisory Committee)	Kenji Yoneyama	
Director (Members of the Audit and Supervisory Committee)	Takeo Nakagawa	CEO of Fine Tech Corporation
Director (Members of the Audit and Supervisory Committee)	Koichi Maruno	President of Dai-ichi Life Research Institute Inc.
Director (Members of the Audit and Supervisory Committee)	Kunio Shimada	Representative partner at Shimada Hamba & Osajima

Notes 1. Changes in Directors in the fiscal year under review were as follows:

Mr. Nobuaki Takahashi, Representative Director & CFO, retired as of the closing of the 116th Annual Shareholders Meeting held on June 19, 2019, due to the expiration of his term of office. Mr. Hiroaki Kazama was newly elected as a Director at the said meeting and assumed the position thereafter.

2. Director Shigeru Nishiyama, Director Hitoshi Yoshida, Director (member of the Audit and Supervisory Committee) Takeo Nakagawa, Mr. Koichi Maruno, and Mr. Kunio Shimada are outside directors.
3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa, Mr. Koichi Maruno and Mr. Kunio Shimada as independent directors.
4. The Company has appointed Mr. Kenji Yoneyama as standing member of the Audit and Supervisory Committee to improve information and to enhance the effectiveness of audits and auditing and supervisory functions through sufficient collaboration with the internal audit division etc.

(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 Shigeru Nishiyama, Hitoshi Yoshida, Takeo Nakagawa, Koichi Maruno and Kunio Shimada 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(excluding the members of the Audit and Supervisory Committee) (Outside Directors included)	8 (2)	¥192 million (¥18 million)
Directors(members of the audit and supervisory committee)	4 (3)	¥42 million (¥27 million)

(Outside Directors included)		
Total (Outside Officers included)	12 (5)	¥234 million (¥45 million)

Notes 1. The above includes a Director who retired as of the closing of the 116th Annual Shareholders Meeting held on June 19, 2019.

2. With respect to amount of compensation, etc. for Directors (excluding those who are Audit & Supervisory Committee members), it was resolved at the 115th Annual Shareholders Meeting that monetary remuneration should be no more than ¥250 million per year and that, separately from said amount of compensation, etc., amount of compensation, etc. regarding share acquisition rights to be allocated as stock options for a stock-linked compensation plan should be no more than ¥80 million per year.

3. With respect to the amount of compensation, etc. for Directors (who are Audit & Supervisory Committee members), it was resolved at the 115th Annual Shareholders Meeting that monetary remuneration should be no more than ¥80 million per year.

4. Aggregate amounts of compensation, etc. include the following.

・Compensation in the form of stock options

Six directors (excluding Audit & Supervisory Committee members and Outside Directors): ¥50 million

(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, Shigeru Nishiyama	Mitsui Sugar Co., Ltd.	Auditor	No special interests exist between the Company and Mitsui Sugar Co., Ltd.
Director, Hitoshi Yoshida	Tokyo Seimitsu Co., Ltd.	President and CEO	The Company has trading relationships, including purchase of products, with Tokyo Seimitsu Co., Ltd.
Director (Members of the Audit and Supervisory Committee), Takeo Nakagawa	Fine Tech Corporation FANUC LTD. OSG CORPORATION	CEO Auditor Director (Members of the Audit and Supervisory Committee)	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 (Members of the Audit and Supervisory Committee), Koichi Maruno	Dai-ichi Life Research Institute Inc.	Representative Director, President	No special interests exist between the Company and Dai-ichi Life Research Institute Inc.
Director (Members of the Audit and Supervisory Committee), 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.

b. Major activities in the fiscal year under review

Names	Major activities
Shigeru Nishiyama, Director	He attended 8 of the 9 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.
Hitoshi Yoshida, Statutory Auditor	He attended 7 of the 9 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.
Takeo Nakagawa, Director (Members of the Audit and Supervisory Committee)	He attended 9 of the 9 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 based on his insight into the entire manufacturing industry, from the viewpoint of an experienced corporate manager.
Koichi Maruno, Director (Members of the Audit and Supervisory Committee)	He attended 9 of the 9 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.
Kunio Shimada, Director (Members of the Audit and Supervisory Committee)	He attended 8 of the 9 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 lawyer.

(3) 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	¥53 million
The total amount of cash and other assets to be paid by the Company and subsidiaries to independent auditors	¥55 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 Audit and Supervisory committee 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 audit and supervisory committee 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 Audit and Supervisory committee deems this necessary, for example, when execution of duties by the relevant independent auditor is disrupted. The Audit and Supervisory committee 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, members of the audit and supervisory committee elected by the Audit and Supervisory committee 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 Audit and Supervisory committee 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 Audit and Supervisory committee 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.

(4) 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 is a company with an audit and supervisory committee. Directors' execution of their duties shall be audited based on the Auditing Etc. Standards of the Audit and Supervisory Committee established by the Audit and Supervisory Committee.

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

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

(iii) Rules and systems concerning risk management

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

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

(a) The Company shall hold regular meetings of the Board of Directors every month in principle, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors.

(b) In addition, the Company shall hold monthly in principle 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. For the accurate understanding of the details of the management of the subsidiaries, the subsidiaries' monthly results, financial position and other important information shall be reported at corporate management 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

a. The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.

b. The Directors, etc., of the Company's subsidiaries shall take part in regular management meetings and advance discussions on internal control.

c. The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.

(vi) Matters concerning applicable employees in cases where the Audit and Supervisory committee request the assignment of employees who should assist them in their duties

(a) The Company may assign employees (auxiliary employees) who should assist the Audit and Supervisory committee in cases where the Audit and Supervisory committee request their assignment.

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

(vii) Matters concerning the independence of employees from Directors (excluding members of the Audit and Supervisory Committee) stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions the Audit and Supervisory committee provide to the concerned employees

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

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

a. The authority that auxiliary employees have

b. Organizations which auxiliary employees belong to

c. Elimination of the chain of command Directors (excluding members of the Audit and Supervisory Committee) have over auxiliary employees

d. Granting of consent rights to the Audit and Supervisory committee regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees

(viii) System concerning reports to the Audit and Supervisory committee

(a) A system that enables the directors and employees of the Company to submit reports to the Audit and Supervisory committee.

The directors (excluding members of the Audit and Supervisory Committee) and employees of the Company shall report the following items without delay to audit and supervisory committee concerning the execution of their duties.

a. Items concerning important facts that may affect the Company significantly when such facts are found

b. Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found

c. Results of internal audits performed by the internal audit division (the Audit Office)

d. The operational status for the Whistle-blowing System and the details of reports

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

a. The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the

Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the Audit and Supervisory committee of the Company without delay when they find such acts or facts.

b. The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the audit and supervisory committee of the Company.

(ix) System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to the Audit and Supervisory committee for the reason of having submitted such reports

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

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

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

(xi) Other systems for ensuring the effectiveness of audits performed by the Audit and Supervisory committee

(a) The Audit and supervisory committee shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.

(b) The Audit and supervisory committee shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.

(c) The Audit and supervisory committee shall stay in close cooperation with the internal audit division (the Audit Office). 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) The members of the Audit and Supervisory committee' execution of duties

The Audit and Supervisory committee hold meetings of the Audit and Supervisory committee 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 Statement of Financial Position

(As of March 31, 2020)

(Million yen)

Account title	Amount	Account title	Amount
(Assets)		**(Liabilities)**	
Current assets:		**Current liabilities:**	
Cash and cash equivalents	10,921	Trade and other payables	9,480
		Borrowings	8,867
Trade and other receivables	12,258	Other financial liabilities	175
Other financial assets	30	Income taxes payable, etc.	310
		Provisions	402
Inventories	18,343	Contract liability	1,021
Other current assets	1,397	Other current liabilities	609
		Total current liabilities	**20,866**
Total current assets	**42,952**	**Non-current liabilities**	
		Other financial liabilities	140
Non-current assets:		Retirement benefit liability	915
Property, plant and equipment	9,648	Deferred tax liabilities	635
Right-of-use asset	1,222	Other non-current liabilities	229
		Total non-current liabilities	**1,920**
Intangible assets	1,289	**Total liabilities**	**22,787**
		(Equity)	
Retirement benefit asset	82	Share capital	12,345
Other financial assets	6,236	Capital surplus	3,306
Deferred tax assets	209	Treasury shares	-2,994
		Other components of equity	1,038
		Retained earnings	18,784
Other non-current assets	218	**Total equity attributable to owners of parent**	**32,480**
		Non-controlling interests	6,593
Total non-current assets	**18,908**	**Total equity**	**39,073**
Total Assets	**61,860**	**Total liabilities and equity**	**61,860**

Consolidated Statement of Profit or Loss

(From April 1, 2019 to March 31, 2020)

(Million yen)

Account title	Amount
Revenue	**49,310**
Cost of sales:	-36,354
Gross profit	**12,956**
Selling, general and administrative expenses	-8,369
Other income	308
Other expenses	-345
Operating profit	**4,549**
Finance income	310
Finance costs	-601
Profit before tax	**4,259**
Income tax expense	-1,511
Profit	**2,747**
Profit attributable to	
Owners of parent	2,001
Non-controlling interests	745
Profit	**2,747**

Consolidated Statement of Changes in Equity

(From April 1, 2019 to March 31, 2020)

(Million yen)

	Equity attributable to owners of parent				
				Other components of equity	
	Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	12,345	3,214	-2,943	-169	2,745
Profit					
Other comprehensive income				-1,366	-170
Total comprehensive income	—	—	—	-1,366	-170
Purchase of treasury shares			-123		
Disposal of treasury shares		-34	72		
Dividends					
Changes resulting from share-based payment transactions		129			
Transfer to retained earnings					-0
Capital transactions with non-controlling interests		-3		-0	
Total transactions with owners	—	92	-51	-0	-0
Balance as of March 31, 2020	12,345	3,306	-2,994	-1,535	2,574

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2019	—	2,576	18,052	33,244	6,827	40,072
Profit			2,001	2,001	745	2,747
Other comprehensive income	-3	-1,540		-1,540	-508	-2,049
Total comprehensive income	-3	-1,540	2,001	460	236	697
Purchase of treasury shares				-123		-123
Disposal of treasury shares			-21	16		16
Dividends			-1,244	-1,244	-463	-1,707
Changes resulting from share-based payment transactions				129		129
Transfer to retained earnings	3	3	-3	—		—
Capital transactions with non-controlling interests		-0		-3	-7	-11
Total transactions with owners	3	2	-1,269	-1,225	-471	-1,696
Balance as of March 31, 2020	—	1,038	18,784	32,480	6,593	39,073

Notes to Consolidated Financial Statements

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

(1) Standards used to prepare the consolidated financial statements

Starting with the consolidated fiscal year under review, the Company and its subsidiaries (the "Group") are applying the International Financial Reporting Standards (IFRS) to prepare the Group's consolidated financial statements in accordance with the provisions of Article 120, Paragraph 1 of the Rules of Corporate Accounting. Part of the disclosure items requested under the IFRS are omitted in the consolidated financial statements, in accordance with the latter clause of said Paragraph.

(2) Scope of consolidation

- Number of consolidated subsidiaries: 13
- Names of major consolidated subsidiaries: TSUGAMI MACHINERY CO., LTD.
  TSUGAMI GENERAL SERVICE CO., LTD.
  Precision Tsugami (China) Corporation Limited
  Precision Tsugami (Hong Kong) Limited
  PRECISION TSUGAMI (CHINA) CORPORATION
  Shinagawa Precision Machinery (Zhejiang) Co., Ltd.
  Precision Tsugami (Anhui) Corporation
  TSUGAMI KOREA Co., Ltd.
  TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

(3) Application of equity method

- Number of companies accounted for using equity method: 0

(4) Matters Concerning Fiscal year of consolidated subsidiaries, etc.

For subsidiaries that settle accounts on a day different from the Company's consolidated fiscal year-end, financial statements based on provisional settlement of accounts, carried out on the consolidated closing date, are used.

(5) Matters concerning significant accounting policies

(i) Financial assets

(a) Initial recognition and measurement

The Tsugami Group classifies financial assets at initial recognition as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost.

The Tsugami Group recognizes these financial assets at the transaction date when the Group becomes a party to the contract for the financial assets.

At initial recognition, all financial assets are measured at fair value plus transaction expenses, except for those measured at fair value through profit or loss.

Financial assets are classified into financial assets measured at amortized cost, on the condition that they meet both of the following criteria:

- Financial assets are held based on the business model to hold financial assets for the purpose of collecting contractual cash flows
- Contractual terms associated with financial assets give rise to cash flows on specified dates, consisting only of payment of the principal and interest on the principal balance

Financial assets other than financial assets measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments measured at fair value, except those held for trading purposes which must be measured at fair value through profit or loss, are each irrevocably designated as either assets measured at fair value through profit or loss or assets measured at fair value through other comprehensive income.

(b) Subsequent measurement

Financial assets are subsequently measured as follows depending on their classification.

a. Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method subsequent to the initial recognition.

b. Financial assets measured at fair value

Changes in fair value of financial assets measured at fair value are recognized in profit or loss subsequent to the initial recognition.

Any change in the fair value of equity instruments measured at fair value through other comprehensive income is recognized as other comprehensive income subsequent to the initial recognition. If such instruments are derecognized or the fair value decreased significantly, accumulated other comprehensive income is directly transferred to retained earnings. Dividends from such instruments are recognized in profit or loss as part of financial income.

(c) Derecognition of financial assets

The Tsugami Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to receive the cash flows from the financial assets are assigned and substantially all the risks and rewards of ownership are transferred. When the Group retains control of the assigned financial asset, it recognizes a liability in relation to the asset to the extent of its continuing involvement.

(d) Impairment of financial assets

For financial assets measured at amortized cost, the Tsugami Group recognized an allowance for doubtful accounts for expected credit losses.

The Group evaluates at the end of each reporting period whether there is a significant increase in credit risk of financial assets since initial recognition. When there is no significant increase in the credit risk since initial recognition, the amount equal to expected credit losses for 12 months are recognized as allowance for doubtful accounts. When there is a significant increase in credit risk since initial recognition, the amount equal to expected credit losses for the remaining life of the financial assets are recognized as allowance for doubtful accounts.

The Group considers, as a general rule, that there has been a significant increase in the credit risk when contractual payments are more than 30 days past due. The Group considers not only the information regarding due date but also other reasonable and supportable information (internal and external credit ratings, etc.) when determining whether credit risk has increased significantly since initial recognition.

The Group considers that there has not been a significant increase in the credit risk since initial recognition when the financial assets are determined to have low credit risk at the end of the reporting period.

However, for trade receivables that do not have a significant financing component, the allowance for doubtful accounts is always measured at an amount equal to lifetime expected credit losses regardless of whether credit risk has increased significantly since initial recognition.

The Tsugami Group estimates credit losses on financial assets to reflect the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money
-reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions

The Group endeavors to adjust estimated credit losses calculated in accordance with the above as necessary to reflect the impact of significant economic fluctuation, etc.

When the Tsugami Group has no reasonable expectation of recovery of all or part of a financial asset, it directly reduces the gross carrying amount of a financial asset.

A provision for doubtful accounts related to financial assets is recognized in profit or loss. The Group recognizes a reversal of provision for doubtful accounts in loss or profit when an event which decreases the allowance for doubtful accounts occurs.

(ii) Financial liabilities

(a) Initial recognition and measurement

The Tsugami Group classifies financial liabilities into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost at initial recognition.

The Group initially recognizes all financial liabilities at the transaction date when the Group becomes a party to the contract for the financial liabilities.

All financial liabilities are measured at fair value at initial recognition, whereas financial liabilities measured at amortized cost are measured at the amount less directly attributable transaction costs.

(b) Subsequent measurement

Financial liabilities are subsequently measured as follows depending on their classification.

a. Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial recognition as financial liabilities measured at fair value through profit or loss and changes in fair value of financial liabilities measured at fair value through profit or loss are recognized in profit or loss subsequent to the initial recognition.

b. Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost subsequent to the initial recognition, by using the effective interest method.

Amortization by the effective interest method, as well as gains and losses associated with the derecognition shall be recognized in profit or loss as part of financial expenses.

(c) Derecognition of financial liabilities

The Tsugami Group derecognizes a financial liability when it is extinguished, namely when the obligation specified in the contract is discharged, cancelled or becomes invalid.

(iii) Derivatives and hedge accounting

The Tsugami Group uses derivatives (forward foreign exchange contracts) as hedging instruments against foreign exchange risk in respect of foreign currency denominated receivables. These derivatives are initially recognized at fair value at the time the forward foreign exchange contract is concluded and are measured at fair value subsequently. Hedge accounting is not applied to the derivatives.

(iv) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The acquisition cost of inventories is determined principally based on the moving average method and includes the purchase cost, processing cost, and any other costs incurred in bringing the inventories to their present location and condition.

(v) Property, plant and equipment

Property, plant and equipment is measured using the cost model and stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost of property, plant and equipment comprises any costs directly attributable to the acquisition of the item, the cost of site dismantlement, removal and restoration and borrowing costs that should be capitalized.

Depreciation costs on an item of property, plant and equipment, other than land and construction in progress, are recognized on a straight-line method over its estimated useful life. The range of estimated useful lives by major asset item is as follows:

- Buildings and structures: 15 to 38 years
- Machinery and equipment: 9 years
- Tools, furniture and fixtures: 2 to 20 years

Estimated useful life, residual value, and depreciation methods are reviewed at the end of each consolidated fiscal year and, if there is a change, adjustments will be applied from that point forward as changes in accounting estimate.

(vi) Intangible assets

Separately acquired intangible assets are recognized initially at cost.

After initial recognition, intangible assets are amortized on a straight-line basis over their estimated useful lives and stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The estimated useful lives of major asset items are as follows:

- Software: 5 years

Estimated useful life, residual value, and depreciation methods are reviewed at the end of each consolidated fiscal year and, if there is a change, adjustments will be applied from that point forward as changes in accounting estimate.

(vii) Lease

The Tsugami Group assesses whether a contract is or contains a lease at inception of a contract. A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

When the Group assesses that a contract is or contains a lease, at the commencement of the lease, the Group recognizes a right-of-use asset and a lease liability. The Group has opted not to recognize assets and liabilities for short-term leases of less than 12 months and leases of low-value assets.

A right-of-use asset is measured by using the cost model and is stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The acquisition cost of a right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and any initial direct costs. The right-of-use asset is depreciated using the straight-line method over its estimated useful life or lease term, whichever is shorter. Lease payments for short-term leases and leases of low-value assets are recognized as an expense over the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payment that is not paid at the commencement date. The lease payments are apportioned between the financial cost and the reduction in the lease liability based on the effective interest method. The financial costs are recognized in the consolidated statement of profit or loss.

(viii) Impairment losses on non-financial assets

Non-financial assets (excluding inventories and deferred tax assets) are assessed at the final date of each reporting period for indications of impairment. If there is an indication of impairment, the asset's recoverable amount is estimated. For intangible assets with an indefinite useful life or intangible assets not yet available for use, the Group estimates the recoverable amount at the same time every year regardless of whether there is an indication of impairment.

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less the cost of disposal. In determining the value in use, estimated future cash flows arising from assets and cash-generating units are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For assets not tested individually at impairment test, assets are grouped together into the smallest cash-generating unit that generate cash inflows from continuing use that are largely

independent of the cash inflows of other assets or asset group. The Tsugami Group's corporate assets do not generate independent cash flows. If there is an indication of impairment in corporate assets, the Group determines the recoverable amount of the cash-generating unit to which the corporate assets belong.

The Group recognizes impairment losses in profit or loss when the carrying amount of assets or cash-generating units exceeds the estimated recoverable amount. Impairment losses recognized in relation to a cash-generating unit are allocated first to reduce the carrying amount of goodwill allocated to the cash-generating unit and then the carrying amount of other assets in the cash-generating unit are reduced pro rata.

(ix) Provisions

The Group has present legal and constructive obligation arising from past circumstances and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If a reliable estimate for such obligation can be determined, it is recognized as a provision. In instances where the time value of money becomes material, the provision amount is measured based on estimated future cash flows discounted to their present value using a pre-tax discount rate reflecting the time value of money and risk specific to the liability. The unwinding of discount due to passage of time is recognised as finance costs.

(x) Employee benefits accruals

The Group uses funded and unfunded defined-benefit pension plans and defined-contribution pension plans as retirement benefit plans for employees.

Defined benefit obligation is determined using the projected unit credit method based on the present value of the defined benefit obligation and related current and past service costs.

The discount rates are determined based on market yields of high quality corporate bonds at the end of the fiscal year that correspond to the discount period, which is set on the basis of a period up to the estimated date of benefit payment for each future year.

Assets or liabilities related to the defined benefit plans are calculated as the net sum of the present value of the defined benefit obligation and the fair value of plan assets for each plan.

Differences arising in remeasurement of defined benefit plans are recognized in a lump sum in other comprehensive income in the period they are incurred and immediately transferred from other components of equity to retained earnings.

Past service costs are recognized as profit or loss in the period they occur.

In case that the Group has a surplus in the defined benefit plans as a result of calculation, the net defined benefit asset is measured to the extent of the present value of economic benefits available in the form of a future refund from the plan or a reduction in future contributions to the plan.

Expenses related to defined contribution retirement benefits are recognized as expenses at the time contributions are made.

(xi) Revenue

With regard to contracts with customers, the Tsugami Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc. under IFRS 9 "Financial Instruments").
Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Tsugami Group is engaged in the manufacture and sale of machine tools and the provision of services such as maintenance and repair services. With regard to the sales of machine tools and machine tool parts, performance obligations are satisfied when, in light of the contract terms, the customer obtains control over the product and the Group recognizes revenue either upon the product's arrival with/acceptance by the customer or based on trade terms, etc. With regard to machine tool-related services, performance obligations are satisfied when provision of the service is complete and the Group recognizes revenue at such time.

Revenue is measured at the amount of promised consideration in contracts with customers less rebates and others.

(xii) Foreign currencies

(a) Transactions denominated in foreign currencies

Transactions conducted in currencies other than the functional currency of each Group company are translated into the functional currency using the exchange rate on the transaction date or an exchange rate that approximates the exchange rate on that date.

Foreign currency monetary asset and liabilities at the end of a reporting period are converted into the functional currency at the exchange rate on that date.

Foreign currency non-monetary assets and liabilities measured at fair value are converted into the functional currency at the exchange rate on the date of calculation of fair value.

Any exchange difference arising from conversion or settlement is recognized in profit or loss. However, exchange differences arising from financial instruments measured through other comprehensive income are recognized in other comprehensive income.

(b) Foreign operations

Assets and liabilities of the Group's foreign operations are translated into Japanese yen using the exchange rates on the final date of the reporting period. Income and expense items are translated at the average exchange rates for the reporting period, unless any significant change has occurred. Any exchange differences arising from these translations are recognized in other comprehensive income. Exchange differences of foreign operations are recognized in profit or loss in the period in which the foreign operations are disposed of.

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

Accounting method for consumption taxes

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

2. Notes on Changes in Accounting Policy

The Group has adopted IFRS 16 "Leases" (published January 2016) (hereinafter "IFRS 16") from the fiscal year under review.

The Group applied IFRS 16 according to transitional measures, and the cumulative effect of the commencement of application is recognized on the date of initial application.

In transitioning to IFRS 16, the Group has chosen the practical expedient of IFRS 16.C3 as to whether an arrangement contains a lease or not, and has not reassessed whether contracts which were previously identified as contracts containing leases applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease" contain leases.

With the application of IFRS 16, the Group recognized an additional 1,100 million yen in right-of-use assets and 256 million yen in lease liabilities (included within other financial liabilities) at the date of initial application compared with before the date of initial application. Right-of-use assets include 20 million yen reclassified from property, plant and equipment in financial leases under IAS 17 and 823 million yen reclassified from advance land lease payments (other non-current assets). The major items of right-of-use assets in the consolidated statement of financial position for the fiscal year under review are land of 904 million yen and buildings and structures of 190 million yen. The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 2.0%.

When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group applies the following practical expedients.

- As an alternative to performing an impairment review, the Group relied on its assessment of whether leases are onerous in accordance with IAS 37 "Provision, Contingent Liabilities and Contingent Assets" immediately before the date of initial application.
- Initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.

3. Notes to Consolidated Statement of Financial Position

(1) Direct write-off amount of allowance for doubtful accounts from assets

Current assets	¥68 million
Non-current assets	¥-- million

(2) Accumulated depreciation and accumulated impairment losses of property, plant and equipment ¥10,772 million

4. Notes to Consolidated Statement of Profit or Loss

(1) The breakdown of "Other income" is as follows.

Government grant income	¥166 million
Other	¥142 million
Total	¥308 million

(2) The breakdown of "Other expenses" is as follows.

Loss on retirement of fixed assets	¥5 million
Loss from performance of warranty against defects	¥307 million
Other	¥32 million
Total	¥345 million

5. Notes to Consolidated Statement of Changes in Equity

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

Class of shares	Number of shares at the beginning of the consolidated fiscal year under review	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 stock	55,000 thousand shares	—thousand shares	—thousand shares	55,000 thousand shares

(2) Matters relating to the number of treasury stock

Class of shares	Number of shares at the beginning of the consolidated fiscal year under review	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 stock	3,192 thousand shares	177 thousand shares	78 thousand shares	3,291 thousand shares

Note. The increase of 177 thousand shares of treasury stock is due to purchases of treasury shares on the open market.

The decrease of 78 thousand shares of treasury stock was due to the exercise of stock options.

(3) Matters relating to dividends

(i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 14, 2019

- Total amount of dividend ¥621 million
- Dividend per share ¥12
- Record date March 31, 2019
- Effective date May 28, 2019

Matters relating to dividends resolved at the Board of Directors meeting on November 12, 2019

- Total amount of dividend ¥622 million
- Dividend per share ¥12
- Record date September 30, 2019
- Effective date November 30, 2019

(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 27, 2020 for approval.

- Total amount of dividend ¥620 million
- Dividend per share ¥12
- Record date March 31, 2020
- Effective date June 2, 2020

Dividend resources are planned to be retained earnings.

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

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of Directors meeting on June 23, 2006
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	35,000 shares	22,000 shares
Unexercised share acquisition rights	35	22
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of Directors meeting on June 20, 2008
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	29,000 shares	24,000 shares
Unexercised share acquisition rights	29	24
	Resolved at the annual shareholders meeting on June 19, 2009	Resolved at the Board of Directors meeting on June 18, 2010
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	52,000 shares	29,000 shares
Unexercised share acquisition rights	52	29
	Resolved at the annual shareholders meeting on June 18, 2010	Resolved at the Board of Directors meeting on June 17, 2011
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	3,000 shares	57,000 shares
Unexercised share acquisition rights	3	57
	Resolved at the annual shareholders meeting on June 17, 2011	Resolved at the Board of Directors meeting on June 15, 2012
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	16,000 shares	60,000 shares
Unexercised share acquisition rights	16	60
	Resolved at the annual shareholders meeting on June 15, 2012	Resolved at the Board of Directors meeting on June 21, 2013
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	14,000 shares	71,000 shares
Unexercised share acquisition rights	14	71
	Resolved at the annual shareholders meeting on June 21, 2013	Resolved at the Board of Directors meeting on June 20, 2014
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	33,000 shares	71,000 shares
Unexercised share acquisition rights	33	71

	Resolved at the annual shareholders meeting on June 20, 2014	Resolved at the Board of Directors meeting on June 18, 2015
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	37,000 shares	56,000 shares
Unexercised share acquisition rights	37	56
	Resolved at the annual shareholders meeting on June 18, 2015	Resolved at the Board of Directors meeting on June 22, 2016
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	48,000 shares	75,000 shares
Unexercised share acquisition rights	48	75
	Resolved at the annual shareholders meeting on June 22, 2016	Resolved at the Board of Directors meeting on June 21, 2017
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	83,000 shares	47,000 shares
Unexercised share acquisition rights	83	47
	Resolved at the annual shareholders meeting on June 21, 2017	Resolved at the Board of Directors meeting on June 20, 2018
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	64,000 shares	43,000 shares
Unexercised share acquisition rights	64	430
	Resolved at the annual shareholders meeting on June 20, 2018	Resolved at the Board of Directors meeting on June 19, 2019
Class of shares to be issued upon exercise of share acquisition rights	Common stock	Common stock
Number of shares to be issued upon exercise of share acquisition rights	75,000 shares	56,000 shares
Unexercised share acquisition rights	750	560
	Resolved at the annual shareholders meeting on June 19, 2019	
Class of shares to be issued upon exercise of share acquisition rights	Common stock	
Number of shares to be issued upon exercise of share acquisition rights	87,000 shares	
Unexercised share acquisition rights	870	

6. Notes on Financial Instruments

(1) Situation of financial instruments

(i) Capital management

The Group's basic policy for capital management is to seek to strengthen its business structure through sustainable growth and aim for improvement of shareholder returns.

The main indicators used by the Group for monitoring capital management are ratio of equity attributable to owners of parent and ratio of profit to equity attributable to owners of parent.

The Group is not subject to substantial capital requirements.

(ii) Credit risk management

Credit risk is the possibility that a counterparty to a financial asset held by the Group will fail to fulfil its contractual obligations and the Group will incur a financial loss as a result.

The Group seeks to quickly detect and reduce credit risk by having systems in place to manage due dates and outstanding balances for each counterparty and regularly monitor the credit status of major counterparties.

The Group does not have excess concentration of credit risk in specific counterparties or specific groups of counterparties.

(iii) Liquidity risk management

Liquidity risk is the possibility that the Group will be unable to fulfil its obligation to repay financial liabilities as they fall due.

The Group manages liquidity risk by setting aside appropriate funds for repayment and also by ensuring readily accessible lines of credit from financial institutions and monitoring actual cash flows against forecasts on an ongoing basis.

(iv) Foreign currency risk management

The Tsugami Group operates globally and, with production and sales of subsidiaries in China accounting for an increasing percentage of total production and sales, fluctuations of the Chinese yuan exchange rate in particular may impact the Group's performance.

Overseas export transactions are denominated in yen while overseas subsidiaries conduct sales and purchases locally in the local currency. Foreign currency-denominated trade payables are within the balance of trade receivables denominated in the same foreign currency and the Group believes that it is, by and large, capable of dealing with foreign currency risk.

The Group will continue seeking to balance foreign currency-denominated receivables and payables and will also consider hedging instruments such as forward foreign exchange contracts to hedge its foreign exchange fluctuation risks depending on the situation.

(v) Interest rate risk management

The Group is exposed to various interest rate risks in the course of carrying out its business activities and movements in interest rates have a significant effect on the cost of borrowing in particular.

To reduce interest rate risk, the Group endeavors to properly manage borrowings balances and also considers the use of interest rate swap transactions and other measures where necessary.

(vi) Market risk management

The Group holds listed shares for strategic purposes such as the facilitation of business alliances. The share prices of listed shares are determined based on market principles and market and economic trends may cause price fluctuation. The Group monitors the share prices of listed shares and the financial status of the issuers on a regular basis and continuously reviews its shareholdings in light of its relationships with business partners.

(2) The carrying amount and fair value of financial instruments

The table below shows the carrying amounts and fair values of financial instruments and the differences between them as of March 31, 2020.

(Million yen)

	Carrying amount	Fair value
Assets		
Cash and cash equivalents	10,921	10,921
Trade and other receivables	12,258	12,258
Other financial assets	6,266	6,266
Total	29,447	29,447
Liabilities		
Trade and other payables	9,480	9,480
Borrowings	8,867	8,867
Other financial liabilities	316	316
Total	18,663	18,663

Methods to calculate the fair values of financial instruments are as follows.

(Cash and cash equivalents, Trade and other receivables, and Trade and other payables)

The fair value is based on the carrying amount as the carrying amount approximates fair value due to the short period of settlement terms.

(Other financial assets and Other financial liabilities)

The fair value of listed equity securities is based on quoted market prices at the end of the period. The fair value of non-listed equity securities and investments in capital, etc. is calculated by an appropriate method giving comprehensive consideration to net asset value, important assets held by the investee and other quantitative information.

The fair value of time deposits and other included in other financial assets is based on the carrying amount as the carrying amount approximates fair value due to the short period of settlement terms.

The fair value of lease liabilities included in other financial liabilities is calculated by periodically classifying lease liabilities and discounting them to their present value using a rate which reflects the remaining term and credit risk.

(Borrowings)

The fair value of short-term borrowings is based on the carrying amount as the carrying amount approximates fair value due to the short period of settlement terms.

7. Notes on Per Share Information

(1) Equity attributable to owners of parent per share ¥628.14

(2) Basic earnings per share ¥38.60

8. Notes on Important Post-Balance Sheet Events

Not applicable.

9. Other Notes

Additional information

The COVID-19 pandemic is having far-reaching effects on business operating activities, with rising concerns over global economic slowdown.

The Group's factories in China temporarily suspended operations during the extended Spring Festival holiday ordered by the Chinese Government but are now operating as normal. The Group's Indian factory suspended operations due to lockdown but has now partially resumed operations. The Company judges from the Indian factory's contribution to results in the consolidated financial statements that the impact of this shutdown on the consolidated financial statements for the current consolidated fiscal year and the following consolidated fiscal year will be insignificant.

When making accounting estimates under such conditions, the Tsugami Group is making the best estimates it can based on the information that is currently available.

However, predicting the future impact of the COVID-19 pandemic is difficult and uncertainty about the future may affect the accounting estimates made by the Group.

Information about assumptions and uncertainties surrounding estimates, which are risks that will significantly impact performance in the following consolidated fiscal year, is as follows.

- Valuation of inventories (Please refer to (iv) Inventories of (5) Matters concerning significant accounting policies)
- Impairment losses on non-financial assets (Please refer to (viii) Impairment losses on non-financial assets of (5) Matters concerning significant accounting policies)
- Accounting treatment and valuation of provisions (Please refer to (ix) Provisions of (5) Matters concerning significant accounting policies)
- Measurement of defined benefit plan liabilities (Please refer to (x) Employee benefits accruals of (5) Matters concerning significant accounting policies)

Non- Consolidated Balance Sheet

(As of March 31, 2020)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		**LIABILITIES:**	
Current assets:	**15,242**	**Current liabilities:**	**10,868**
Cash and deposits	3,033	Trade notes payable	3,341
Trade notes receivable	441	Trade accounts payable	1,472
Accounts receivable	3,970	Short-term loans payable	5,000
Merchandise and finished goods	3,495	Accounts payable	243
Work in process	1,241	Accrued expenses payable	223
Raw materials and supplies	1,926	Income taxes payable	16
Consumption taxes receivable	724	Provision for product warranties	264
Other	444	Provision for bonuses	141
Allowance for doubtful accounts	-35	Other	166
Non-current assets:	**16,512**	**Non-current liabilities:**	**1,462**
Property, plant and equipment	2,518	Deferred tax liabilities	581
Buildings	1,822	Provision for retirement benefits	832
Structures	73	Other	48
Machinery and equipment	242	**Total liabilities**	**12,330**
Vehicles	5	**NET ASSETS:**	
Tools, furniture and fixtures	98	**Shareholders' equity:**	**16,400**
Land	246	**Share Capital**	**12,345**
Leased assets	28	**Retained earnings:**	**7,050**
Intangible assets:	**1,241**	Legal retained earnings	367
Telephone subscription right	7	Other retained earnings:	6,682
Software	1,233	Retained earnings brought forward	6,682
Other	0	**Treasury shares**	**-2,994**
Investments and other assets:	**12,753**	**Valuation and translation adjustments:**	**2,432**
Investment securities	5,893	Valuation difference on available-for-sale securities	2,432
Shares of subsidiaries and associates	3,253		
Investments in capital of subsidiaries and affiliates	849	**Share acquisition rights**	**591**
Long-term loans receivable from subsidiaries and affiliates	2,367	**Total net assets**	**19,424**
Prepaid pension cost	183		
Other	205		
Total Assets	**31,755**	**Total Liabilities and Net Assets**	**31,755**

Non- Consolidated Statements of Income

(From April 1, 2019 to March 31, 2020)

(Million yen)

Account title	Amount
Net sales	**25,937**
Cost of sales:	**21,282**
Gross profit	**4,654**
Selling, general and administrative expenses:	**4,253**
Operating profit	**401**
Non-operating income:	**1,368**
Interest income	25
Dividend income	1,205
Insurance income	46
Provision of allowance for doubtful accounts	40
Other	51
Non-operating expenses:	**402**
Interest expenses	81
Loss on sales of notes payable	69
Foreign exchange losses	206
Other	44
Ordinary income	**1,367**
Extraordinary income:	**0**
Gain on sales of investment securities	0
Extraordinary losses:	**311**
Loss on retirement of non-current assets	4
Loss from performance of warranty against defects	307
Profit before taxes	**1,056**
Corporate, inhabitant and enterprise taxes	168
Deferred taxes	84
Profit	**803**

Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2019 to March 31, 2020)

(Million yen)

	Shareholders' equity					
	Share capital	Capital surplus		Retained earnings		
		Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings
					Retained earnings brought forward	
Balance as of April 1, 2019	12,345	—	—	242	7,325	7,568
Cumulative effect of accounting change					-55	-55
Restated balance	12,345	—	—	242	7,269	7,512
Change during the fiscal year						
Cash dividends paid				124	-1,368	-1,244
Profit					803	803
Purchase of treasury shares						
Disposal of treasury shares					-21	-21
Changes in items other than shareholders' equity during the fiscal year (net)						
Total change during the fiscal year	—	—	—	124	-586	-462
Balance as of March 31, 2020	12,345	—	—	367	6,682	7,050

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of April 1, 2019	-2,943	16,970	2,600	2,600	495	20,066
Cumulative effect of accounting change		-55				-55
Restated balance	-2,943	16,914	2,600	2,600	495	20,010
Change during the fiscal year						
Cash dividends paid		-1,244				-1,244
Profit		803				803
Purchase of treasury shares	-123	-123				-123
Disposal of treasury shares	72	50				50
Changes in items other than shareholders' equity during the fiscal year (net)			-168	-168	95	-72
Total change during the fiscal year	-51	-513	-168	-168	95	-586
Balance as of March 31, 2020	-2,994	16,400	2,432	2,432	591	19,424

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 of Accounting Policy

Application of Accounting Standard for Revenue Recognition

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, hereinafter referred to as "Revenue Recognition Accounting Standard") and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018), applicable from the consolidated fiscal year beginning April 1, 2018, has been applied from the beginning of the fiscal year under review. When the control of the promised goods or services is transferred to the customer, the Company recognizes revenue as the amount expected to be received in exchange for the goods or services.

Previously the Company recognized revenue for certain sales of goods transactions at the time of shipment. However, given that performance obligations are satisfied when, in light of the contract terms, the customer obtains control over the product, the Group decided to recognizes revenue for such transactions either upon the product's arrival with/acceptance by the customer or based on trade terms, etc..

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative total effect in case of retroactively applying the new accounting policy to before the start of the fiscal year under review is adjusted in retained earnings at the start of the fiscal year under review and the new accounting policy is applied from this initial balance. As a result, net sales, cost of sales, operating profit, ordinary profit, profit before tax and profit for the fiscal year under review decreased by 17 million yen, 43 million yen, 46 million yen, 55 million yen, 55 million yen and 38 million yen, respectively. The balance of retained earnings at the beginning of the fiscal year under review decreased by 55 million yen.

The impact on profit per share for the fiscal year under review is insignificant.

3. Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment	¥5,646 million
(2) Discounted notes receivable	¥420 million
Discounts on export bills receivable	¥3,446 million
(3) Direct write-off amount of allowance for doubtful accounts from assets	
Investments and other assets	¥11 million
(4) Monetary receivables and payables from/to subsidiaries and associates are as follows.	
(i) Short-term monetary receivables	¥2,302 million
(ii) Long-term monetary receivables	¥2,378 million
(iii)Short-term monetary payables	¥675 million

4. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

(1) Transactions by business transactions	
Sales	¥6,188 million
Purchases	¥7,467 million
Selling, general and administrative expenses	¥140 million
(2) Transactions other than business transactions	
Dividend income	¥1,009 million
Other	¥40 million

5. 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	3,192 thousand	177 thousand	78 thousand	3,291 thousand

Note The increase of 177 thousand treasury shares of common stock is due to the purchase of treasury shares on the open market.
The decrease in common shares of treasury stock of 78 thousand shares was due to the exercise of stock options.

6. 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.

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

Not applicable.

8. 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: 100.0%	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	4,071	Accounts receivable	725
				Purchase of products of the company (Note1)	6,436	Accounts payable	572
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)	277	Accounts receivable	491
Subsidiary	TSUGAMI Universal Pte. 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)	404	Accounts receivable	526
Subsidiary	TSUGAMI PRECISION ENGINEERING INDIA PVT.LTD.	(Owning) Direct: 75.7% Indirect: 15.1%	Manufacture and sales of products of the Company Concurrent service by directors	Sales of the Company's products and parts (Note1)	518	Accounts receivable	274
				Lending of funds (Note2)	2,050	Long-term loans receivable	2,378

Business terms and policies for their determination, etc.

Notes 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.

9. Notes on Per Share Information

(1) Net assets per share ¥364.21

(2) Net income per share ¥15.50

10. Notes on Revenue Recognition

The Company is engaged in the manufacture and sale of machine tools and the provision of services such as maintenance and repair services. With regard to the sales of machine tools and machine tool parts, performance obligations are satisfied when, in light of the contract terms, the customer obtains control over the product and the Company recognizes revenue either upon the product's arrival with/acceptance by the customer or based on trade terms, etc. With regard to machine tool-related services, performance obligations are satisfied when provision of the service is complete and the Company recognizes revenue at such time.

11. Notes on Important Post-Balance Sheet Events

Not applicable.

Accounting Audit Report on Consolidated Financial Statements

Independent Auditors' Report

May 25, 2020

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

Auditor's opinion
We have audited, pursuant to Article 444 (4) of the Companies Act of Japan, the consolidated financial statements, which consist of the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of changes in equity and notes to the consolidated financial statements of Tsugami Corporation (the "Company") for the consolidated fiscal year from April 1, 2019 to March 31, 2020.
In our opinion, the consolidated financial statements referred to above, prepared with partial omission of the disclosures required under International Financial Reporting Standards pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Rules of Corporate Accounting, present fairly, in all material respects, the financial position and the results of operations of the Company and its consolidated subsidiaries for the period for which the consolidated financial statements were prepared.

Basis for Auditor's Opinion
We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility as an auditor is set out under "Auditor's Responsibility in Auditing Consolidated Financial Statements." In accordance with Japanese regulations on professional ethics, we are independent of the Company and its consolidated subsidiaries, and fulfill our other ethical obligations as independent auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and the Audit and Supervisory Committee in relation to the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Rules of Corporate Accounting which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards, and for the development and implementation of such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
Management is responsible for deciding whether it is appropriate to prepare consolidated financial statements with the premise of a going concern and to disclose matters relating to the ability to continue as a going concern, if required, pursuant to the second sentence of the first paragraph of Article 120 of the Rules of Corporate Accounting that prescribes some omissions of disclosure items under International Financial Reporting Standards.
The responsibility of the Audit and Supervisory Committee is to oversee directors' execution of duties in preparing and operating financial reporting processes.

Auditor's Responsibility in Auditing Consolidated Financial Statements
The Auditor's responsibility is to express an opinion from an independent perspective on the consolidated financial statements based on our audit. As Auditor we are required to perform the audit to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may occur due to fraud or error. Misstatements are determined to be material if, singly or collectively, they are reasonably expected to affect the decision-making of users of the consolidated financial statements.

Audits are performed in accordance with auditing standards generally accepted in Japan. In the process of performing such audits, the Auditor makes professional judgments and performs the following while maintaining an attitude of professional skepticism.

- Identify and assess risks of material misstatement due to fraud or error. Also, design and implement audit procedures in response to risks of material misstatement. The selection and application of audit procedures will be at the Auditor's discretion. The Auditor must also obtain sufficient and appropriate audit evidence as a basis for expressing an opinion.
- While the objective of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Company's internal control, when performing risk assessment, the Auditor must consider audit-related internal control to design audit procedures that are appropriate to the circumstances.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the validity of the footnotes of the consolidated financial statements.
- Arrive at a conclusion regarding the appropriateness of management preparing consolidated financial statements with a going concern premise, and whether, based on obtained audit evidence, there are any material uncertainty exists regarding matters or circumstances that may cast substantial doubt on the going concern premise. If material uncertainty regarding the going concern premise is found to exist, the Auditor is required to draw attention to it in the footnotes of the consolidated financial statements. If a footnote entry on material uncertainty regarding the going concern premise in the consolidated financial statements is not appropriate, the Auditor is required to express a qualified opinion on the consolidated financial statements. The Auditor's conclusions are based on audit evidence obtained on or before the Audit Report date, but the risk remains that the company is unable to survive as a going concern due to matters or circumstances in the future.
- The Auditor must evaluate whether the representations and footnotes in the consolidated financial statements are in accordance with the second sentence of the first paragraph of Article 120 of the Rules of Corporate Accounting that prescribes some omissions of disclosure items required under International Financial Reporting Standards, and whether the representations, composition, and content of the consolidated financial statements (including related footnotes) and the consolidated financial statements themselves present fairly the transactions and accounting matters on which they are based.
- The Auditor must obtain sufficient and appropriate audit evidence relating to the financial information of the Company and its consolidated subsidiaries necessary to express an opinion on the consolidated financial statements. The Auditor is responsible for instructions for, and supervision and implementation of, the auditing of consolidated financial statements. The Auditor is solely responsible for its audit opinion.

The Auditor must report to the Audit and Supervisory Committee the scope and schedule of the planned audit, material findings of the audit (including material internal control irregularities detected during the audit), and any other matters required in accordance with auditing standards.

The Auditor must report to the Audit and Supervisory Committee that it has complied with Japanese regulations on professional ethics regarding independence, any matters that may reasonably be considered to affect the independence of the Auditor, and safeguards (if any) to remove or mitigate any obstacles to independence.

Conflicts of Interest

Neither the Auditor nor its engagement partners have any interest in the Company or its consolidated subsidiaries that should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Accounting Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report

May 25, 2020

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

Auditor's opinion
We have audited, pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act of Japan, the non-consolidated financial statements, namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements and the related supplementary schedules, of Tsugami Corporation (the "Company") for the 117th fiscal year from April 1, 2019 through March 31, 2020.

In our opinion, the non-consolidated financial statements 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 in conformity with business accounting standards generally accepted in Japan.

Basis for Auditor's Opinion
We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility as an auditor is set out under "Auditor's Responsibility in Auditing Financial Statements". In accordance with Japanese regulations on professional ethics, we are independent of the Company, and fulfill our other ethical obligations as independent auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and the Audit and Supervisory Committee in relation to the Financial Statements
Management is responsible for preparing and appropriately presenting non-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 non-consolidated financial statements that do not have material misstatements due to wrong doing or error.
Management is responsible for deciding whether it is appropriate to prepare financial statements with the premise of a going concern and to disclose matters relating to the ability to continue as a going concern, if required, pursuant to business accounting standards generally accepted in Japan.
The responsibility of the Audit and Supervisory Committee is to oversee directors' execution of duties in preparing and operating financial reporting processes.

Auditor's Responsibility in Auditing Financial Statements
The Auditor's responsibility is to express an opinion from an independent perspective on the financial statements based on our audit. As Auditor we are required to perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. Misstatements may occur due to fraud or error. Misstatements are determined to be material if, singly or collectively, they are reasonably expected to affect the decision-making of users of the financial statements.
Audits are performed in accordance with auditing standards generally accepted in Japan. In the process of performing such audits, the Auditor makes professional judgments and performs the following while maintaining an attitude of professional skepticism.

- Identify and assess risks of material misstatement due to fraud or error. Also, design and implement audit procedures in response to risks of material misstatement. The selection and application of audit procedures will be at the Auditor's discretion. The Auditor must also obtain sufficient and appropriate audit evidence as a basis for expressing an opinion.
- While the objective of the financial statement audit is not to express an opinion on the effectiveness of the Company's internal control, when performing risk assessment, the Auditor must consider audit-related internal control to design audit procedures that are appropriate to the circumstances.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the validity of the footnotes of the financial statements.
- Arrive at a conclusion regarding the appropriateness of management preparing financial statements with a going concern premise, and whether, based on obtained audit evidence, there are any material uncertainty exists regarding matters or

circumstances that may cast substantial doubt on the going concern premise. If material uncertainty regarding the going concern premise is found to exist, the Auditor is required to draw attention to it in the footnotes of the financial statements. If a footnote entry on material uncertainty regarding the going concern premise in the financial statements is not appropriate, the Auditor is required to express a qualified opinion on the financial statements. The Auditor's conclusions are based on audit evidence obtained on or before the Audit Report date, but the risk remains that the company is unable to survive as a going concern due to matters or circumstances in the future.

- The Auditor must evaluate whether the representations and footnotes in the financial statements are in accordance with business accounting standards generally accepted in Japan, and whether the representations, composition, and content of the financial statements (including related footnotes) and the financial statements themselves present fairly the transactions and accounting matters on which they are based.

The Auditor must report to the Audit and Supervisory Committee the scope and schedule of the planned audit, material findings of the audit (including material internal control irregularities detected during the audit), and any other matters required in accordance with auditing standards.

The Auditor must report to the Audit and Supervisory Committee that it has complied with Japanese regulations on professional ethics regarding independence, any matters that may reasonably be considered to affect the independence of the Auditor, and safeguards (if any) to remove or mitigate any obstacles to independence.

Conflicts of Interest
Neither the Auditor nor its engagement partners have any interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Report by the Board of audit and supervisory committee

Auditors' Report

The Audit and Supervisory Committee regularly received reports on Board of Directors resolutions related to the provisions of Article 399-13 (1) (i) (b) and (c) of the Company Law, and the development and operation of a system established in accordance with the resolutions (internal control system) from Directors and employees, etc., requested explanations as needed, and expressed its opinions. At the same time, the committee carried out an audit in a way described below:

(i) Following the audit policy, sharing of duties, etc. set by the Audit and Supervisory Committee, the members of the committee collaborated with the Company's internal control division, attended important meetings, received reports from Directors, employees and other sources on the execution of their duties, etc., requested explanations as needed, viewed important documents on decisions, and studied the state of operations and assets at Tsugami Corporation and its principal offices. With respect to subsidiaries, the Audit and Supervisory Committee sought to communicate and exchange information with their Directors and Statutory Auditors and received from subsidiaries reports on their operation as needed.

(ii) The Audit and Supervisory Committee monitored the audit by the Independent Auditors and verified their independence and proper execution of the audit. The committee received reports from the Independent Auditors on their execution of duties and requested explanations as needed. In addition, the Audit and Supervisory Committee received from the Independent Auditors a notice stating that they were developing a "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) etc. and requested explanations as needed.

Based on the aforementioned methods, the Audit and Supervisory Committee examined the Company's business report and its supplementary schedules, non-consolidated financial statements (balance sheets, statements of income, statements of changes in equity, and notes to financial statements) and their supplementary schedules, and consolidated financial statements (balance sheets, statements of income, statements of changes in equity and notes to financial statements) for the fiscal year under review.

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 27, 2020

The Audit and Supervisory committee
Tsugami Corporation

Kenji Yoneyama
Standing members of the Audit and Supervisory committee

Takeo Nakagawa
Members of the Audit and Supervisory committee

Koichi Maruno
Members of the Audit and Supervisory committee

Kunio Shimada
Members of the Audit and Supervisory committee

(Note) The members of the Audit and Supervisory committee Takeo Nakagawa, Koichi Maruno and Kunio Shimada are outside statutory auditors stipulated in Article 2, Item 15 and Article 331, Paragraph 6 of the Company Law.

Reference Materials for the Annual Shareholders Meeting

Item 1: Appointment of Seven Directors (excluding directors who are members of the Audit and Supervisory committee)

The term of office for all (seven) Directors (excluding directors who are members of the audit and supervisory committee ; the same applies hereinafter in this item) shall expire at the close of this Annual Shareholders Meeting.

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

We have received an opinion from the Audit and Supervisory Committee to the effect that all the director candidates are qualified.

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

<table>
<tr><th>Candidate number</th><th>Name
(Date of birth)</th><th colspan="2">Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)</th><th>Number of shares in the Company held</th></tr>
<tr><td rowspan="2">1</td><td>Takao Nishijima
(December 14, 1947)</td><td>May 1999

Jun. 2000

Apr. 2003
Apr. 2006
Apr. 2012</td><td>Joined the Company
General Manager of the Sales Development Division of the Company
Managing Director of Tsugami Kohan Co., Ltd.
Director and General Manager of the Sales Development Division, Control Headquarters
Representative Director, Chairman and CEO
Representative Director, Chairman and CEO
Representative Director, Chairman and CEO (current positions)</td><td>10 thousand</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director)
Mr. Takao Nishijima has helped improve the Group’s corporate value by driving the Group as a whole and making improvements such as developing global business operations and strengthening corporate governance. The Company expects that Mr. Nishijima will continue to drive the Group’s business forward and further strengthen its management structure and has once again nominated him as a candidate for Director.</td></tr>
<tr><td rowspan="2">2</td><td>Seiji Tsuishu
(April 8, 1961)
[New appointment]</td><td>Apr. 1985
Jun. 2014

Apr. 2020

May 2020</td><td>Joined the Mitsubishi Bank, Ltd. (now MUFG Bank, Ltd.)
Director and Managing Executive Officer of Mitsubishi UFJ NICOS Co., Ltd.
Full-time Advisor and General Manager of the Administration Division of the Company
Administration Manager (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director)
Mr. Seiji Tsuishu has worked for financial institutions for many years and has also gained extensive experience and deep insight as manager of business administration. The Company would like to take advantage of Mr. Tsuishu’s experience and insight for the Group’s sustainable growth and improvement of its corporate value and has nominated him as candidate for Director.</td></tr>
</table>

<table>
<tr><th>Candidate number</th><th>Name
(Date of birth)</th><th colspan="2">Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)</th><th>Number of shares in the Company held</th></tr>
<tr><td rowspan="2">3</td><td>Byun Jae- Hyun
(July 10, 1956)</td><td>Jan. 2010

Jun. 2012

Sep. 2014</td><td>Joined the Company
President of TSUGAMI KOREA Co., Ltd.
Director, Senior Executive Officer, Overseas division
President of TSUGAMI KOREA Co., Ltd.
Director, Senior Advisor
President of TSUGAMI KOREA Co., Ltd. (current positions)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director)
Mr. Byun Jae-Hyun has been involved in the management of the Company’s overseas subsidiaries for many years and contributed to global business expansion. The Company judges that Mr. Jae-Hyun’s extensive experience and deep insight are essential for the Group’s sustainable growth and improvement of its corporate value and has once again nominated him as a candidate for Director.</td></tr>
<tr><td rowspan="2">4</td><td>Kameswaran Balasubramanian
(March 28, 1960)</td><td>1983

Apr. 2013

Apr. 2014

Jun. 2018</td><td>Master of Science (physics), Indian Institutes of Technology Delhi
Founder and President of PROTECK MACHINERY LTD. (current position)
Director, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.
President, TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD. (current position)
Director, Senior Advisor (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director)
Mr. Kameswaran Balasubramanian has been involved in the management of the Company’s overseas subsidiaries for many years and contributed to global business expansion. The Company judges that Mr. Jae-Hyun’s extensive experience and deep insight are essential for the Group’s sustainable growth and improvement of its corporate value and has once again nominated him as a candidate for Director.</td></tr>
<tr><td rowspan="2">5</td><td>Donglei TANG
(November 27, 1962)</td><td>Nov. 2005

Jun. 2010

Feb. 2017

Jun. 2018</td><td>Joined the Company
Director, Managing Executive Officer in Charge of China Operations of the Company
Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION
Vice Chairman and CEO of PRECISION TSUGAMI (CHINA) CORPORATION (current position)
Director of Precision Tsugami (Hong Kong) Limited (current position)
Executive director of Precision Tsugami (China) Corporation Limited (current position)
Director, Senior Advisor (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director)
Mr. Donglei TANG has been involved in the management of the Company’s overseas subsidiaries for many years and contributed to global business expansion. The Company judges that Mr. Jae-Hyun’s extensive experience and deep insight are essential for the Group’s sustainable growth and improvement of its corporate value and has once again nominated him as a candidate for Director</td></tr>
</table>

<table>
<tr><th>Candidate number</th><th>Name
(Date of birth)</th><th colspan="2">Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)</th><th>Number of shares in the Company held</th></tr>
<tr><td rowspan="2">6</td><td>Ken Kubo
(November 20, 1953)
[New appointment]
[Outside Director]</td><td>Apr. 1977
Nov. 2009
Apr. 2013

Jun. 2013
Jun. 2015
Apr. 2019</td><td>Joined the Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)
President and CEO of Promise Co. Ltd. (now SMBC Consumer Finance Co., Ltd.)
Deputy President and Executive Officer of Sumitomo Mitsui Financial Group, Inc.
Deputy President and Executive Officer of Sumitomo Mitsui Banking Corporation
Representative Director of Mitsui Sumitomo Financial Group
President and CEO of Sumitomo Mitsui Card Co., Ltd.
Special Advisor of Sumitomo Mitsui Card Co., Ltd. (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Outside Director)
Mr. Ken Kubo has worked for financial institutions for many years and has extensive experience and deep insight as a business manager. The Company expects that Mr. Kubo will draw on this experience and insight to provide the Company with useful opinions and sincere guidance on its management and has nominated him as candidate for Outside Director.</td></tr>
<tr><td rowspan="2">7</td><td>Koichi Maruno
(July 29, 1956)
[New appointment]
[Outside Director]</td><td>Apr. 1980
Mar. 2015
Oct. 2016
Oct. 2016
Apr. 2017

Jun. 2018</td><td>Joined the Daiichi Mutual Life Insurance Company (now The Dai-ichi Life Insurance Company, Limited)
Outside auditor of SHIZUOKA GAS Co., Ltd. (current position)
Senior Managing Executive Officer of Dai-ichi Life Holdings, Inc
Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited
Representative Director, President of The Dai-ichi Life Research Institute INC (current position)
Director of the Company (Members of the Audit and Supervisory Committee) (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Outside Director)
Mr. Koichi Maruno is currently an Outside Director and Member of the Audit and Supervisory Committee of the Company and he fully performs his duties based on his extensive knowledge and experience of economics and business management. The Company would like to draw on Mr. Maruno's extensive knowledge and experience in the supervision of the Company's management and has, therefore, nominated him as candidate for Outside Director.</td></tr>
</table>

Notes 1. Mr. Ken Kubo served as Director of Sumitomo Mitsui Financial Group, Inc. until April 2015. Its affiliate, Sumitomo Mitsui Banking Corporation, is one of the Company's main financial institutions.

2. Mr. Koichi Maruno served as Director of The Dai-ichi Life Insurance Company, Limited until March 2017. The Company has entered into insurance contracts mainly for corporate pension insurance with The Dai-ichi Life Insurance Company, Limited but the amount of these contracts is within the normal business range. Mr. Maruno is currently an Outside Director (and member of the Audit and Supervisory Committee) of the Company and his term of office as Outside Director is two years at the close of this annual shareholders meeting.

3. No special interest exists between the Company and each of the other candidates for the position of Director.

4. The Company has executed an agreement with Mr. Koichi Maruno 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 limited amount of liability for damages under the said agreement is the minimum liability stipulated under laws. If Mr. Maruno is appointed as Outside Director, the Company will renew this agreement. If Mr. Ken Kubo is appointed, the Company will execute a similar agreement with him.

Item 2: Appointment of Five Directors Who Are Members of the Audit and Supervisory Committee

The term of office for all four Directors who are Members of the Audit and Supervisory Committee shall expire at the close of this Annual Shareholders Meeting.

We therefore propose the appointment of five Directors (four of whom are Outside Directors) who are Members of the Audit and Supervisory Committee, increasing the number of Outside Directors by one to strengthen the audit structure.

We have obtained the consent of the Audit and Supervisory Committee to this proposal. The candidates for Directors who are Members of the Audit and Supervisory Committee are as follows:

<table>
<tr><th>Candidate number</th><th>Name
(Date of birth)</th><th colspan="2">Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)</th><th>Number of shares in the Company held</th></tr>
<tr><td rowspan="2">1</td><td>Kenji Yoneyama
(March 7, 1965)</td><td>Apr. 1988
Apr. 2015
Apr. 2016
Jun. 2017
Jun. 2018</td><td>Joined The Hokuetsu Bank, Ltd.
Advisor of Accounting of the Company
General Manager of Accounting
Standing Statutory Auditor of the Company
Director of the Company (Members of the Audit and Supervisory Committee) (current position)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Director who is a Member of the Audit and Supervisory Committee)
The Company would like to draw on Mr. Kenji Yoneyama’s experience of working for financial institutions and practical experience of being in charge of accounting at the Company in audits and supervision of the Company and has once again nominated him as a candidate for Director who is a Member of the Audit and Supervisory Committee.</td></tr>
<tr><td rowspan="2">2</td><td>Yoshimi Takeuchi
(August 21, 1948)
[New appointment]
[Outside Director]
[Independent Officer]</td><td>Jan. 1978
Jan. 1988
Jun. 2002
Sep. 2011
Apr. 2017
Apr. 2019</td><td>Assistant Professor at Kyushu Institute of Technology
Professor at the University of Electro-Communications
Professor at the Graduate School of Engineering Science, Osaka University
Professor at the College of Engineering, Chubu University
Honorary Professor at Osaka University (current positions)
Vice-President of Chubu University
Advisor to the Chancellor and Professor at Chubu University (current positions)</td><td>0</td></tr>
<tr><td colspan="4">(Reason for nomination as candidate for Outside Director who is a Member of the Audit and Supervisory Committee)
Mr. Yoshimi Takeuchi has been involved in research into machine tools and production and machining systems for many years and he is also very familiar with areas related to the Company’s business. On this basis, the Company has nominated him as a candidate for Outside Director who is a Member of the Audit and Supervisory Committee.</td></tr>
</table>

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	Kenyu Adachi (July 27, 1952) [New appointment] [Outside Director] [Independent Officer]	Apr. 1977 Jul. 2007 Jul. 2008 Jun. 2010 Aug. 2011 Jun. 2014 Jun. 2016	Joined the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry (METI)) Director-General of Trade and Economic Cooperation Bureau, METI Director-General of Minister's Secretariat, METI Director-General of Economic and Industrial Policy Bureau, METI Vice-Minister of Economy, Trade and Industry Outside Director of Asahi Kasei Corporation Outside Director of Toyo Engineering Corporation President of the Shoko Chukin Bank, Ltd.	0
	(Reason for nomination as candidate for Outside Director who is a Member of the Audit and Supervisory Committee) Mr. Kenyu Adachi has many years of experience and deep insight in relation to all industry sectors including the machine tools industry in which the Company operates. On this basis, the Company has nominated him as a candidate for Outside Director who is a Member of the Audit and Supervisory Committee.			
4	Kunio Shimada (August 16, 1959) [Outside Director] [Independent Officer]	Apr. 1986 Oct. 1991 Jul. 2010 Jun. 2011 Nov. 2013 Jun. 2018	Registered as an attorney in Tokyo Bar Association Admitted to New York State Bar Association Representative Partner of Shimada Hamba & Osajima (current position) Outside Director of the Company Supervisory Officer of Hulic Reit, Inc. (current position) Outside Director (who is a Member of the Audit and Supervisory Committee) of the Company (current position)	0
	(Reason for nomination as candidate for Outside Director who is a Member of the Audit and Supervisory Committee) Mr. Kunio Shimada has extensive experience and deep insight as an attorney and he is also familiar with corporate law and has a great deal of knowledge of business management in general. On this basis, the Company has nominated him once again as a candidate for Outside Director who is a Member of the Audit and Supervisory Committee.			
5	Michiyo Yamamiya (July 26, 1969) [New appointment] [Outside Director] [Independent Officer]	Apr. 1998 Sep. 2005 Jul. 2010 Jan. 2011	Registered as an attorney in Tokyo Bar Association Admitted to New York State Bar Association Joined Tanabe & Partners Partner at Tanabe & Partners (current position)	0
	(Reason for nomination as candidate for Outside Director who is a Member of the Audit and Supervisory Committee) Ms. Michiyo Yamamiya has extensive experience and deep insight as an attorney and she is also familiar with corporate law and has a great deal of knowledge of business management in general. On this basis, the Company has nominated her as a candidate for Outside Director who is a Member of the Audit and Supervisory Committee.			

Notes 1. No special interest exists between the Company and each of the candidates for the position of Director.

2. Mr. Kunio Shimada is currently an Outside Director who is a Member of the Audit and Supervisory Committee of the Company. His term of office as Outside Director who is not a Member of the Audit and Supervisory Committee is seven years and his term of office as an Outside Director who is a Member of the Audit and Supervisory Committee is two years at the close of this annual shareholders meeting.

3. The Company has executed an agreement with 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. The limited amount of liability for damages under the said agreement is the minimum liability stipulated under laws. If Mr. Shimada is reappointed,

the Company will renew this agreement. If Mr. Yoshimi Takeuchi, Mr. Kenyu Adachi and Ms. Michiyo Yamamiya are appointed, the Company will execute similar agreements with them.

4. The Company designated Mr. Kunio Shimada as an independent officer pursuant to the provisions of the Tokyo Stock Exchange (TSE) and registered him with the TSE. If Mr. Shimada is reappointed, the Company will continue to designate him as an independent officer. The Company judges that Mr. Yoshimi Takeuchi, Mr. Kenyu Adachi and Ms. Michiyo Yamamiya meet the independence requirements of the TSE and if they are appointed, the Company will register them as independent officers with the TSE.
5. The Company has executed an agreement with Mr. Shigeru Nishiyama and 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. When Mr. Nishiyama and Mr. Yoshida are reappointed as Directors, the Company will execute an agreement with these two 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: 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 800.
   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 80,000 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.