

Stock code: 6101
May 30, 2011

To our shareholders,

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

Notice of the 108th Annual Shareholders Meeting

We would like to take this opportunity to express our heartfelt sympathy to all those affected by the Great East Japan Earthquake. We look forward to the earliest recovery of the affected areas.

You are cordially invited to attend the 108th Annual Shareholders Meeting of TSUGAMI CORPORATION (the “Company”), to be held as set forth below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing. Please review the attached reference materials and exercise your vote by indicating “for” or “against” for each agenda item listed on the enclosed proxy card, affix your seal and return it to us no later than 5:30 p.m. on Thursday, June 16, 2011.

Meeting Details

- 1. Date & Time** 10:00 am, Friday, June 17, 2011
- 2. Venue** Conference Room at the Company’s Nagaoka Factory at 1-1-1 Higashizao, Nagaoka-shi, Niigata Prefecture. (Please refer to the attached map.)

3. Agenda:

Items to be reported

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Corporate Auditors for the 108th term, from April 1, 2010 to March 31, 2011, will be reported at the meeting.
2. The Non-Consolidated Financial Statements for the 108th term, from April 1, 2010 to March 31, 2011, will be reported at the meeting.

Items to be resolved

Item 1: Revision of the Articles of Incorporation

Item 2: Appointment of Eight Directors

Item 3: Appointment of Two Statutory Auditors

Item 4: Appointment of One Reserve Statutory Auditor

Item 5: Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers of the Company and employees with similar positions

Item 6: Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

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

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

(Attachment)

Business Report

(From April 1, 2010 to March 31, 2011)

I. Current Status of the Group

(1) Business Performance for the Fiscal Year Ended March 31, 2011

(i) Business Progress and Results

The Japanese economy recovered moderately during the consolidated fiscal year under review, backed by exports to China and other emerging countries in Asia. Uncertainty over the future of the economy increased, reflecting concern over a slowdown due to a strong yen from the second half and anxiety about the repercussions of the recent Great East Japan Earthquake and electric power shortages associated with the earthquake.

In the machine tool industry, demand from abroad, especially China and other emerging countries in Asia, grew steadily, and there were signs of a recovery in domestic demand. However, concern about the future of the industry is rising because of the recent situation.

In this environment, Tsugami Corporation (the “Company”) and its affiliates (the “Group”) were proactive in seeking to supply precision machine tools to markets based on the precision processing knowhow they have accumulated over the years to meet demands in emerging countries such as China as well as the advancing needs of customers in IT and related industries.

To deal with the appreciation of the yen and make its products more price competitive, the Group worked to review and streamline its production systems by taking steps such as raising production at Chinese factories.

Consolidated net sales for the fiscal year under review rose 130.4% year on year, to 35,932 million yen.

Consolidated net sales in Japan increased 119.5% year on year, to 9,540 million yen. Consolidated exports climbed 134.6% year on year, to 26,392 million yen. The export ratio rose from 72.1% for the previous fiscal year, to 73.4%.

Looking at net sales by model, consolidated net sales for flagship automatic lathes rose 155.5% year on year, to 29,925 million yen, as a result of increases in sales to the IT and related industries, including the hard disc drive (HDD) industry. Consolidated net sales for grinding machines climbed 130.1% year on year, to 2,295 million yen, reflecting a recovery in sales to auto parts manufacturers. Consolidated net sales for machining centers increased 165.3% year on year, to 1,431 million yen. Consolidated net sales for rolling machines and specialized machines fell 12.0% year on year, to 1,614 million yen.

As a result of changes described above, consolidated operating income stood at 3,732 million yen (compared with 84 million yen for the previous fiscal year). The Group posted consolidated ordinary income of 3,504 million yen (a consolidated loss of 117 million yen for the previous fiscal year) and consolidated net income of 2,837 million yen (a consolidated net loss of 244 million yen) for the fiscal year under review.

(ii) Capital Investments Activities

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

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

Total investments amounted to 1,124 million yen, 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	105 th term ended March 31, 2008	106 th term ended March 31, 2009	107 th term ended March 31, 2010	108 th term ended March 31, 2011
Net sales	28,495	22,687	15,598	35,932
Ordinary income (loss)	2,756	626	-117	3,504
Net income (loss)	1,629	-873	-244	2,837
Net income (loss) per share	23.03 yen	-12.88 yen	-3.65 yen	42.72 yen
Total assets	32,732	25,703	31,147	35,860
Net assets	21,916	19,718	19,882	22,122

(3) Status of Parent Company and Principal Subsidiaries

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
Tsugami Machinery Co., Ltd.	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
Tsugami General Service Co., Ltd.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations
Tsugami Precision Co., Ltd.	10 million yen	100.0%	Manufacturing of measuring equipment and prototype standard
Precision Tsugami (China) Corporation	112 million yuan	100.0%	Manufacturing and sales of machine tools

(4) Challenges to Address

(Challenges in the medium to long term)

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

(i) Introduction of new products targeting growth fields

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

(ii) Business strategies targeting growth regions

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

The business alliance with Tornos S.A. in Switzerland in the production and sale of machine tools has been producing effects steadily.

(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.

(Immediate Challenges)

The Group will seek to minimize the impact of the Great East Japan Earthquake that occurred in March and the associated power outages on the Group's businesses, as uncertainty over the future of business activities is increasing because of the effect of the earthquake.

(5) Principal Businesses (as of March 31, 2011)

Manufacturing and sale of precision machine tools and precision tools

(6) Main Offices and Factories (as of March 31, 2011)

(i) Tsugami Corporation

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

(ii) Subsidiaries

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

(7) Employees (as of March 31, 2011)**(i) Employees of the Tsugami Group**

Number of employees	Change from the end of the previous term
899 (192)	Up 329 (Up 10)

Note The number of employees consists of full-time workers excluding part-time and temporary workers. The annual average number of part-time and temporary workers is presented in brackets. The number of employees rose 329 from the end of the previous fiscal year because of a change in the employment agreements for temporary employees at Precision Tsugami (China) Corporation in the fiscal year under review.

(ii) Employees of Tsugami Corporation

Number of employees	Change from the end of the previous term	Average age	Average service years
511 (177)	Down 6 (Up 130)	43.0 years old	18.1 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, 2011)

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	500 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	500 million yen
Mizuho Bank, Ltd.	500 million yen
Sumitomo Mitsui Banking Corporation (China) Limited	196 million yen (15 million yuan)
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	196 million yen (15 million yuan)
Mizuho Corporate Bank (China), Ltd.	196 million yen (15 million yuan)

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

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

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

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

The Company has decided to pay an annual dividend of ¥10 per share, an interim dividend of ¥5, and a year-end dividend of ¥5, as planned in the fiscal year ended March 31, 2011.

The Company plans to pay an annual dividend of ¥10 per share, an interim dividend of ¥5 and a year-end dividend of ¥5, in the fiscal year ending March 31, 2012.

II. Current Status of the Company

(1) Shares (as of March 31, 2011)

- (i) Number of authorized shares: 320,000,000
(ii) Number of shares outstanding: 68,019,379
(iii) Number of shareholders: 11,929
(iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	6.97
Morgan Stanley and Company Inc. (Standing agency: Morgan Stanley MUFG Securities Co., Ltd.)	3,517	5.33
Goldman Sachs and Company Regular Account (Standing agency: Goldman Sachs Japan Co., Ltd.)	2,379	3.61
The Dai-ichi Life Insurance Company, Limited	2,100	3.18
Mori Seiki Co., Ltd.	2,000	3.03
Japan Trustee Services Bank, Ltd. (trust account)	1,908	2.89
The Master Trust Bank of Japan, Ltd. (trust account)	1,765	2.67
Sumitomo Mitsui Banking Corporation	1,516	2.30
The Hokuetsu Bank, Ltd.	1,484	2.25
Tsugami Customers' Shareholding Association	1,221	1.85

- Notes
1. In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
 2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.50% of the stock).
 3. Although the Company holds 2,140 thousand shares of treasury stock, it is excluded from the list of major shareholders.

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

(i) Subscription rights to shares held by directors (as of March 31, 2011)

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of subscription rights to shares		109	45
Type and number of shares underlying subscription rights to shares		Common shares: 109,000 (1,000 shares per subscription rights to share)	Common shares: 45,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	608 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of subscription rights to shares held: 68 Number of shares to be issued: 68,000	Number of holders: 2 Number of subscription rights to shares held: 34 Number of shares to be issued: 34,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 17 Number of shares to be issued: 17,000	Number of holders: 1 Number of subscription rights to shares held: 11 Number of shares to be issued: 11,000
Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		38	59
Type and number of shares underlying subscription rights to shares		Common shares: 38,000 (1,000 shares per subscription rights to share)	Common shares: 59,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 13 Number of shares to be issued: 13,000	Number of holders: 2 Number of subscription rights to shares held: 46 Number of shares to be issued: 46,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 13 Number of shares to be issued: 13,000

Date of relevant resolution		June 22, 2007	June 20, 2008
Number of subscription rights to shares		60	62
Type and number of shares underlying subscription rights to shares		Common shares: 60,000 (1,000 shares per subscription rights to share)	Common shares: 62,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	279 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 18 Number of shares to be issued: 18,000	Number of holders: 3 Number of subscription rights to shares held: 41 Number of shares to be issued: 41,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000
Date of relevant resolution		June 20, 2008	June 19, 2009
Number of subscription rights to shares		47	800
Type and number of shares underlying subscription rights to shares		Common shares: 47,000 (1,000 shares per subscription rights to share)	Common shares: 800,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	Gratuitous
Amount to be paid for the exercise of subscription rights to shares		One yen per share	225 yen per share
Exercise period		From July 8, 2008 to July 7, 2028	From July 7, 2011 to June 30, 2014
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Conditions are specified by resolutions of the Board of Directors of the Company and Subscription Rights to Shares Allocation Agreements between the Company and persons to receive subscription rights to shares based on the resolutions.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 11 Number of shares to be issued: 11,000	Number of holders: 5 Number of subscription rights to shares held: 142 Number of shares to be issued: 142,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 24 Number of shares to be issued: 24,000

Date of relevant resolution		June 19, 2009		June 19, 2009	
Number of subscription rights to shares		152		105	
Type and number of shares underlying subscription rights to shares		Common shares: 152,000 (1,000 shares per subscription rights to share)		Common shares: 105,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		123 yen		Gratuitous	
Amount to be paid for the exercise of subscription rights to shares		One yen per share		One yen per share	
Exercise period		From July 7, 2009 to July 6, 2029		From July 7, 2009 to July 6, 2029	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 4 Number of subscription rights to shares held: 111 Number of shares to be issued: 111,000	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000		
	Outside directors	Number of holders: 2 Number of subscription rights to shares held: 14 Number of shares to be issued: 14,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		
	Auditors	Number of holders: 2 Number of subscription rights to shares held: 27 Number of shares to be issued: 27,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -		
Date of relevant resolution		June 18, 2010			
Number of subscription rights to shares		97			
Type and number of shares underlying subscription rights to shares		Common shares: 97,000 (1,000 shares per subscription rights to share)			
Issue price of subscription rights to shares		532 yen			
Amount to be paid for the exercise of subscription rights to shares		One yen per share			
Exercise period		From July 6, 2010 to July 5, 2030			
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.			
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 5 Number of subscription rights to shares held: 69 Number of shares to be issued: 69,000			
	Outside directors	Number of holders: 2 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000			
	Auditors	Number of holders: 3 Number of subscription rights to shares held: 20 Number of shares to be issued: 20,000			

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

Subscription rights to shares associated with resolution by annual shareholders meeting held on June 18, 2010

- Number of subscription rights to shares
350 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares
350,000
- Amount to be paid for the exercise of subscription rights to shares
Gratuitous
- Amount invested when exercising a subscription rights to share
667,000 yen per unit (667 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares
Issue price: 849 yen
Amount per share to be credited to capital: 425 yen
- Period during which subscription rights to shares can be exercised
From July 6, 2012 to June 30, 2015
- Conditions for exercise of subscription rights to shares
Conditions for the exercise of the subscription rights to shares shall be as set out in the “Subscription Rights to Shares Allocation Agreement,” resolved by a meeting of the Company’s Board of Directors, and entered into between the Company and individuals receiving the subscription rights to shares in accordance with the above resolution.
- Status of subscription rights to shares held by the Company’s employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	315	315,000	63
Directors of the Company’s subsidiaries	35	35,000	7

Subscription rights to shares resolved by the annual shareholders meeting held on June 18, 2010

- Number of subscription rights to shares
100 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares
100,000
- Amount to be paid for the exercise of subscription rights to shares
Gratuitous
- Amount invested when exercising a subscription rights to share
1,000 yen per unit (1 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares
Issue price: 533 yen
Amount per share to be credited to capital: 267 yen
- Period during which subscription rights to shares can be exercised
From July 6, 2010 to July 5, 2030
- Conditions for the exercise of the subscription rights to shares
 - (i) In principle, a person having new subscription rights to shares may exercise them only if he or she relinquishes all positions of director, statutory auditor, executive officer, and employee similar to these positions. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
 - (ii) Any conditions for the exercise of subscription rights to shares other than the above shall be approved by the Board of Directors.
- Status of subscription rights to shares held by the Company's employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	100	100,000	20

(3) Officers

(i) Directors and Statutory Auditors (as of March 31, 2011)

Names	Position, responsibility and important concurrent post
Takao Nishijima	Representative Director (Chairman and CEO)
Toshiharu Niijima	Representative Director (Senior Executive Officer)
Yoshiharu Kikuchi	Director (Executive Advisor)
Toshio Honma	Director (Managing Executive Officer)
Donglei Tang	Director (Managing Executive Officer)
Takeo Nakagawa	Director, CEO of Fine Tech Corporation
Mitsuhiro Masumi	Director
Ikuo Oomiya	Standing Statutory Auditor
Kunimasa Ohta	Statutory Auditor; CFO of Tokyo Seimitsu Co., Ltd.
Yoshifumi Miyata	Statutory Auditor
Hiroaki Tamai	Statutory Auditor

- Notes
1. Directors Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi are outside directors.
 2. Mr. Kunimasa Ohta, Mr. Yoshifumi Miyata, and Mr. Hiroaki Tamai, the Statutory Auditors, are outside auditors.
 3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa as an independent director, and Statutory Auditors Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai as independent auditors.

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

Statutory Auditors Mr. Kyouji Umeoka and Mr. Kouichiro Watanabe resigned at the 107th Annual Shareholders Meeting held on June 18, 2010.

(iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	8 (2)	207 million yen (15 million yen)
Statutory Auditors (Outside Statutory Auditors included)	6 (5)	45 million yen (22 million yen)
Total (Outside Officers included)	14 (7)	253 million yen (37 million yen)

- Notes
1. The above figures include one director and two outside statutory auditors who retired at the end of the 107th annual shareholders meeting held on June 18, 2010.
 2. Total compensation, etc. for directors did not include salaries paid to employees concurrently holding a position as director.
 3. The maximum amount of compensation, etc. for directors was resolved to be not more than cash compensation of 200 million yen per annum by the 103rd annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 60 million yen per annum by the 104th annual shareholders meeting.
 4. The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104th annual shareholders meeting.

5. The total amount of compensation, etc. included the following compensation.
- Compensation in the form of stock options
 - 8 directors: 37 million yen (including 3 million yen for 2 outside directors)
 - 6 statutory auditors: 9 million yen (including 4 million yen for 5 outside statutory auditors)
- (iv) Matters concerning out officers
- a. Posts held concurrently by outside officers (in the case of the executing persons of other companies) and relationships between the Company and other relevant companies
 - Mr. Takeo Nakagawa, Director, concurrently holds the position of Director; CEO of Fine Tech Corporation. The Company has trading relationships, including sales of products, with Fine Tech Corporation.
 - Mr. Kunimasa Ohta, the Statutory Auditor, concurrently holds the position of CFO of Tokyo Seimitsu Co., Ltd. The Company has trading relationships, including sales of products, with Tokyo Seimitsu Co., Ltd.
 - Mr. Yoshifumi Miyata, the Statutory Auditor, concurrently holds the position of Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited. The Company has concluded insurance agreements, including corporate pension plans, with The Dai-ichi Life Insurance Company, Limited.
 - Mr. Hiroaki Tamai, Statutory Auditor, holds the position of Senior Managing Director of Mori Seiki Co., Ltd. The Company has trading relationships, including sales of products, with Mori Seiki Co., Ltd.
 - b. Concurrent posts in other companies (e.g. outside officer in another company) and the relationships between the Company and the other companies
 - Mr. Takeo Nakagawa, the Director, concurrently holds the position of Outside Statutory Auditor of FANUC Ltd. and the position of Outside Director of Nippon Pillar Packing Co., Ltd. The Company has trading relationships, including sales of products, with FANUC Ltd.
 - Mr. Mitsuhiro Masumi, the Director, concurrently holds the position of Outside Director of Sanki Engineering Co., Ltd. and the position of Outside Statutory Auditor of Toho Co., Ltd.

c. Major activities in the fiscal year under review

Names	Major activities
Takeo Nakagawa, Director	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed based on his insight into the entire manufacturing industry, from the viewpoint of an experienced corporate manager.
Mitsuhiro Masumi, Director	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and make remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Kunimasa Ohta, Statutory Auditor	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and four of the five Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Yoshifumi Miyata, Statutory Auditor	He attended eight of the ten meetings of the Board of Directors and three of the four Board of Statutory Auditors meetings that were held after he took office on June 18, 2010 and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hiroaki Tamai, Statutory Auditor	He attended eight of the ten meetings of the Board of Directors and three of the four Board of Statutory Auditors meetings that were held after he took office on June 18, 2010 and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.

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

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

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

(4) Status of Independent Auditor

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

(ii) Amount of Compensation

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

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

(iii) Details of non-audit services

Not applicable

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

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

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

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

There are no contracts in question.

(5) Systems for Ensuring the Appropriate Implementation of Operations

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

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

- (i) Systems for ensuring the execution of the duties of directors and employees are in compliance with laws and ordinances and the Articles of Incorporation
 - a. Given that compliance is one of its key management issues, the Board of Directors shall establish the Tsugami Group Code of Conduct and develop a compliance policy to ensure that the Company operates based on sound social practices.
 - b. The Company shall establish a "whistle-blowing system," an internal reporting system through which activities that apparently violate the laws and ordinances, the Articles of Incorporation, any other internal rules, or social norms carried out by directors or employees are reported. Whistle blowers shall be protected.
 - c. The Company shall have an Audit Office, an organization under the direct control of the president, and shall conduct internal audits of compliance.
- (ii) Systems for the storage and management of information concerning directors' execution of duties

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

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

The Company shall hold regular meetings of the Board of Directors every month, and ensure that it makes important decisions on items that are stipulated in the Board of Directors Rules or that come under the criteria for deliberation at meetings of the Board of Directors, through discussions at meetings of the Board of Directors. In addition, the Company shall hold monthly corporate management meetings to share management information, through which it considers and makes flexible decisions on issues related to important operations in its effort to achieve management efficiency.
- (v) Systems for ensuring the appropriate implementation of the operations by the Group, consisting of the Company and its subsidiaries
 - a. With respect to compliance, the Tsugami Group Code of Conduct also applies to the Company's subsidiaries.
 - b. Representatives of subsidiaries shall attend monthly corporate management meetings to enable consideration of internal control between the Company and the subsidiaries, and shall ensure the appropriate execution of their operations by sharing information.
 - c. The internal audit division (the Audit Office) shall confirm that the subsidiaries operate in compliance with laws and ordinances, internal rules, and other rules for compliance.

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

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

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

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

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

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

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

- (x) Systems for getting rid of antisocial forces

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

CONSOLIDATED BALANCE SHEET

(As of March 31, 2011)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		LIABILITIES:	
Current assets:	23,578	Current liabilities:	11,771
Cash and deposits	4,111	Trade notes and accounts payable	8,011
Trade notes and accounts receivable	7,729	Short-term borrowings	2,089
Inventories	10,718	Corporate bonds due for redemption within one year	300
Deferred tax assets	289	Accrued income tax	374
Other current assets	786	Reserve for product warranties	107
Allowance for doubtful accounts	-56	Reserve for bonus payment	248
Fixed assets:	12,263	Other current liabilities	640
Tangible fixed assets:	6,433	Long-term liabilities:	1,966
Buildings and structures	3,681	Corporate bonds	600
Machinery, equipment and vehicles	1,881	Reserve for retirement benefits	791
Land	591	Deferred tax liabilities	480
Construction in progress	18	Reserve for directors' retirement benefits	12
Other tangible fixed assets	261	Other long-term liabilities	82
Intangible fixed assets:	139	Total liabilities	13,738
Software	87	NET ASSETS:	
Other intangible fixed assets	52	Shareholders' equity:	20,947
Investments and other assets:	5,689	Common stock	10,599
Investment securities	4,927	Capital surplus	4,157
Investments in affiliates	670	Retained earnings	6,962
Deferred tax assets	1	Treasury stock	-771
Other investments and other assets	90	Accumulated other comprehensive income:	884
Deferred assets:	18	Unrealized gains on marketable securities	993
Bond issuance expenses	18	Deferred gains (losses) on hedges	5
		Translation adjustments	-114
		Subscription rights to shares	290
		Total net assets	22,122
Total Assets	35,860	Total Liabilities and Total Net Assets	35,860

CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2010 to March 31, 2011)

(Million yen)

Account title	Amount
Net sales	35,932
Cost of sales:	28,569
Gross profit	7,363
Selling, general and administrative expenses	3,631
Operating income	3,732
Non-operating income:	172
Interest received	0
Dividends received	83
Insurance benefits received	43
Other non-operating income	44
Non-operating expenses:	399
Interest paid	76
Loss on sales of trade notes	45
Foreign exchange losses	229
Other non-operating expenses	47
Ordinary income	3,504
Extraordinary income:	6
Gain on sales of fixed assets	0
Gain on sales of investment securities	5
Extraordinary expenses:	266
Loss on retirement of fixed assets	9
Loss on sales of fixed assets	4
Loss on valuation of investment securities	179
Settlement package	60
Other extraordinary expenses	12
Income before taxes and other adjustments	3,244
Corporate, inhabitant and enterprise taxes	478
Deferred taxes	-72
Income before minority interests	2,837
Minority interests in income	-
Net income	2,837

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2010 to March 31, 2011)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	10,599	4,151	4,791	-207	19,334
Change during the fiscal year					
Cash dividends paid			-666		-666
Net income			2,837		2,837
Purchase of treasury stock				-591	-591
Disposal of treasury stock		6		27	33
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	-	6	2,171	-564	1,613
Balance as of March 31, 2011	10,599	4,157	6,962	-771	20,947

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Translation adjustments	Total accumulated other comprehensive income		
Balance as of March 31, 2010	463	-99	-20	343	204	19,882
Change during the fiscal year						
Cash dividends paid						-666
Net income						2,837
Purchase of treasury stock						-591
Disposal of treasury stock						33
Changes in items other than shareholders' equity during the fiscal year (net)	529	104	-93	540	86	626
Total change during the fiscal year	529	104	-93	540	86	2,239
Balance as of March 31, 2011	993	5	-114	884	290	22,122

Notes to Consolidated Financial Statements

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

(1) Scope of consolidation

(i) State of consolidated subsidiaries

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

(ii) State of non-consolidated subsidiaries

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

(2) Application of equity method

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

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

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

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

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

Not applicable

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

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

When preparing the consolidated financial statements, the Company uses the financial statements of Precision Tsugami (China) Corporation, as of that date and makes necessary adjustments for important transactions between December 31 and the consolidated book-closing date.

(5) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

- Securities without fair market value:

Cost accounting method using the moving average method

b. Derivatives:

Stated at market value

c. Valuation standard and valuation method for inventories

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

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

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

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

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

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery, equipment and vehicles: 9 years

b. Intangible fixed assets (excluding leased assets)

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

c. Leased assets

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

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

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

(iii) Accounting standards for major deferred assets

Corporate bonds issuance expenses

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

(iv) Accounting standards for significant allowances

- a. Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- b. Allowance for employees' bonuses To prepare for bonus payments to employees of the Company and its consolidated subsidiaries in Japan, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.
- c. Allowance for directors' bonuses To prepare for bonus payment to the directors of the Company and its consolidated subsidiaries, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates. However, since the Company was unable to reasonably project the amount at the end of the consolidated fiscal year under review, this was not posted.
- d. Allowance for retirement benefits To prepare for retirement benefits paid to employees of the Company and its consolidated subsidiaries in Japan, an allowance is provided on the basis of estimated amounts of retirement benefit obligations and pension assets in the consolidated fiscal year under review.
In addition, any difference arising as a result of the change of accounting standards (2,180 million yen) is expensed equally, mainly over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.
- e. Allowance for directors' retirement benefits Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.
- f. Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

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

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

(vi) Significant hedge accounting method

Hedge accounting method

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

Hedging instruments and hedged items

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

Hedging instruments: exchange contracts

Hedged items: foreign currency receivables

Hedging policy

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

Method for assessing hedging effectiveness:

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

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

Accounting method for consumption taxes

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

(6) Changes in Important Matters That Become the Basis of Presenting Consolidated Financial Statements
(Application of the Accounting Standard for Asset Retirement Obligations)

The Group began applying the “Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18 issued on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21 issued on March 31, 2008) in the consolidated fiscal year under review.

The effect of the application on operating income, ordinary income, and income before taxes and other adjustments was minor.

(7) Changes in Method of Presentation

(Consolidated balance sheet)

The Group began applying the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25 issued on June 30, 2010) in the consolidated fiscal year under review. “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the previous consolidated fiscal year are “Valuation and translation adjustments” and “Total valuation and translation adjustments” respectively.

(Consolidated statements of income)

The Group began applying the “Ministry of Justice Ordinance for Revisions of the Ordinance for Enforcement of the Company Law and the Ordinance on Accounting of Companies” (Ministry of Justice Ordinance No. 7 of 2009 issued on March 27, 2009) under the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on December 26, 2008) in the consolidated fiscal year under review and included the accounting item “Income before minority interests.

2. Notes to Consolidated Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets	11,853 million yen
(3) Amount of discount for bills receivable	526 million yen
Amount of discount for export bills receivable	2,584 million yen
Debt guarantees	589 million yen (46 million yuan)
(4) The amount of an allowance for doubtful accounts that is directly deducted from assets	
Investments and other assets	147 million yen

3. Notes to Consolidated Statements of Changes in Net Assets

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

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

(2) Matters relating to the number of treasury stock

Share type	Number of shares at the end of the previous consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	1,154 thousand	1,103 thousand	117 thousand	2,140 thousand

Note The increase in the number of treasury stock by 1,103 thousand shares reflected an increase of 7 thousand shares with the acquisition of odd-lot shares and the purchase of 1,096 thousand shares of treasury stock.

The decrease in the number of treasury stock by 117 thousand shares resulted from the exercise of stock options.

(3) Matters relating to dividends

(i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 13, 2010

- Total amount of dividend	334 million yen
- Dividend per share	5 yen
- Record date	March 31, 2010
- Effective date	June 1, 2010

Matters relating to dividends resolved at the Board of Directors meeting on November 12, 2010

- Total amount of dividend	332 million yen
- Dividend per share	5 yen
- Record date	September 30, 2010
- Effective date	November 29, 2010

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

The following dividends will be submitted to the Board of Directors meeting on May 12, 2011 for approval.

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

Dividend resources are planned to be retained earnings.

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

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	109,000	45,000
Unexercised subscription rights to shares	109	45
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	38,000	59,000
Unexercised subscription rights to shares	38	59
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	60,000	62,000
Unexercised subscription rights to shares	60	62
	Resolved at the annual shareholders meeting on June 20, 2008	Resolved at the Board of directors meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	47,000	152,000
Unexercised subscription rights to shares	47	152
	Resolved at the annual shareholders meeting on June 19, 2009	Resolved at the Board of directors meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	105,000	97,000
Unexercised subscription rights to shares	105	97
	Resolved at the annual shareholders meeting on June 18, 2010	
Type of subject shares	Common shares	
Number of subject shares	85,000	
Unexercised subscription rights to shares	85	

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

4. Notes on Financial Instruments

(1) Situation of financial instruments

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

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

Short-term borrowings are used for operating funds.

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

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

(2) Market values of financial instruments

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2011. (Million yen)

	Carrying amount on the consolidated balance sheet (*)	Market value (*)	Difference
(i) Cash and deposits	4,111	4,111	–
(ii) Trade notes and accounts receivable	7,729	7,729	–
(iii) Investment securities			
Other securities	4,909	4,909	–
(iv) Trade notes and accounts payable	(8,011)	(8,011)	–
(v) Short-term borrowings	(2,089)	(2,089)	–
(vi) Bonds	(900)	(905)	-5
(vii) Derivatives trading	(-5)	(-5)	–

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

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

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

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

(iii) Investment securities, Other securities

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

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

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

(vi) Bonds

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

(vii) Derivatives trading

Hedge accounting is not applied: No derivatives trading.

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

2. Unlisted shares (consolidated balance sheet amount: ¥2 million) and shares in affiliates (consolidated balance sheet amount: ¥16 million) do not have market prices, their future cash flows cannot be estimated, and it is very difficult to estimate their market values. The Company therefore does not include them in “Investment securities, Other securities.”

5. Notes on Per Share Information

- | | |
|--------------------------|------------|
| (1) Net assets per share | 331.39 yen |
| (2) Net income per share | 42.72 yen |

NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2011)

(Million yen)

Account title	Amount	Account title	Amount
ASSETS:		LIABILITIES:	
Current assets:	22,224	Current liabilities:	11,019
Cash and deposits	3,491	Trade notes payable	6,214
Trade notes receivable	235	Trade accounts payable	1,657
Accounts receivable	8,172	Short-term borrowings	1,500
Products, commodities	1,926	Corporate bonds due for redemption within one year	300
Goods in process	4,796	Accounts payable	375
Raw materials, supplies	1,790	Accrued expenses payable	210
Deferred tax assets	262	Accrued income tax	324
Accounts due	611	Reserve for product warranties	93
Advance paid	13	Reserve for bonus payment	215
Other current assets	1,006	Other current liabilities	127
Allowance for doubtful accounts	-82	Long-term liabilities:	1,829
Fixed assets:	11,848	Corporate bonds	600
Tangible fixed assets:	4,895	Deferred tax liabilities	361
Buildings	3,023	Reserve for retirement benefits	785
Structures	109	Other long-term liabilities	82
Machinery and equipment	921	Total liabilities	12,849
Vehicles	6	NET ASSETS:	
Tools, furniture and fixtures	225	Shareholders' equity:	19,952
Land	591	Common stock	10,599
Leased assets	17	Capital surplus:	4,157
Intangible fixed assets:	110	Capital legal reserve	4,138
Telephone subscription right	10	Other capital surplus	18
Software	87	Retained earnings:	5,967
Leased assets	13	Other retained earnings:	5,967
Investments and other assets:	6,842	Deferred retained earnings	5,967
Investment securities	4,911	Treasury stock	-771
Shares in affiliates	136	Valuation and translation adjustments:	998
Investments in affiliates	1,722	Unrealized gains on marketable securities	993
Other investments	72	Deferred gains (losses) on hedges	5
Deferred assets:	18	Subscription rights to shares	290
Bond issuance expenses	18	Total net assets	21,241
Total Assets	34,091	Total Liabilities and Total Net Assets	34,091

NON- CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2010 to March 31, 2011)

(Million yen)

Account title	Amount
Net sales	35,146
Cost of sales:	29,221
Gross profit	5,925
Selling, general and administrative expenses:	3,193
Operating income	2,732
Non-operating income:	322
Interest received	11
Dividends received	213
Rent received	12
Insurance benefits received	43
Other non-operating income	41
Non-operating expenses:	187
Interest paid	18
Leased asset expenses	10
Sales discount	2
Loss on sales of trade notes	45
Other non-operating expenses	110
Ordinary income	2,867
Extraordinary income:	52
Gain on sales of fixed assets	46
Gain on sales of investment securities	5
Extraordinary expenses:	258
Loss on retirement of fixed assets	1
Loss on sales of fixed assets	4
Loss on valuation of investment securities	179
Settlement package	60
Other extraordinary expenses	12
Income before taxes and other adjustments	2,661
Corporate, inhabitant and enterprise taxes	347
Deferred taxes	-113
Net income	2,426

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2010 to March 31, 2011)

(Million yen)

	Shareholders' equity						
	Common stock	Capital surplus			Retained earnings	Treasury stock	Total shareholders' equity
		Capital legal reserve	Other capital surplus	Total capital surplus	Other retained earnings Deferred retained earnings		
Balance as of March 31, 2010	10,599	4,138	12	4,151	4,207	-207	18,750
Change during the fiscal year							
Cash dividends paid					-666		-666
Net income					2,426		2,426
Purchase of treasury stock						-591	-591
Disposal of treasury stock			6	6		27	33
Changes in items other than shareholders' equity during the fiscal year (net)							
Total change during the fiscal year	-	-	6	6	1,759	-564	1,201
Balance as of March 31, 2011	10,599	4,138	18	4,157	5,967	-771	19,952

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2010	463	-99	364	204	19,319
Change during the fiscal year					
Cash dividends paid					-666
Net income					2,426
Purchase of treasury stock					-591
Disposal of treasury stock					33
Changes in items other than shareholders' equity during the fiscal year (net)	529	104	634	86	720
Total change during the fiscal year	529	104	634	86	1,922
Balance as of March 31, 2011	993	5	998	290	21,241

Notes to Non-Consolidated Financial Statements

1. Matters Concerning Significant Accounting Policies

(1) Valuation standard and valuation method for assets

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

(ii) Other securities:

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

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

(iii) Derivatives: Stated at market value

(iv) Valuation standard and valuation method for inventories

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

(2) Depreciation method for fixed assets

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

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

The significant service lives are summarized as follows:

Buildings: 15 to 38 years

Machinery and equipment: 9 years

Tools, furniture and fixtures 5 years

(ii) Intangible fixed assets (excluding leased assets)

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

(iii) Leased assets

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

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

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

(3) Long-term prepaid expenses

The straight-line method is used.

(4) Deferred assets

Expenses for issuing corporate bonds

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

(5) Accounting standards for allowances

- (i) Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- (ii) Allowance for employees' bonuses To prepare for bonus payments to employees, an amount that needs to be paid in the fiscal year under review are provided as an estimate.
- (iii) Allowance for directors' bonuses To prepare for bonus payment to the directors, an amount that needs to be paid in the fiscal year under review are provided as an estimate. However, since the Company was unable to reasonably project the amount at the end of the fiscal year under review, this was not posted.
- (iv) Allowance for retirement benefits To prepare for retirement benefits payment to employees, the allowance is provided on the basis of amounts of retirement benefit obligations and pension assets estimated at the end of the fiscal year under review.
In addition, any difference arising as a result of the change of accounting standards (2,180 million yen) is expensed equally, mainly over 15 years. Also, any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (5 years) of employees at the time of the accrual using the straight-line method.
- (v) Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

(6) Significant hedge accounting method

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

Method for assessing hedging effectiveness:

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

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

Accounting method for consumption taxes

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

(8) Changes in accounting policies

(Application of the Accounting Standard for Asset Retirement Obligations)

The Company began applying the “Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18 issued on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21 issued on March 31, 2008) in the fiscal year under review.

The effect of the application on operating income, ordinary income, and income before taxes and other adjustments was minor.

2. Notes to Balance Sheets

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

(2) Aggregated depreciation for tangible fixed assets	11,531 million yen
(3) Amount of discount for bills receivable	526 million yen
Amount of discount for export bills receivable	2,584 million yen
Debt guarantees	589 million yen (46 million yuan)
(4) The amount of an allowance for doubtful accounts that is directly deducted from assets	
Investments and other assets	145 million yen
(5) Monetary receivables from and monetary payables to affiliates are as follows:	
(i) Short-term monetary receivables	4,409 million yen
(ii) Short-term monetary payables	365 million yen

3. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

(i) Sales	10,423 million yen
(ii) Purchases	3,512 million yen
(iii) Transactions other than operating transactions	354 million yen

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

(1) Matters relating to the number of treasury stock

Share type	Number of shares at the end of the previous 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	1,154 thousand	1,103 thousand	117 thousand	2,140 thousand

Note The increase in the number of treasury stock by 1,103 thousand shares reflected an increase of 7 thousand shares with the acquisition of odd-lot shares and the purchase of 1,096 thousand shares of treasury stock.

The decrease in the number of treasury stock by 117 thousand shares resulted from the exercise of stock options.

5. Deferred Tax Accounting

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

(Deferred tax assets)	
Allowance for doubtful accounts	92
Reserve for bonus payment	87
Reserve for retirement benefits	319
Reserve for product warranties	38
Loss on devaluation of investment securities	144
Loss on devaluation of shares in affiliates	9
Loss on devaluation of inventories	67
Impairment loss	48
Accrued enterprise taxes	15
Stock-based compensation expense	85
Other	57
Deferred tax assets subtotal	<u>967</u>
Valuation reserve	<u>-381</u>
Deferred tax assets total	<u>585</u>
(Deferred tax liabilities)	
Exchange contracts	-3
Unrealized gains on marketable securities	<u>-680</u>
Deferred tax liabilities total	<u>-683</u>
Net deferred tax assets	<u>-98</u>

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

Legally effective tax rate	40.7%
(Adjustments)	
Residence tax on a per capita basis	0.7%
Special deduction of experiment and research expenses	-2.8%
Items permanently excluded from nontaxable expenses, including entertainment costs	0.2%
Items permanently excluded from gross revenue including dividends received	-2.2%
Use of net loss carried forward for tax reasons	-30.7%
Increase (decrease) in valuation reserve	2.2%
Other	0.7%
Actual effective tax rate after applying tax effect accounting	<u>8.8%</u>

6. Notes on Fixed Assets Used under Lease Contracts

(1) Acquisition cost equivalent, accumulated depreciation equivalent, and fiscal year-end outstanding balance equivalent of leased assets

	Acquisition cost equivalent	Accumulated depreciation equivalent	Fiscal year-end outstanding balance equivalent
Tools, furniture and fixtures	21 million yen	20 million yen	0 million yen
Others	10 million yen	10 million yen	0 million yen
Total	32 million yen	30 million yen	1 million yen

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

Equivalent of unexpired lease fees at end of fiscal year

Within a year 1 million yen

Longer than a year – million yen

Total 1 million yen

7. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	Precision Tsugami (China) Corporation	(Owning) Direct: 100.0%	Concurrent service by directors Manufacture and sales of products of the Company Purchase of products of the company Transfer of fixed assets Providing loans Receipt of interest Acceptance of new shares Funding	Sale of products of the Company	6,927	Accounts receivable	2,591
				Purchase of products of the company	2,426	Trade accounts payable	66
				Transfer of fixed assets	191	Accounts due	129
				Providing loans	898	Short-term borrowings	898
				Receipt of interest	11	Accounts due	1
				Acceptance of new shares	513	–	–
				Affiliate	REM SALES LLC	(Owning) Direct: 29.5%	Sales of the Company's products and parts

Note Business terms and policies for their determination, etc.

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

Officers and major individual shareholders

Attribute	Name	Capital or investments (million yen)	Business or job	Ownership of voting rights in percentage	Relationship		Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
					Officers holding concurrent posts	Business relationship				
Officer	Takeo Nakagawa	–	Director of the Company, CEO of Fine Tech Corporation	–	–	–	Sale of products of the Company	43	Accounts receivable	43
Officer	Kunimasa Ohta	–	Statutory auditor of the Company Representative Director of Tokyo Seimitsu Co., Ltd.	(Owning) Direct: 2.50% (Owned) Direct: 7.01%	–	–	Purchase of products	75	Trade notes payable	37
							Purchase of fixed assets	9	Trade accounts payable	1
									Accounts payable	5

Note Business terms and policies for their determination, etc.

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

8. Notes on Per Share Information

(1) Net assets per share 318.02 yen

(2) Net income per share 36.53 yen

Accounting Audit Report on Consolidated Financial Statements

Independent Auditors' Report

May 10, 2011

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner

Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner

Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements, for the consolidated fiscal year from April 1, 2010 to March 31, 2011, in accordance with Paragraph 4, Article 444 of the Company Law. Responsibility for preparation of these consolidated financial statements lies with the Company's management. Our responsibility is to express an opinion on these consolidated financial statements from an independent perspective.

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

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

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

Accounting Audit Report on Non-Consolidated Financial Statements

Independent Auditors' Report

May 10, 2011

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Akira Igarashi

Designated Limited Partner and Operating Partner

Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner

Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets, notes to non-consolidated financial statements, and their supporting schedules, for the 108th fiscal year from April 1, 2010 to March 31, 2011, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law. Responsibility for preparation of these non-consolidated financial statements and their supporting schedules lies with the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements and their supporting schedules from an independent perspective.

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

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

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

Report by the Board of Statutory Auditors

Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 108th fiscal year from April 1, 2010 to March 31, 2011 prepared by Statutory Auditors.

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

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

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

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

2. Results of the Audit

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

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

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

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

(3) Results of the audit of consolidated financial statements

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

May 11, 2011

Board of Statutory Auditors
Tsugami Corporation

Ikuo Oomiya, Standing Statutory Auditor
Kunimasa Ohta, Statutory Auditor
Yoshifumi Miyata, Statutory Auditor
Hiroaki Tamai, Statutory Auditor

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

Reference Materials for the Annual Shareholders Meeting

Item 1: Revision of the Articles of Incorporation

1. Reason of the proposal

The Company would like to change the number of directors and the conveners and chairpersons of the shareholders meeting and meetings of the Board of Directors to bolster its management system.

2. Details of the revision

The revision is as follows.

(The underlined parts are parts that will be changed.)

Existing articles of incorporation	Draft revision
<p style="text-align: center;">Chapter 3 Shareholders Meeting (Convener and Chairperson)</p> <p>Article 13. The shareholders meeting shall, by resolution of the Board of Directors, be called and presided over by <u>the president or a director appointed by the Board of Directors</u> except as otherwise provided by laws and regulations. In the event that <u>the president</u> is unable to fulfill his/her duties due to an accident or any other similar reason, a different director shall convene and preside over the shareholders meeting in an order prescribed by the Board of Directors.</p> <p style="text-align: center;">Chapter 4 Directors and Board of Directors (Number of Directors)</p> <p>Article 18. The number of directors of the Company shall not exceed <u>seven (7)</u>.</p> <p>(Representative Directors and Directors with Specific Titles)</p> <p>Article 21. The Board of Directors shall, by resolution, elect representative directors. <u>The president shall be a representative director. The Board of Directors may elect representative directors from directors other than the president.</u></p> <p>(Convener of Board of Directors' Meeting and Notice of Board of Directors Meeting)</p> <p>Article 22. A meeting of the Board of Directors <u>shall be called by the president or a director appointed by the Board of Director</u> except as otherwise provided by laws and regulations. Notice of a meeting shall be given to each director and statutory auditor at least four days before the day of the meeting. However, this period may be reduced in case of emergency.</p>	<p style="text-align: center;">Chapter 3 Shareholders Meeting (Convener and Chairperson)</p> <p>Article 13. The shareholders meeting shall, by resolution of the Board of Directors, be called and presided over by <u>the chairperson of the Board</u> except as otherwise provided by laws and regulations. <u>If the position of chairperson of the Board is vacant, or if the chairperson of the Board is unable to fulfill his/her duties due to an accident or any other similar reason, the president shall convene and preside over the shareholders meeting.</u> If the president is unable to fulfill his/her duties due to an accident or any other similar reason, a different director shall convene and preside over the shareholders meeting in an order prescribed by the Board of Directors.</p> <p style="text-align: center;">Chapter 4 Directors and Board of Directors (Number of Directors)</p> <p>Article 18. The number of directors of the Company shall not exceed <u>ten (10)</u>.</p> <p>(Representative Directors and Directors with Specific Titles)</p> <p>Article 21. The Board of Directors shall, by resolution, elect representative directors.</p> <p>(Convener of Board of Directors' Meeting and Notice of Board of Directors Meeting)</p> <p>Article 22. A meeting of the Board of Directors <u>shall be called by the chairperson of the Board</u> except as otherwise provided by laws and regulations. <u>If the position of chairperson of the Board is vacant, or if the chairperson of the Board is unable to fulfill his/her duties due to an accident or any other similar reason, the president shall convene the meeting.</u> If the president is unable to fulfill <u>his/her duties due to an accident or any other similar reason, a different director shall convene the meeting in an order prescribed by the Board of Directors.</u> Notice of a meeting shall be given to each director and statutory auditor at least four days before the day of the meeting. However, this period may be reduced in case of emergency.</p>

Existing articles of incorporation	Draft revision
<p>(Chairperson of Board of Directors)</p> <p>Article 24. A meeting of the Board of Directors shall be presided over by the <u>president</u>. If the <u>president</u> is unable to fulfill his/her duties due to an accident or any other similar reason, a different director shall preside over the meeting in an order prescribed by the Board of Directors.</p>	<p>Chairperson of Board of Directors)</p> <p>Article 24. A meeting of the Board of Directors shall be presided over by the <u>chairperson of the Board</u>. <u>If the position of chairperson of the Board is vacant, or if the chairperson of the Board is unable to fulfill his/her duties due to an accident or any other similar reason, the president shall preside over the meeting.</u> If the <u>president</u> is unable to fulfill his/her duties due to an accident or any other similar reason, a different director shall preside over the meeting in an order prescribed by the Board of Directors.</p>

Item 2: Appointment of Eight Directors

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

We therefore propose the reappointment of the eight Directors.

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

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)		Number of shares in the Company held
1	Takao Nishijima (December 14, 1947)	May 1970	Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)	10 thousand
		February 1999	Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.	
		May 1999	General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.	
		June 2000	Director and General Manager of the Sales Development Division, Control Headquarters	
		April 2003	Representative Director, Chairman and CEO	
		April 2006	Representative Director, Chairman and CEO (current positions)	
2	Toshiharu Nijima (November 14, 1954)	November 1979	Joined the Company	14 thousand
		October 2003	Leader of the Automatic Lathe Group, Technology Headquarters	
		April 2006	Managing Executive Officer and General Manager of the Technology Headquarters	
		June 2008	Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory	
		April 2009	Senior Executive Officer and General Manager of the Nagaoka Factory	
		June 2009	Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory (current positions)	

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
3	Kiyoshi Tauchi (April 24, 1951)	<p>March 1970 Joined the Company</p> <p>April 2005 Executive Officer and Leader of the Parts Manufacture Group of the Production Headquarters of the Company</p> <p>April 2008 Executive Officer and General Manager of the Quality Assurance Division of the Company</p> <p>April 2009 Managing Executive Officer and General Manager of the Manufacturing Planning Division of the Company</p> <p>October 2010 Senior Executive Officer (Production)</p> <p>April 2011 Senior Executive Officer, General Manager of the Production Division (current positions)</p>	3 thousand
4	Makoto Kuniyoshi (December 6, 1956)	<p>April 1979 Joined The Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)</p> <p>April 2006 General Manager of the SME Business Department of Sumitomo Mitsui Banking Corporation</p> <p>April 2007 Executive Officer and General Manager of the Eastern Japan Corporate Business Division II of Sumitomo Mitsui Banking Corporation</p> <p>June 2008 Senior Executive Managing Director of SMBC Consulting Co., Ltd.</p> <p>April 2011 Senior Advisor of the Company</p> <p>May 2011 Senior Executive Officer, General Manager of the Sales Planning Division (current positions)</p>	0
5	Yoshihiro Miura (December 20, 1956)	<p>April 1979 Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)</p> <p>April 2005 General Manager of the Umeda Branch of Mizuho Bank, Ltd.</p> <p>April 2008 Executive Officer and General Manager of the Branch Banking Division of Mizuho Bank, Ltd.</p> <p>April 2009 Managing Executive Officer of Mizuho Bank, Ltd.</p> <p>April 2011 Senior Advisor of the Company</p> <p>May 2011 Senior Executive Officer, General Manager of the Administration Division (current positions)</p>	0

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
6	Donglei Tang (November 27, 1962)	<p>July 1992 Joined Tokyo Seimitsu Co., Ltd.</p> <p>November 2005 Administration Officer and General Manager of China Office of the Company, and President of Precision Tsugami (China) Corporation</p> <p>April 2009 Executive Officer and Manager of Shanghai Office of the Company, and President of Precision Tsugami (China) Corporation</p> <p>April 2010 Managing Executive Officer in Charge of China Operations of the Company, and President of Precision Tsugami (China) Corporation</p> <p>June 2010 Director, Managing Executive Officer in Charge of China Operations of the Company, and Vice Chairman and CEO of Precision Tsugami (China) Corporation (current positions)</p>	0
7	Takeo Nakagawa (October 12, 1938)	<p>May 1999 Professor Emeritus at the University of Tokyo (current post)</p> <p>October 2000 CEO of Fine Tech Corporation (current positions)</p> <p>June 2002 Director of Nippon Pillar Packing Co., Ltd. (current positions)</p> <p>June 2007 Auditor at FANUC Ltd. (current position)</p> <p>June 2008 Director of the Company (current position)</p>	20 thousand

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
8	Kunio Shimada (August 16, 1959)	<p>April 1986 Registered as an attorney (current position) Attorney with Iwata Godo Attorneys and Counsellors at Law</p> <p>October 1991 Registered as an attorney in New York State</p> <p>June 2000 Managing Director of Mizuho Servicing Co., Ltd. (current position)</p> <p>July 2010 Representative partner at Shimada Hamba & Osajima (current position)</p>	0

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

Item 3: Appointment of Two Statutory Auditors

The term of office for Statutory Auditors, Mr. Ikuo Oomiya and Mr. Kunimasa Ohta, will expire at the close of this Annual Shareholders Meeting. We therefore request the appointment of two statutory auditors.

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

The two candidates for the position of statutory auditor are as follows:

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
1	Toshio Honma (August 2, 1952)	April 1975 Joined the Hokuetsu Bank, Ltd. April 2002 Manager of the Nagaoka Shinsan Branch of the Hokuetsu Bank, Ltd. April 2006 Manager of the Naoetsu Branch of Hokuetsu Bank, Ltd. April 2008 Managing Executive Officer and General Manager of the Administration Division of the Company June 2009 Director, Managing Executive Officer and General Manager of the Administration Division of the Company May 2011 Director and Senior Advisor of the Company (current position)	0
2	Ryuichi Kimura (December 30, 1962)	April 1986 Joined Tokyo Seimitsu Co., Ltd. March 2005 Executive Officer of the Semiconductor Company and General Manager of Tokyo and Osaka Sales Offices of Tokyo Seimitsu Co., Ltd. June 2005 Director of Tokyo Seimitsu Co., Ltd. (current position) April 2007 Managing Executive Officer of the Semiconductor Company and General Manager of Tokyo and Osaka Sales Offices of Tokyo Seimitsu Co., Ltd. August 2007 Director of Semiconductor Company of Tokyo Seimitsu Co., Ltd. (current position)	0

- Notes
1. Mr. Ryuichi Kimura is a candidate for the position of Outside Statutory Auditor.
 2. The Company requests the appointment of Mr. Ryuichi Kimura as its outside statutory auditor based on its assessment that Mr. Ryuichi Kimura can perform the auditing function, using his deep insight and ability cultivated through his extensive business experience.
 3. Mr. Ryuichi Kimura concurrently holds the position of Director and President of the Semiconductor Company of Tokyo Seimitsu Co., Ltd. The Company has trading relationships, including sales of products, with Tokyo Seimitsu Co., Ltd.
 4. The Company plans to conclude an agreement limiting liability with Mr. Ryuichi Kimura when his appointment as Statutory Auditor is approved. With respect to said agreement, the Article 35 of the Articles of Incorporation of the Company prescribes that “the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside statutory auditors, in accordance with the provisions of Paragraph 1, Article 427 of the Company Law” and that “liabilities based on such agreement shall be limited to the amount stipulated in law.”

Item 4: Appointment of One Reserve Statutory Auditor

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

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

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

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

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

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

Item 5: Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors 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 100.

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 100,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the above subscription rights to shares.

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

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

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

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

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

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

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

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

Item 6: Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

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

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

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

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

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

The maximum number of the subscription rights to shares as described in point (3) below shall be 350.

The total number of the Company's shares that are issued in exchange for the exercise of the subscription rights to shares shall be limited to a maximum of 350,000 shares of the Company's common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the subscription rights to shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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