

Stock code: 6101

May 26, 2017

To our shareholders,

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

### **Notice of the 114<sup>th</sup> Annual Shareholders Meeting**

You are cordially invited to attend the 114<sup>th</sup> 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 Tuesday, June 20, 2017.

#### **Meeting Details**

- 1. Date & Time** 10:00 am, Wednesday, June 21, 2017
- 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 114<sup>th</sup> term, from April 1, 2016 to March 31, 2017, will be reported at the meeting.
2. The Non-Consolidated Financial Statements for the 114<sup>th</sup> term, from April 1, 2016 to March 31, 2017, will be reported at the meeting.

**Items to be resolved**

**Item 1:** Appointment of Nine Directors

**Item 2:** Appointment of One Statutory Auditor

**Item 3:** Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers of the Company and employees with similar positions

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

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, 2016 to March 31, 2017)

### I. Current Status of the Group

#### (1) Business Performance for the Fiscal Year Ended March 31, 2017

##### (i) Business Progress and Results

During the consolidated fiscal year under review, the Japanese economy continued to recover moderately, chiefly reflecting improvements in corporate earnings and employment.

In the machine tool industry, both the domestic market and the U.S. and European markets grew gradually. In the Chinese market, signs of a recovery emerged in all industries from the third quarter.

In this environment, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") sought to boost sales in auto parts-related sectors and a wide range of other industries. As a result, net sales increased from a year ago, and income also rose, reflecting the posting of a gain on sales of non-current assets, in addition to higher net sales.

Consolidated net sales for the fiscal year under review increased 2.3% year on year, to ¥41,050 million.

Consolidated net sales in Japan decreased 8.8% year on year, to ¥10,305 million. Consolidated exports increased 6.6% year on year, to ¥30,744 million. The export ratio increased from 71.8% for the previous fiscal year, to 74.9%. A breakdown of consolidated net sales by machinery category shows that sales of mainstay Automatic lathes rose 8.4% year on year, to ¥34,217 million, sales of Grinding machines fell 24.3%, to ¥3,332 million, sales of Machining centers fell 12.3%, to ¥500 million, and sales of Rolling machines and other specialized machines fell 18.1%, to ¥2,723 million.

Consolidated operating income increased 45.1% year on year, to ¥3,083 million. Consolidated ordinary income increased 160.0% year on year, to ¥2,848 million and consolidated net income attributable to owners of parent increased 199.8% year on year, to ¥2,630 million for the fiscal year under review.

##### (ii) Capital Investments Activities

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

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

Total investments amounted to ¥311 million, funded through the Company's own funds.

b. Significant sales of property, plant and equipment during the fiscal year under review is as follows

Sales of Shinshu Factory (Idle asset)

##### (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	111 <sup>th</sup> term ended March 31, 2014	112 <sup>th</sup> term ended March 31, 2015	113 <sup>th</sup> term ended March 31, 2016	114 <sup>th</sup> term ended March 31, 2017
Net sales	32,225	54,132	40,132	41,050
Ordinary income	1,932	7,745	1,095	2,848
Net income attributable to owners of parent	344	5,297	877	2,630
Net income per share	4.72 yen	74.37 yen	13.04 yen	41.91 yen
Total assets	52,250	56,829	47,859	50,127
Net assets	31,587	37,279	32,594	31,462
Net asset per share	428.18 yen	522.94 yen	473.78 yen	510.43 yen

**(3) Status of Parent Company and Principal Subsidiaries**

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
TSUGAMI MACHINERY CO., LTD	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
TSUGAMI GENERAL SERVICE CO., LTD.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of factories, and non-life insurance agency operations
PRECISION TSUGAMI (CHINA) CORPORATION	287 million yuan	100.0% (100.0%)	Manufacturing and sales of machine tools
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	35 million yuan	100.0% (100.0%)	Manufacturing and sales of machine tool castings
TSUGAMI KOREA Co., Ltd.	1,000 million won	100.0%	Sales of machine tools
Precision Tsugami (China) Corporation Limited	3 Hong Kong dollar	100.0%	Holding company
Precision Tsugami (Hong Kong) Limited	490 million Hong Kong dollar	100.0% (100.0%)	Holding company
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED	495 million Indian rupee	90.9% (15.1%)	Manufacturing and sales of machine tools

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

#### (4) Challenges to Address

(Challenges in the medium to long term)

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

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

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

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

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

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

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

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

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

#### (5) Principal Businesses (as of March 31, 2017)

Manufacturing and sale of precision machine tools

#### (6) Main Offices and Factories (as of March 31, 2017)

##### (i) Tsugami Corporation

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

The use of Niigata Factory is suspended in the fiscal year under review.

##### (ii) Subsidiaries

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

**(7) Employees (as of March 31, 2017)**

(i) Employees of the Tsugami Group

Number of employees	Change from the end of the previous term
1,959 (95)	Up 345 (Down 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 345 from the end of the previous fiscal year resulted mainly increase at PRECISION TSUGAMI (China) CORPORATION.

(ii) Employees of Tsugami Corporation

Number of employees	Change from the end of the previous term	Average age	Average service years
439 (83)	Up 0 (Down 10)	42.6 years old	18.0 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, 2017)**

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	--
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	--
The Hokuetsu Bank, Ltd	--
Sumitomo Mitsui Banking Corporation (China) Limited	¥1,741 million (107 million yuan)
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	¥1,628 million (100 million yuan)
Mizuho Corporate Bank (China), Ltd.	¥814 million (50 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 ¥16 per share, an interim dividend of ¥8, and a year-end dividend of ¥8, in the fiscal year ended March 31, 2017.

The Company plans to pay an annual dividend of ¥16 per share, an interim dividend of ¥8 and a year-end dividend of ¥8, in the fiscal year ending March 31, 2018.

## II. Current Status of the Company

### (1) Shares (as of March 31, 2017)

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

(ii) Number of shares outstanding: 64,919,379

(Note) Number of shares outstanding decreased 10,000,000 compared with the end of the previous fiscal year due to a retirement of treasury stock on August 10, 2016.

(iii) Number of shareholders: 8,425

### (iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	3,392	5.65
Japan Trustee Services Bank, Ltd. (trust account)	3,149	5.24
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	2,592	4.32
The Dai-ichi Life Insurance Company, Limited	2,100	3.50
DMG MORI SEIKI CO., LTD.	2,000	3.33
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW (Standing agency: Mizuho Bank, Ltd. Custody & Proxy Department)	1,748	2.91
CBNY-GOVERNMENT OF NORWAY (Standing agency: Securities Division, Citibank Japan Ltd.)	1,619	2.69
Sumitomo Mitsui Banking Corporation	1,516	2.52
The Hokuetsu Bank, Ltd.	1,484	2.47
Tsugami Customers' Shareholding Association	1,180	1.96

- Notes
- In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
  - The 2,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.49% of the stock).
  - Although the Company holds 4,930 thousand shares of treasury stock, it is excluded from the list of major shareholders.
  - The Dai-ichi Life Insurance Company, Limited made a shift to a holding company on October 1, 2016 as a result of the company split and changed its trade name to Dai-ichi Life Holdings, Inc. Dai-ichi Life Holdings, Inc. has transferred all the Company's shares it held to its wholly owned subsidiary, The Dai-ichi Life Insurance Company, Limited.

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

(i) Subscription rights to shares held by directors (as of March 31, 2017)

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of subscription rights to shares		59	22
Type and number of shares underlying subscription rights to shares		Common shares: 59,000 (1,000 shares per subscription rights to share)	Common shares: 22,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	608 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000	Number of holders: 1 Number of subscription rights to shares held: 22 Number of shares to be issued: 22,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		14	29
Type and number of shares underlying subscription rights to shares		Common shares: 14,000 (1,000 shares per subscription rights to share)	Common shares: 29,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: 1 Number of subscription rights to shares held: 29 Number of shares to be issued: 29,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -



Date of relevant resolution		June 22, 2007		June 20, 2008	
Number of subscription rights to shares		18		32	
Type and number of shares underlying subscription rights to shares		Common shares: 18,000 (1,000 shares per subscription rights to share)		Common shares: 32,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		Gratuitous		279 yen	
Amount to be paid for the exercise of subscription rights to shares		One yen per share		One yen per share	
Exercise period		From July 10, 2007 to July 9, 2027		From July 8, 2008 to July 7, 2028	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.		Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders:	1	Number of holders:	2
		Number of subscription rights to shares held:	12	Number of subscription rights to shares held:	28
		Number of shares to be issued:	12,000	Number of shares to be issued:	28,000
	Outside directors	Number of holders:	-	Number of holders:	1
		Number of subscription rights to shares held:	-	Number of subscription rights to shares held:	4
		Number of shares to be issued:	-	Number of shares to be issued:	4,000
	Auditors	Number of holders:	1	Number of holders:	-
		Number of subscription rights to shares held:	6	Number of subscription rights to shares held:	-
		Number of shares to be issued:	6,000	Number of shares to be issued:	-
Date of relevant resolution		June 20, 2008		June 19, 2009	
Number of subscription rights to shares		8		93	
Type and number of shares underlying subscription rights to shares		Common shares: 8,000 (1,000 shares per subscription rights to share)		Common shares: 93,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		Gratuitous		123 yen	
Amount to be paid for the exercise of subscription rights to shares		One yen per share		One yen per share	
Exercise period		From July 8, 2008 to July 7, 2028		From July 7, 2009 to July 6, 2029	
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders:	1	Number of holders:	3
		Number of subscription rights to shares held:	8	Number of subscription rights to shares held:	86
		Number of shares to be issued:	8,000	Number of shares to be issued:	86,000
	Outside directors	Number of holders:	-	Number of holders:	1
		Number of subscription rights to shares held:	-	Number of subscription rights to shares held:	7
		Number of shares to be issued:	-	Number of shares to be issued:	7,000
	Auditors	Number of holders:	-	Number of holders:	-
		Number of subscription rights to shares held:	-	Number of subscription rights to shares held:	-
		Number of shares to be issued:	-	Number of shares to be issued:	-

Date of relevant resolution		June 19, 2009	June 18, 2010
Number of subscription rights to shares		6	51
Type and number of shares underlying subscription rights to shares		Common shares: 6,000 (1,000 shares per subscription rights to share)	Common shares: 51,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	532 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 7, 2009 to July 6, 2029	From July 6, 2010 to July 5, 2030
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 47 Number of shares to be issued: 47,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
Date of relevant resolution		June 18, 2010	June 17, 2011
Number of subscription rights to shares		4	92
Type and number of shares underlying subscription rights to shares		Common shares: 4,000 (1,000 shares per subscription rights to share)	Common shares: 92,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	408 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 6, 2010 to July 5, 2030	From July 5, 2011 to July 4, 2031
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 80 Number of shares to be issued: 80,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 2 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -

Date of relevant resolution		June 17, 2011	June 15, 2012
Number of subscription rights to shares		16	100
Type and number of shares underlying subscription rights to shares		Common shares: 16,000 (1,000 shares per subscription rights to share)	Common shares: 100,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	459 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 5, 2011 to July 4, 2031	From July 3, 2012 to July 2, 2032
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000	Number of holders: 4 Number of subscription rights to shares held: 85 Number of shares to be issued: 85,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 2 Number of subscription rights to shares held: 10 Number of shares to be issued: 10,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 6 Number of shares to be issued: 6,000	Number of holders: 1 Number of subscription rights to shares held: 5 Number of shares to be issued: 5,000
Date of relevant resolution		June 15, 2012	June 21, 2013
Number of subscription rights to shares		7	134
Type and number of shares underlying subscription rights to shares		Common shares: 7,000 (1,000 shares per subscription rights to share)	Common shares: 134,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	445 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 3, 2012 to July 2, 2032	From July 9, 2013 to July 8, 2033
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 4 Number of subscription rights to shares held: 104 Number of shares to be issued: 104,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 7 Number of shares to be issued: 7,000	Number of holders: 1 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000

Date of relevant resolution		June 21, 2013	June 20, 2014
Number of subscription rights to shares		8	144
Type and number of shares underlying subscription rights to shares		Common shares: 8,000 (1,000 shares per subscription rights to share)	Common shares: 144,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	452 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 9, 2013 to July 8, 2033	From July 8, 2014 to July 9, 2034
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 4 Number of subscription rights to shares held: 104 Number of shares to be issued: 104,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: 4 Number of subscription rights to shares held: 25 Number of shares to be issued: 25,000
Date of relevant resolution		June 18, 2015	June 18, 2015
Number of subscription rights to shares		119	160
Type and number of shares underlying subscription rights to shares		Common shares: 119,000 (1,000 shares per subscription rights to share)	Common shares: 160,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		526 yen	272 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 7, 2015 to July 6, 2035	From July 8, 2016 to July 7, 2036
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 4 Number of subscription rights to shares held: 76 Number of shares to be issued: 76,000	Number of holders: 4 Number of subscription rights to shares held: 105 Number of shares to be issued: 105,000
	Outside directors	Number of holders: 3 Number of subscription rights to shares held: 12 Number of shares to be issued: 12,000	Number of holders: 3 Number of subscription rights to shares held: 15 Number of shares to be issued: 15,000
	Auditors	Number of holders: 5 Number of subscription rights to shares held: 31 Number of shares to be issued: 31,000	Number of holders: 5 Number of subscription rights to shares held: 40 Number of shares to be issued: 40,000

- (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 22, 2016

- Number of subscription rights to shares  
150 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
150,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
¥1,000 per unit (¥1 per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: ¥273  
Amount per share to be credited to capital: ¥137
- Period during which subscription rights to shares can be exercised  
From July 8, 2016 to July 7, 2036
- 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	150	150,000	24

### (3) Officers

#### (i) Directors and Statutory Auditors (as of March 31, 2017)

Position	Name	Responsibility and important concurrent post
Representative Director, Chairman and CEO	Takao Nishijima	
Representative Director, COO	Toshio Honma	COO, Administration
Representative Director, COO	Toshiharu Nijima	COO, Technology
Director	Byun Jae-Hyun	President of TSUGAMI KOREA Co., Ltd.
Director	Takeo Nakagawa	CEO of Fine Tech Corporation
Director	Shigeru Nishiyama	
Director	Kunio Shimada	Representative partner at Shimada Hamba & Osajima
Standing Statutory Auditor	Keiji Hayazaki	
Statutory Auditor	Kenji Yamada	
Statutory Auditor	Morikuni Uchigasaki	
Statutory Auditor	Hitoshi Yoshida	President and CEO of TOKYO SEIMITSU CO., LTD., Director, Senior Managing Executive Officer, Chief General Manager for Marketing Promotion of Dai-ichi Life Holdings, Inc.
Statutory Auditor	Hideo Teramoto	Director, Senior Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited

- Notes
1. Directors Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada are outside directors.
  2. Mr. Morikuni Uchigasaki, Mr. Hitoshi Yoshida and Mr. Hideo Teramoto, the Statutory Auditors, are outside auditors.
  3. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors, and Statutory Auditor Mr. Hideo Teramoto as independent auditors.
  4. Changes in Directors and Statutory Auditors in the fiscal year under review  
Director Mr. Donglei Tang retired from his position as director on February 13, 2017. He was Vice Chairman, President of PRECISION TSUGAMI (CHINA) CORPORATION at the time of retirement and holds the same positions at present.

#### (ii) Outline of the details of contracts for the limitation of liability

In accordance with the provisions provided in Paragraph 1 of Article 427 of the Company Law, the Company has concluded contracts with Non-Executive Directors Takeo Nakagawa, Shigeru Nishiyama, and Kunio Shimada and Statutory Auditors Kenji Yamada, Morikuni Uchigasaki, Hitoshi Yoshida, and Hideo Teramoto for damages as stipulated in Paragraph 1 of Article 423 of the Company Law.

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

(iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	8 (3)	¥174 million (¥28 million)
Statutory Auditors (Outside Statutory Auditors included)	5 (3)	¥57 million (¥28 million)
Total (Outside Officers included)	13 (6)	¥232 million (¥56 million)

- (Notes)
1. The above figures include one director who retired on February 13, 2017.
  2. The total amount of compensation, etc. for directors does not include salaries for 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 ¥250 million per annum by the 109th annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than ¥80 million per annum by the 109th annual shareholders meeting.
  4. The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of ¥60 million per annum by the 103rd annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than ¥20 million per annum 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: ¥40 million (including ¥4 million for 3 outside directors)
      - 5 statutory auditors: ¥12 million (including ¥4 million for 3 outside statutory auditors)

## (iv) Matters concerning out officers

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

Position, Name	Company name	Post	Relationship
Director, Takeo Nakagawa	Fine Tech Corporation FANUC LTD. OSG CORPORATION Sharp Corporation	CEO Auditor Director Director	The Company has trading relationships, including sales of products, with Fine Tech Corporation, and trading relationships, including purchase of products, with FANUC LTD. No special interests exist between the Company and both OSG CORPORATION and Sharp Corporation.
Director, Shigeru Nishiyama	Mitsui Sugar Co., Ltd.	Auditor	No special interests exist between the Company and Mitsui Sugar Co., Ltd.
Director, Kunio Shimada	Shimada Hamba & Osajima Hulic Reit, Inc.	Representative partner Supervisory Officer	No special interests exist between the Company and both Shimada Hamba & Osajima and Hulic Reit, Inc.
Auditor, Morikuni Uchigasaki	DMG MORI SEIKI CO., LTD. TAIYO KOKI CO., LTD.	Advisor Auditor	No special interests exist between the Company and both DMG MORI SEIKI CO., LTD. and TAIYO KOKI CO., LTD.
Auditor, Hitoshi Yoshida	Tokyo Seimitsu Co., Ltd.	President and CEO	The Company has trading relationships, including purchase of products, with Tokyo Seimitsu Co., Ltd.
Auditor, Hideo Teramoto	Dai-ichi Life Holdings, Inc.  The Dai-ichi Life Insurance Company, Limited	Director, Senior Managing Executive Officer, Chief General Manager for Marketing Promotion  Director, Senior Managing Executive Officer	The Company has concluded insurance agreements, including corporate pension plans, with The Dai-ichi Life Insurance Company, Limited.



b. Major activities in the fiscal year under review

Names	Major activities
Takeo Nakagawa, Director	He attended 12 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.
Shigeru Nishiyama, Director	He attended 12 of the 12 meetings of the Board of Directors meetings held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Kunio Shimada, Director	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and made remarks as needed, primarily from the viewpoint of an experienced lawyer.
Morikuni Uchigasaki, Statutory Auditor	He attended 11 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hitoshi Yoshida, Statutory Auditor	He attended 10 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.
Hideo Teramoto, Statutory Auditor	He attended 10 of the 12 meetings of the Board of Directors held in the fiscal year under review and 5 of the 5 Board of Statutory Auditors meetings and made remarks as needed, primarily from the viewpoint of an experienced corporate manager.

(Note) In addition to the above number of meetings of the Board of Directors held, there was a resolution in writing that suggests that there was a resolution at a meeting of the Board of Directors pursuant to the provisions of Article 370 of the Companies Act and Article 23 of the Articles of Incorporation of the Company.

#### (4) Status of Independent Auditor

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

(ii) Amount of Compensation

	Amount to be paid
Compensation to be paid to independent auditors for the fiscal year under review	¥33 million
The total amount of cash and other assets to be paid by the Company and subsidiaries to independent auditors	¥61 million

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

(iii) Nonaudit work

The Company has paid to the independent auditor a consideration for the preparation of an assurance report in relation to the IPO of a subsidiary in China.

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

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

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

There are no contracts in question.

(vi) Disciplinary action ordering a suspension of operations that the independent auditor has been subject to within the past two years

On December 22, 2015, the Company's independent auditor, Ernst & Young ShinNihon LLC, was subject to a disciplinary action imposed by the Financial Services Agency ordering a suspension of the conclusion of new contracts for three months (from January 1 to March 31, 2016). Recognizing the audit corporation's efforts to prevent a recurrence of the issue as well as its strict and appropriate audits of the Company, the Company has decided to ask the audit corporation to continue to carry out audits for the Company.

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

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

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

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

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

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

- (iii) Rules and systems concerning risk management

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

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

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

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

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

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

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

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

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

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

- d. Systems for ensuring the conformity of the execution of duties by the Directors, and the like, and the employees of subsidiaries with laws, regulations and Articles of Incorporation
  - 1) The Company shall ensure the compliance systems of its subsidiaries based on the Tsugami Group Code of Conduct.
  - 2) The Directors, etc., of the Company's subsidiaries shall take part in regular monthly management meetings and advance discussions on internal control.
  - 3) The internal audit division (the Audit Office) of the Company shall confirm that the Company's subsidiaries are complying with laws, regulations and in-house rules in the execution of their businesses.
- (vi) Matters concerning applicable employees in cases where statutory auditors request the assignment of employees who should assist them in their duties
  - a. The Company may assign employees (auxiliary employees) who should assist statutory auditors in cases where statutory auditors request their assignment.
  - b. The Company shall work to strengthen its system of auxiliary employees from the viewpoint of ensuring the effectiveness of the audit, taking into account corporate size, business type, management risks and other company-specific circumstances.
- (vii) Matters concerning the independence of employees from Directors stated in the foregoing paragraph and matters concerning securing the effectiveness of instructions statutory auditors provide to the concerned employees
  - a. The Company shall work to ensure the independence of auxiliary employees from Directors.
  - b. The Company shall address issues, including clarification of the following items necessary for ensuring the independence of auxiliary employees.
    - 1) The authority that auxiliary employees have
    - 2) Organizations which auxiliary employees belong to
    - 3) Elimination of the chain of command Directors have over auxiliary employees
    - 4) Granting of consent rights to statutory auditors regarding the reassignment, performance evaluation, disciplinary punishment, etc., of auxiliary employees
- (viii) System concerning reports to statutory auditors
  - a. A system that enables the directors and employees of the Company to submit reports to statutory auditors. The directors and employees of the Company shall report the following items without delay to statutory auditors concerning the execution of their duties.
    - 1) Items concerning important facts that may affect the Company significantly when such facts are found
    - 2) Items concerning acts in violation of laws, regulations or the Articles of Incorporation or acts with such risk when such facts are found
    - 3) Results of internal audits performed by the internal audit division (the Audit Office)
    - 4) The operational status for the Whistle-blowing System and the details of reports
  - b. A system that enables the Directors, statutory auditors and employees of subsidiaries or individuals who received reports from them to submit reports to the statutory auditors of the Company
    - 1) The directors and employees of the Company's subsidiaries shall report acts in violation of laws, regulations or the Articles of Incorporation, acts with such a risk or important facts that may affect the Company significantly to the statutory auditors of the Company without delay when they find such acts or facts.
    - 2) The internal audit divisions of the Company's subsidiaries shall report the results of internal audits performed at the subsidiaries to the statutory auditors of the Company.
- (ix) System for ensuring the prevention of unfavorable treatment of individuals who submitted reports to statutory auditors for the reason of having submitted such reports
 

The Company shall work to establish a system that prevents the unfavorable treatment of individuals who submitted the reports stated in the foregoing paragraph to statutory auditors for the reason for having submitted such reports.
- (x) Matters concerning procedures for the advance payment or the refunding of expenses that arise in connection with duty execution by statutory auditors or policies on processing expenses or debts that arise in connection with the execution of other concerned duties
 

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

- (xi) Other systems for ensuring the effectiveness of audits performed by statutory auditors
  - a. Statutory auditors shall meet Representative Directors periodically and exchange opinions with them regarding important audit issues.
  - b. Statutory auditors shall meet accounting auditors periodically, to exchange opinions and information with them, and ask them to submit reports as needed.
  - c. Statutory auditors shall stay in close cooperation with the internal audit division (the Audit Office). Statutory auditors may ask the internal audit division to perform investigations as needed.
- (xii) System for ensuring the reliability of financial reports
  - a. The Company shall establish the Internal Control Reporting System for ensuring the reliability of financial reports and submitting internal control reports effectively and appropriately as prescribed in the Financial Instruments and Exchange Act.
  - b. The Company shall continually evaluate internal control systems and take the necessary steps in order to correct them in order to ensure the compliance of such systems with the Financial Instruments and Exchange Act, other laws and regulations.
  - c. The internal audit division (the Audit Office), as a responsible division, shall implement monitoring, evaluation and assist in improving the operation of internal control systems.
- (xiii) Systems for excluding antisocial forces
  - a. The Company shall systematically deal with antisocial forces that threaten social order and sound corporate activities with a resolute attitude.
  - b. The Company shall deal with antisocial forces in cooperation with police, lawyers and external specialized agencies, such as corporate defense councils, when cases of unreasonable demand by such forces, and the like emerge.

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

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

(i) Compliance system

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

(ii) Risk management system

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

(iii) Directors’ execution of duties

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

(iv) Group management system

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

(v) Statutory auditors’ execution of duties

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

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2017)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>32,468</b>	<b>Current liabilities:</b>	<b>16,762</b>
Cash and deposits	4,666	Trade notes and accounts payable	9,606
Trade notes and accounts receivable	9,846	Short-term loans payable	4,183
Merchandise and finished goods	7,108	Income taxes payable	525
Work in process	3,756	Provision for bonuses	232
Raw materials and supplies	5,249	Provision for product warranties	322
Consumption taxes receivable	718	Other	1,892
Deferred tax assets	488	<b>Non-current liabilities:</b>	<b>1,902</b>
Other	676	Deferred tax liabilities	1,125
Allowance for doubtful accounts	-41	Provision for directors' retirement benefits	22
<b>Non-current assets:</b>	<b>17,659</b>	Net defined benefit liability	718
<b>Property, plant and equipment:</b>	<b>8,196</b>	Other	36
Buildings and structures	4,636	<b>Total non-current liabilities</b>	<b>18,665</b>
Machinery, equipment and vehicles	2,874	<b>NET ASSETS:</b>	
Land	450	<b>Shareholders' equity:</b>	<b>27,087</b>
Leased assets	17	Capital stock	12,345
Construction in progress	0	Capital surplus	478
Other	217	Retained earnings	17,250
<b>Intangible assets:</b>	<b>649</b>	Treasury stock	-2,986
<b>Investments and other assets:</b>	<b>8,813</b>	<b>Accumulated other comprehensive income:</b>	<b>3,533</b>
Investment securities	7,157	Valuation difference on available-for-sale securities	3,308
Shares of subsidiaries and associates	11	Foreign currency translation adjustment	329
Investments in capital of subsidiaries and associates	915	Remeasurements of defined benefit plans	-104
Long-term loans receivable	593	<b>Subscription rights to shares</b>	<b>842</b>
Deferred tax assets	2		
Other	131	<b>Total net assets</b>	<b>31,462</b>
<b>Total Assets</b>	<b>50,127</b>	<b>Total Liabilities and Total Net Assets</b>	<b>50,127</b>

## CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2016 to March 31, 2017)

(Million yen)

Account title	Amount
Net sales	41,050
Cost of sales:	31,418
Gross profit	9,631
Selling, general and administrative expenses	6,547
Operating income	3,083
Non-operating income:	325
Interest income	23
Dividend income	141
Insurance income	59
Share of profit of entities accounted for using equity method	11
Other	89
Non-operating expenses:	560
Interest expenses	185
Loss on sales of notes payable	90
Foreign exchange losses	25
Payment fee	156
Other	102
Ordinary income	2,848
Extraordinary income:	954
Gain on sales of non-current assets	871
Gain on reversal of subscription rights to shares	35
Subsidy income	47
Extraordinary losses:	135
Loss on retirement of non-current assets	91
Loss on sales of non-current assets	7
Impairment loss	26
Loss on valuation of golf club membership	9
Income before taxes and other adjustments	3,666
Corporate, inhabitant and enterprise taxes	1,076
Deferred taxes	-40
Net income	2,630
Net income attributable to owners of parent	2,630



**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

(From April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	12,345	5,884	15,653	-4,837	29,045
Change during the fiscal year					
Cash dividends paid			-1,034		-1,034
Net income attributable to owners of parent			2,630		2,630
Purchase of treasury stock				-3,734	-3,734
Disposal of treasury stock		-25		204	179
Retirement of treasury stock		-5,380		5,380	--
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	-5,405	1,596	1,850	-1,958
Balance as of March 31, 2017	12,345	478	17,250	-2,986	27,087

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2016	1,779	991	-123	2,647	900	32,594
Change during the fiscal year						
Cash dividends paid						-1,034
Net income attributable to owners of parent						2,630
Purchase of treasury stock						-3,734
Disposal of treasury stock						179
Retirement of treasury stock						--
Changes in items other than shareholders' equity during the fiscal year (net)	1,528	-662	19	885	-58	826
Total change during the fiscal year	1,528	-662	19	885	-58	-1,131
Balance as of March 31, 2017	3,308	329	-104	3,533	842	31,462

## 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: 7
- Names of major consolidated subsidiaries: TSUGAMI MACHINERY CO., LTD.  
TSUGAMI GENERAL SERVICE CO., LTD.  
PRECISION TSUGAMI (CHINA) CORPORATION  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd.  
TSUGAMI KOREA Co., Ltd.  
Precision Tsugami (China) Corporation Limited  
Precision Tsugami (Hong Kong) Limited

##### (ii) State of non-consolidated subsidiaries

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

#### (2) Application of equity method

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

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

1

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

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

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

- Names of major companies:

TSUGAMI (THAI) CO., LTD.  
TSUGAMI EUROPE GmbH  
TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED  
TSUGAMI Universal Pte. Ltd.  
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 fiscal year of consolidated subsidiaries, etc.

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

(4) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

- Securities without fair market value:

Cost accounting method using the moving average method

b. Valuation standard and valuation method for inventories

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

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

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

The 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, equipment, and structures, and fittings, equipment, and structures acquired on or after April 1, 2016, 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 assets (excluding leased assets)

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

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

c. Leased assets

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

(iii) Accounting standards for significant allowances

- a. Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- b. Allowance for employees' bonuses To prepare for bonus payments to employees of the Company and certain its consolidated subsidiaries, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.
- c. Allowance for directors' retirement benefits Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.
- d. Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company and certain its consolidated subsidiaries accrue repair expenses using an amount projected based on the past ratio of repairs.

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

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

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

a. Accounting standards for Net defined benefit liability

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

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

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

b. Accounting method for consumption taxes

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

## 2. Changes in accounting policy

(Application of practical solution on change in depreciation method due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, Practical Solution on a change in depreciation method due to Tax Reform 2016 (PITF No. 32 of June 17, 2016) was applied to the consolidated fiscal year under review. The depreciation method for fittings, equipment, and structures acquired on and after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on profit or loss for the consolidated fiscal year under review is insignificant.

## 3. Additional information

(Application of the Implementation Guidance on the Recoverability of Deferred Tax Assets)

Implementation Guidance on the Recoverability of Deferred Tax Assets (ASBJ No. 26 of March 28, 2016) was applied to the consolidated fiscal year under review.

## 4. Changes in Method of Presentation

(Consolidated Statements of Income)

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

"Payment fee" in the previous consolidated fiscal year was ¥82 million.

## 5. Notes to Consolidated Balance Sheets

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

(2) Aggregated depreciation for property, plant and equipment ¥10,229 million

(3) Amount of discount for bills receivable ¥1,141 million

Amount of discount for export bills receivable ¥2,333 million

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

Investments and other assets ¥2 million

(5) Contingent liability

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

## 6. Notes to Consolidated Statements of Changes in Net Assets

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

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	74,919 thousand	--	10,000 thousand	64,919 thousand

Note: The decrease of outstanding shares was due to the retirement of treasury stock of 1,000 thousand shares.

(2) Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	8,023 thousand	7,254 thousand	10,348 thousand	4,930 thousand

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

The decrease in common shares of treasury stock of 10,348 thousand shares was due to the exercise of stock options of 348 thousand shares and the retirement of treasury stock of 1,000 thousand shares.

(3) Matters relating to dividends

(i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 12, 2016

- Total amount of dividend	¥535 million
- Dividend per share	¥8
- Record date	March 31, 2016
- Effective date	May 30, 2016

Matters relating to dividends resolved at the Board of Directors meeting on November 11, 2016

- Total amount of dividend	¥499 million
- Dividend per share	¥8
- Record date	September 30, 2016
- Effective date	November 30, 2016

(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, 2017 for approval.

- Total amount of dividend	¥480 million
- Dividend per share	¥8
- Record date	March 31, 2017
- Effective date	May 29, 2017

Dividend resources are planned to be retained earnings.

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

	Resolved at the annual shareholders meeting on June 24, 2005	Resolved at the Board of directors meeting on June 23, 2006
Type of subject shares	Common shares	Common shares
Number of subject shares	59,000	22,000
Unexercised subscription rights to shares	59	22
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	14,000	29,000
Unexercised subscription rights to shares	14	29
	Resolved at the annual shareholders meeting on June 22, 2007	Resolved at the Board of directors meeting on June 20, 2008
Type of subject shares	Common shares	Common shares
Number of subject shares	24,000	37,000
Unexercised subscription rights to shares	24	37
	Resolved at the annual shareholders meeting on June 20, 2008	Resolved at the Board of directors meeting on June 19, 2009
Type of subject shares	Common shares	Common shares
Number of subject shares	12,000	93,000
Unexercised subscription rights to shares	12	93
	Resolved at the annual shareholders meeting on June 19, 2009	Resolved at the Board of directors meeting on June 18, 2010
Type of subject shares	Common shares	Common shares
Number of subject shares	42,000	51,000
Unexercised subscription rights to shares	42	51
	Resolved at the annual shareholders meeting on June 18, 2010	Resolved at the Board of directors meeting on June 17, 2011
Type of subject shares	Common shares	Common shares
Number of subject shares	25,000	92,000
Unexercised subscription rights to shares	25	92
	Resolved at the annual shareholders meeting on June 17, 2011	Resolved at the annual shareholders meeting on June 15, 2012
Type of subject shares	Common shares	Common shares
Number of subject shares	48,000	131,000
Unexercised subscription rights to shares	48	131

	Resolved at the Board of directors meeting on June 15, 2012	Resolved at the annual shareholders meeting on June 15, 2012
Type of subject shares	Common shares	Common shares
Number of subject shares	100,000	44,000
Unexercised subscription rights to shares	100	44
	Resolved at the Board of directors meeting on June 21, 2013	Resolved at the annual shareholders meeting on June 21, 2013
Type of subject shares	Common shares	Common shares
Number of subject shares	134,000	72,000
Unexercised subscription rights to shares	134	72
	Resolved at the annual shareholders meeting on June 21, 2013	Resolved at the Board of directors meeting on June 20, 2014
Type of subject shares	Common shares	Common shares
Number of subject shares	150,000	144,000
Unexercised subscription rights to shares	150	144
	Resolved at the annual shareholders meeting on June 20, 2014	Resolved at the annual shareholders meeting on June 20, 2014
Type of subject shares	Common shares	Common shares
Number of subject shares	63,000	170,000
Unexercised subscription rights to shares	63	170
	Resolved at the Board of directors meeting on June 18, 2015	Resolved at the annual shareholders meeting on June 18, 2015
Type of subject shares	Common shares	Common shares
Number of subject shares	119,000	84,000
Unexercised subscription rights to shares	119	84
	Resolved at the Board of directors meeting on June 22, 2016	Resolved at the annual shareholders meeting on June 22, 2016
Type of subject shares	Common shares	Common shares
Number of subject shares	160,000	139,000
Unexercised subscription rights to shares	160	139



## 7. Notes on Financial Instruments

### (1) Situation of financial instruments

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

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

Short-term loans payable are used for operating funds.

### (2) Market values of financial instruments

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2017. (Million yen)

	Carrying amount on the consolidated balance sheet (*)	Market value (*)	Difference
(i) Cash and deposits	4,666	4,666	--
(ii) Trade notes and accounts receivable	9,846	9,846	--
(iii) Investment securities			
Other securities	7,156	7,156	--
(iv) Trade notes and accounts payable	(9,606)	(9,606)	--
(v) Short-term loans payable	(4,183)	(4,183)	--

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

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

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

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

##### (iii) Investment securities, Other securities

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

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

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

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

## 8. Notes on Per Share Information

(1) Net assets per share ¥510.43

(2) Net income per share ¥41.91

## 9. Notes on Important Post-Balance Sheet Events

Not applicable.

## NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2017)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>17,756</b>	<b>Current liabilities:</b>	6,913
Cash and deposits	2,171	Trade notes payable	4,038
Trade notes receivable	125	Trade accounts payable	1,744
Accounts receivable	6,213	Accounts payable	162
Merchandise and finished goods	4,804	Accrued expenses payable	276
Work in process	1,107	Income taxes payable	148
Raw materials and supplies	1,891	Provision for product warranties	177
Consumption taxes receivable	715	Provision for bonuses	169
Payments into deposit	270	Other	196
Deferred tax assets	280	<b>Non-current liabilities</b>	<b>1,709</b>
Other	224	Deferred tax liabilities	1,121
Allowance for doubtful accounts	-48	Provision for retirement benefits	551
<b>Non-current assets:</b>	<b>15,575</b>	Other	36
<b>Property, plant and equipment</b>	<b>2,699</b>	<b>Total liabilities</b>	<b>8,622</b>
Buildings	1,810	<b>NET ASSETS:</b>	
Structures	45	<b>Shareholders' equity:</b>	<b>20,721</b>
Machinery and equipment	255	<b>Capital stock</b>	<b>12,345</b>
Vehicles	0	<b>Capital surplus:</b>	<b>478</b>
Tools, furniture and fixtures	119	Capital legal reserve	478
Land	450	<b>Retained earnings:</b>	<b>10,884</b>
Leased assets	17	Legal retained earnings	49
<b>Intangible assets:</b>	<b>58</b>	Other retained earnings:	10,834
Telephone subscription right	10	Retained earnings brought forward	10,834
Software	46	<b>Treasury stock</b>	<b>-2,986</b>
Leased assets	1	<b>Valuation and translation adjustments:</b>	<b>3,308</b>
<b>Investments and other assets:</b>	<b>12,817</b>	Valuation difference on available-for-sale securities	3,308
Investment securities	7,157	<b>Subscription rights to shares</b>	<b>679</b>
Shares of subsidiaries and associates	3,913		
Investments in capital of subsidiaries and associates	1,056		
Long-term loans receivable from subsidiaries and affiliates	611		
Long-term loans receivable	1		
Other	77	<b>Total net assets</b>	<b>24,708</b>
<b>Total Assets</b>	<b>33,331</b>	<b>Total Liabilities and Total Net Assets</b>	<b>33,331</b>

## NON- CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2016 to March 31, 2017)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>28,601</b>
<b>Cost of sales:</b>	<b>24,374</b>
<b>Gross profit</b>	<b>4,227</b>
<b>Selling, general and administrative expenses:</b>	<b>4,137</b>
<b>Operating income</b>	<b>89</b>
<b>Non-operating income:</b>	<b>779</b>
Interest income	12
Dividend income	587
Rent income	41
Reversal of allowance for doubtful accounts	3
Foreign exchange gains	21
Insurance income	55
Other	58
<b>Non-operating expenses:</b>	<b>161</b>
Rental asset expenses	30
Sales discount	6
Loss on sales of notes payable	64
Dormant expenses	27
Other	33
<b>Ordinary income</b>	<b>706</b>
<b>Extraordinary income:</b>	<b>905</b>
Gain on sales of non-current assets	869
Gain on reversal of subscription rights to shares	35
<b>Extraordinary losses:</b>	<b>114</b>
Loss on retirement of non-current assets	70
Loss on sales of non-current assets	7
Impairment loss	26
Loss on valuation of golf club membership	9
<b>Income before taxes</b>	<b>1,497</b>
Corporate, inhabitant and enterprise taxes	248
Deferred taxes	-4
<b>Net income</b>	<b>1,253</b>

## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2016 to March 31, 2017)

(Million yen)

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

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

## Notes to Non-Consolidated Financial Statements

### 1. Matters Concerning Significant Accounting Policies

#### (1) Valuation standard and valuation method for assets

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

#### (ii) Other securities:

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

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

#### (iii) Valuation standard and valuation method for inventories

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

#### (2) Depreciation method for non-current assets

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

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 assets (excluding leased assets)

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

##### (iii) Leased assets

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

(3) Accounting standards for allowances

- (i) Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
- (ii) Allowance for employees' bonuses To prepare for bonus payments to employees, an amount that needs to be paid in the fiscal year under review are provided as an estimate.
- (iii) Allowance for retirement benefits To prepare for retirement benefits payment to employees, the allowance is provided on the basis of amounts of retirement benefit obligations and pension assets estimated at the end of the fiscal year under review.  
Any actuarial difference is expensed equally from the fiscal year following its accrual over the average remaining service period (five years) of employees at the time of the accrual using the straight-line method.
- (iv) Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.

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

Accounting method for consumption taxes

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

## 2. Changes in accounting policy

(Application of practical solution on change in depreciation method due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, Practical Solution on a change in depreciation method due to Tax Reform 2016 (PITF No. 32 of June 17, 2016) was applied to the fiscal year under review. The depreciation method for fittings, equipment, and structures acquired on and after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on profit or loss for the fiscal year under review is insignificant.

## 3. Additional information

(Application of the Implementation Guidance on the Recoverability of Deferred Tax Assets)

Implementation Guidance on the Recoverability of Deferred Tax Assets (ASBJ No. 26 of March 28, 2016) was applied to the fiscal year under review

## 4. Changes in Method of Presentation

(Non- Consolidated Balance Sheet)

"Consumption taxes receivable" which had been included in "Other" of the current assets in the previous fiscal year, was posted as a separate item in the fiscal year under review because of an increase in its importance in terms of the amount.

"Consumption taxes receivable" in the previous fiscal year was ¥757 million.

"Prepaid expenses" which had been posted as a separate item in the previous fiscal year, was included in "Other" of the current assets in the fiscal year under review because of the amount decrease in its importance in terms of the amount.

"Prepaid expenses" in the fiscal year under review was ¥66 million.

## 5. Notes to Non-Consolidated Balance Sheets

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

(2) Aggregated depreciation for property, plant and equipment	¥6,940 million
(3) Amount of discount for bills receivable	¥1,141 million
Amount of discount for export bills receivable	¥2,333 million
(4) The amount of an allowance for doubtful accounts that is directly deducted from assets	
Investments and other assets	¥3 million
(5) Monetary receivables from and monetary payables to affiliates are as follows:	
(i) Short-term monetary receivables	¥3,477 million
(ii) Long-term monetary receivables	¥611 million
(iii) Short-term monetary payables	¥684 million

(6) Contingent liability

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

## 6. Notes to Non-Consolidated Statements of Income

Transactions with affiliates

(1) Transactions by business transactions

Sales	¥11,771 million
Purchases	¥8,782 million
Selling, general and administrative expenses	¥144 million

(2) Transactions other than business transactions

Dividend income	¥446 million
Other	¥48 million

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

Matters relating to the number of treasury stock

Share type	Number of shares at the beginning of the current fiscal year	Increase in shares in the fiscal year under review	Decrease in shares in the fiscal year under review	Number of shares at the end of the fiscal year under review
Common shares	8,023 thousand	7,254 thousand	10,348 thousand	4,930 thousand

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

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

## 8. Deferred Tax Accounting

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

## 9. Notes on Non-current assets Used under Lease Contracts

Not applicable.

## 10. Notes on Transactions with Related Parties

### Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	PRECISION TSUGAMI (CHINA) CORPORATION	(Owning) Indirect: 100.0%	Manufacture and sales of products of the Company Purchase of products of the company Concurrent service by directors	Sales of the Company's products and parts	6,597	Accounts receivable	1,425
				Purchase of products of the company (Note1)	8,391	Accounts payable	601
Subsidiary	TSUGAMI KOREA CO., LTD.	(Owning) Direct: 100.0%	Sales of the Company's products and parts Concurrent service by directors	Sales of the Company's products and parts (Note1)	420	Accounts receivable	373
Subsidiary	TSUGAMI Universal Pte. Ltd.	(Owning) Direct: 80.0%	Sales of the Company's products and parts Concurrent service by directors	Sales of the Company's products and parts (Note1)	421	Accounts receivable	526
Affiliate	REM SALES LLC	(Owning) Direct: 29.5%	Sales of the Company's products and parts	Sales of the Company's products and parts (Note1)	2,623	Accounts receivable	56
Affiliate	TSUGAMI PRECISION ENGINEERING INDIA PVT.LTD.	(Owning) Direct: 81.0%	Manufacture and sales of products of the Company Concurrent service by directors	Sales of the Company's products and parts (Note1)	666	Accounts receivable	692
				Lending of funds (Note2)	--	Long-term loans receivable	588

Business terms and policies for their determination, etc.

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

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

## 11. Notes on Per Share Information

(1) Net assets per share                      ¥400.56

(2) Net income per share                      ¥19.96

## 12. Notes on Important Post-Balance Sheet Events

Not applicable.



# Accounting Audit Report on Consolidated Financial Statements

## Independent Auditors' Report

May 10, 2017

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Kazunari Tsukada

Designated Limited Partner and Operating Partner  
Certified Public Accountant

Eishi Daikoku

Designated Limited Partner and Operating Partner  
Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements, for the consolidated fiscal year from April 1, 2016 to March 31, 2017, in accordance with Paragraph 4, Article 444 of the Company Law.

### Responsibility of management for consolidated financial statements

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

### Responsibility of the auditor

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

In the audits, procedures to obtain audit evidence for the amounts and disclosure of consolidated financial statements are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these consolidated financial statements due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of consolidated financial statements to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of consolidated financial statements as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

### Auditor's opinion

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

### Interest

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

# Accounting Audit Report on Non-Consolidated Financial Statements

## Independent Auditors' Report

May 10, 2017

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Kazunari Tsukada  
Designated Limited Partner and Operating Partner  
Certified Public Accountant

Eishi Daikoku  
Designated Limited Partner and Operating Partner  
Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements and their supporting schedules of changes in net assets, notes to non-consolidated financial statements, and their supporting schedules, for the 114<sup>th</sup> fiscal year from April 1, 2016 to March 31, 2017, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law.

### Responsibility of management for non-consolidated financial statements

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

### Responsibility of the auditor

This audit corporation is responsible for expressing its opinions on the non-consolidated financial and their supporting schedules statements from an independent position based on audits it conducted. We conducted our audits in accordance with auditing standards generally accepted in Japan. Such auditing standards require this audit corporation to formulate an audit plan to obtain reasonable assurance for the absence of material misstatements in these non-consolidated financial statements and their supporting schedules and conduct audits based on the audit plan.

In the audits, procedures to obtain audit evidence for the amounts and disclosure of non-consolidated financial statements and their supporting schedules are conducted. The audit procedures are selected and applied based on an evaluation of the risk of material misstatements in these non-consolidated financial statements and their supporting schedules due to wrongdoing or error. Although the purpose of the audits is not to express our opinions on the effectiveness of internal control, we examine the internal control related to the preparation and appropriate presentation of non-consolidated financial statements and their supporting schedules to design appropriate audit procedures in accordance with circumstances for implementing the risk evaluation. The audits also include an examination of the presentation of non-consolidated financial statements and their supporting schedules as a whole, including accounting policies adopted by management and the application method thereof and an evaluation of estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence that will become a basis upon which to express our opinion.

### Auditor's opinion

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

### Interest

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

## Report by the Board of Statutory Auditors

### Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 114<sup>th</sup> fiscal year from April 1, 2016 to March 31, 2017 prepared by Statutory Auditors.

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

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

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

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

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

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

## 2. Results of the Audit

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

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

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

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

### (3) Results of the audit of consolidated financial statements

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

May 11, 2017

Board of Statutory Auditors  
Tsugami Corporation

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

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

## Reference Materials for the Annual Shareholders Meeting

### Item 1: Appointment of Nine Directors

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

We therefore propose the appointment of nine Directors, increasing Directors by two to strengthen the management system.

The nine 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)	<p>May 1970      Joined the Fuji Bank, Limited. (now Mizuho Bank, Ltd.)</p> <p>February 1999      Deputy General Manager of the Sales Division of Tokyo Seimitsu Co., Ltd.</p> <p>May 1999      General Manager of the Sales Development Division of the Company and Managing Director of Tsugami Kohan Co., Ltd.</p> <p>June 2000      Director and General Manager of the Sales Development Division, Control Headquarters</p> <p>April 2003      Representative Director, Chairman and CEO</p> <p>April 2012      Representative Director, Chairman and CEO (current positions)</p>	10 thousand
2	Toshiharu Niijima (November 14, 1954)	<p>November 1979      Joined the Company</p> <p>October 2003      Leader of the Automatic Lathe Group, Technology Headquarters</p> <p>April 2006      Managing Executive Officer and General Manager of the Technology Headquarters</p> <p>June 2008      Director, Managing Executive Officer, General Manager of the Technology Headquarters, Deputy General Manager of the Production Headquarters and General Manager of the Nagaoka Factory</p> <p>April 2009      Director, Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>June 2009      Representative Director, Senior Executive Officer and General Manager of the Nagaoka Factory</p> <p>April 2012      Representative Director, COO, Plant Manager</p> <p>December 2014      Representative Director, COO, Technology Manager (current positions)</p>	14 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
3	Toshio Honma (August 2, 1952)	<p>April 1975      Joined The Hokuetsu Bank, Ltd.</p> <p>April 2002      Manager of the Nagaoka Shinsan Branch of The Hokuetsu Bank, Ltd.</p> <p>April 2004      Manager of the Shinmachi Branch of The Hokuetsu Bank, Ltd.</p> <p>April 2006      Manager of the Naoetsu Branch of The Hokuetsu Bank, Ltd.</p> <p>April 2008      Managing Executive Officer and General Manager of the Administration Division of the Company</p> <p>June 2009      Director, Managing Executive Officer and General Manager of the Administration Division of the Company</p> <p>June 2011      Standing Statutory Auditor</p> <p>June 2013      Representative Director, COO, Administration</p> <p>April 2017      Representative Director, CFO (current position)</p>	10 thousand
4	Byun Jae- Hyun (July 10, 1956)	<p>October 1982    General Manager of the Import Business Division of Samsung C&amp;T Corporation</p> <p>July 2000        CEO of DI Corporation</p> <p>January 2007    Vice President of Exicon Co., Ltd.</p> <p>January 2010    President of TSUGAMI KOREA Co., Ltd.</p> <p>April 2012      Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>June 2012      Director, Senior Executive Officer, Overseas division, President of TSUGAMI KOREA Co., Ltd.</p> <p>June 2013      Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd., President of TSUGAMI Universal Pte. Ltd.</p> <p>September 2014 Director, Senior Advisor, President of TSUGAMI KOREA Co., Ltd. (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
5	* Nobuyuki Nagai (November 18, 1956)	<p>April 1979      Joined the Company</p> <p>June 2000      General manager of the Sales and Planning Division</p> <p>April 2004      Executive Officer and Head of Overseas sales</p> <p>April 2013      Senior Executive Officer, General Manager of the Purchasing Division</p> <p>February 2015   Senior Executive Officer, General Manager of the Product Control Division</p> <p>October 2016   Executive Advisor, General Manager of the Administration Division</p> <p>April 2017      Executive Advisor, Plant Manager and General Manager of the Administration Division (current positions)</p>	53 thousand
6	* Wang Xiaokun (November 7, 1971)	<p>January 2006    Joined Shokuken Co., Ltd.,</p> <p>November 2007   Dupy Manager of Rongcheng Bodelong Foodstuff Co., Ltd.,</p> <p>March 2011      Vice President of the Sales Division of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>January 2013    General Manager of the Sales Division of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>August 2013    Vice President of PRECISION TSUGAMI (CHINA) CORPORATION and General Manager of Sales Division I</p> <p>December 2015   Vice President and Head of Sales of PRECISION TSUGAMI (CHINA) CORPORATION</p> <p>November 2016   Director, Vice president and Executive General Manager of Sales Department 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</p> <p>June 2002      Director of Nippon Pillar Packing Co., Ltd.</p> <p>June 2007      Auditor at FANUC Ltd. (current position)</p> <p>June 2008      Director of the Company (current position)</p> <p>February 2014   Director of OSG CORPORATION (current position)</p> <p>April 2015      CEO of Fine Tech Corporation (current position)</p> <p>August 2016    Director of Sharp Corporation (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	Shigeru Nishiyama (March 4, 1948)	<p>June 1971      Joined Mitsui Bank (now Sumitomo Mitsui Banking Corporation)</p> <p>June 2006      Deputy President and Representative Director of Sumitomo Mitsui Financial Group, Inc.</p> <p>December 2008      Representative Director, President of HORAI Co., Ltd.</p> <p>June 2010      Representative Director, CEO of HORAI Co., Ltd.</p> <p>June 2013      Director of the Company (current position)</p> <p>June 2013      Auditor at Mitsui Sugar Co., Ltd. (current position)</p>	0
9	Kunio Shimada (August 16, 1959)	<p>April 1986      Registered as an attorney 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 &amp; Osajima (current position)</p> <p>June 2011      Director of the Company (current position)</p> <p>November 2013      Supervisory Officer of Hulic Reit, Inc. (current position)</p>	0

- Notes
1. The person marked with an asterisk are candidates for new directors.
  2. Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada are candidates for the position of outside directors.
  3. The Company has notified the Tokyo Stock Exchange of the appointment of Mr. Takeo Nakagawa and Mr. Kunio Shimada as independent directors.
  4. The Company requests the appointment of Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama 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.
  5. Mr. Takeo Nakagawa concurrently holds the position of Director and CEO of Fine Tech Corporation. The Company has sold products, etc. (amounting to ¥0.6 million in the fiscal year ended March 31, 2017) to Fine Tech Corporation, but these sales are insignificant and the Company believes that these transactions have no impact on Mr. Takeo Nakagawa's independence and that Mr. Takeo Nakagawa is capable of executing the duties of outside and independent director appropriately.  
Mr. Shigeru Nishiyama served as Director of Sumitomo Mitsui Financial Group, Inc. (the financial holding company of Sumitomo Mitsui Banking Corporation) until June 2008. The Sumitomo Mitsui Financial Group, Inc. is one of the Company's main financial institutions.  
No special interest exists between the Company and each of the other candidates for the position of Director.
  6. The Company has executed an agreement with Mr. Takeo Nakagawa, Mr. Shigeru Nishiyama and Mr. Kunio Shimada on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the provisions of Paragraph 1, Article 427 thereof. When Mr. Nakagawa, Mr. Nishiyama and Mr. Shimada are reappointed as Directors, the Company will execute an agreement with these three Directors on the limitation of liability for damages as provided for under the provisions of Paragraph 1, Article 423 of the Companies Act according to the Articles of Incorporation of the Company and the provisions of Paragraph 1, Article 427 of the Companies Act. In addition, the limited amount of liability for damages under the said agreement shall be the minimum liability stipulated under laws.
  7. Although Mr. Takeo Nakagawa, Shigeru Nishiyama and Mr. Kunio Shimada are currently outside directors of the Company, their term of office as outside director is nine years for Mr. Takeo Nakagawa, four years for Mr. Shigeru Nishiyama and six years for Mr. Kunio Shimada at the close of this annual shareholders meeting.



**Item 2: Appointment of One Statutory Auditor**

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

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

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

Name (Date of birth)	Career summary, and positions and responsibilities at the Company (including representation at other companies, etc.)	Number of shares in the Company held
Kenji Yoneyama (March 7, 1965)	April 1988      Joined The Hokuetsu Bank, Ltd. April 2011      Manager of the Ishiyama Branch of The Hokuetsu Bank, Ltd. April 2013      Manager of the Kanda Branch of The Hokuetsu Bank, Ltd. April 2015      Advisor of Accounting of the Company October 2015    General Manager of Finance and Administration April 2016      General Manager of Accounting April 2017      Senior Advisor of Accounting (current position)	0

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

**Item 3:** Delegation of the decision about the offering of subscription rights to shares as stock options for a stock-linked compensation plan to the Board of Directors with conditions particularly favorable to executive officers of the Company and employees with similar positions

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

1. Reason for offering of the subscription rights to shares for subscription under especially favorable conditions  
The Company has been granting subscription rights to shares as stock options for a stock-linked compensation plan. The grants were designed to establish a closer link between the Company's stock prices and results and the officers and employees so that they share with shareholders not only benefits from high stock prices, but also the risks of low stock prices, bolstering their morale and enthusiasm for improving business results.
2. The outline and the numerical limit of the subscription rights to shares whose offering terms may be determined based on the resolution made at the above general meeting of shareholders scheduled

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

The maximum number of the subscription rights to shares as described in below (3) shall be 86.

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 86,000 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:

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

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.