

Stock code: 6101  
May 31, 2010

To our shareholders,

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

## **Notice of the 107<sup>th</sup> Annual Shareholders Meeting**

You are cordially invited to attend the 107<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 Thursday, June 17, 2010.

### **Meeting Details**

- 1. Date & Time** 10:00am, Friday, June 18, 2010
- 2. Venue** Conference Room at the Company’s Nagaoka Plant at 1-1-1 Higashizao, Nagaoka-shi, Niigata Prefecture. (Please refer to the attached map.)
- 3. Agenda:**

#### **Items to be reported**

1. The Business Report, the Consolidated Financial Statements, and the report on the audit of the consolidated accounts by the Independent Auditors and the Board of Corporate Auditors for the 107<sup>th</sup> term, from April 1, 2009 to March 31, 2010, will be reported at the meeting.
2. The Non-Consolidated Financial Statements for the 107<sup>th</sup> term, from April 1, 2009 to March 31, 2010, will be reported at the meeting.

**Items to be resolved**

**Item 1:** Appointment of Seven Directors

**Item 2:** Appointment of Two Statutory Auditors

**Item 3:** Appointment of One Reserve Statutory Auditor

**Item 4:** Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options for a stock-linked compensation plan with conditions particularly favorable to executive officers of the Company and employees with similar positions

**Item 5:** Delegation to the Company's Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

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

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

(Attachment)

## **Business Report**

(From April 1, 2009 to March 31, 2010)

### **I. Current Status of the Group**

#### **(1) Business Performance for the Fiscal Year Ended March 31, 2010**

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

Although there were signs of a recovery from the business downturn triggered by the global financial insecurity in the consolidated fiscal year under review, the Japanese economy continued to struggle in comparison to its situation before the global economic crisis.

The machine tool industry has been recovering slightly overall, but has yet to reach pre-crisis levels. Nonetheless, demand in China and other emerging economies in Asia has been improving since the end of last year, and the IT industry, including the HDD industry, has achieved a remarkable recovery.

In this environment, the Group continued to supply precision processing machinery to markets to meet the needs in China and other emerging economies. It also responded to more sophisticated needs in the IT industry based on the expertise precision processing expertise the Group has accumulated over many years.

As a result of these efforts, orders have been at high levels since the fourth quarter. Meanwhile, the entire Group reviewed its production system and sought to improve efficiency. For example, to increase production capacity, respond to a strong yen, and enhance price competitiveness, the Group boosted production in its China plant.

Sharp declines in net sales up to the third quarter were not offset by rises in the fourth quarter, and as a result, consolidated net sales fell 31.2% year on year, to 15,598 million yen.

Consolidated net sales in Japan dropped 59.7% year on year, to 4,346 million yen. Consolidated exports slipped 5.5%, to 11,251 million yen. The export ratio rose from 52.5% for the previous fiscal year, to 72.1%.

Sales in the machine tool business meanwhile plunged 31.4% year on year, to 15,084 million yen.

Looking at sales by machine category, consolidated net sales for flagship automatic lathes were down 18.2% year on year, to 11,712 million yen, reflecting a fall in auto parts-related sales in Japan and a decrease in sales for the IT industry up to the third quarter. Consolidated net sales for grinding machines also dropped 69.1% year on year, to 997 million yen, owing to a decline in sales to auto parts manufacturers in Japan and other customers. Consolidated net sales for machining centers plunged 71.7% year on year, to 539 million yen, while consolidated net sales for rolling and other machines were down 27.4%, to 1,834 million yen. Consolidated net sales for specialized machines and other businesses came to 514 million yen, down 26.5% from the previous fiscal year.

As a result of the changes described above, consolidated operating income declined 89.5% year on year, to 84 million yen. A consolidated ordinary loss of 117 million yen and a consolidated net loss of 244 million yen were posted.

(ii) Capital Investments Activities

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

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

Total investments amounted to 381 million yen, funded through the Company's own funds.

(iii) Financing Activities

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

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

(Million yen)

Category	104 <sup>th</sup> term ended March 31, 2007	105 <sup>th</sup> term ended March 31, 2008	106 <sup>th</sup> term ended March 31, 2009	107 <sup>th</sup> term ended March 31, 2010
Net sales	36,557	28,495	22,687	15,598
Ordinary income (loss)	5,535	2,756	626	-117
Net income (loss)	3,447	1,629	-873	-244
Net income (loss) per share	46.36 yen	23.03 yen	-12.88 yen	-3.65 yen
Total assets	35,943	32,732	25,703	31,147
Net assets	23,450	21,916	19,718	19,882

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

(i) Parent company

Not applicable

(ii) Principal subsidiaries

Company name	Capital	Voting share of the Company	Main business
Tsugami Machinery Co., Ltd.	60 million yen	100.0%	Sales, installation and repairing of machine tool parts
Tsugami General Service Co., Ltd.	42 million yen	100.0%	Inspections and maintenance of buildings and facilities of plants, and non-life insurance agency operations
Tsugami Precision Co., Ltd.	10 million yen	100.0%	Manufacturing of measuring equipment and prototype standard
Precision Tsugami (China) Corporation	71 million yuan	100.0%	Manufacturing and sales of machine tools

#### **(4) Challenges to Address**

(Challenges in the medium to long term)

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

(i) Introduction of new products targeting growth fields

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

(ii) Business strategies targeting growth regions

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

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

(iii) Management streamlining and customer satisfaction enhancement

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

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

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

(Immediate Challenges)

During the fiscal year under review, the sharply worsening business environment triggered by the financial crisis in the United States had a strong adverse effect on the Company's operating results. However, demand in China and other emerging economies in Asia has been picking up since the end of last year, and the IT industry, including the HDD industry, is staging a remarkable recovery. With these trends, the Company has been receiving strong orders since the fourth quarter and is striving to increase production capacity primarily in its China plant.

#### **(5) Principal Businesses (as of March 31, 2010)**

Manufacturing and sale of precision machine tools and precision tools

**(6) Main Offices and Factories (as of March 31, 2010)****(i) Tsugami Corporation**

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

**(ii) Subsidiaries**

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

**(7) Employees (as of March 31, 2010)****(i) Employees of the Tsugami Group**

Number of employees	Change from the end of the previous term
570 (182)	Down 10 (Down 222)

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

**(ii) Employees of Tsugami Corporation**

Number of employees	Change from the end of the previous term	Average age	Average service years
517 (47)	Down 6 (Down 143)	43.5 years old	18.7 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, 2010)**

Lender	Outstanding loan amount
Sumitomo Mitsui Banking Corporation	100 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	100 million yen
The Hokuetsu Bank, Ltd.	100 million yen
Sumitomo Mitsui Banking Corporation (China) Limited	299 million yen (22 million yuan)
Bank of Tokyo-Mitsubishi UFJ(China),Ltd.	204 million yen (15 million yuan)
Mizuho Corporate Bank (China), Ltd.	204 million yen (15 million yuan)

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

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

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

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

Since the Company posted a net loss in the first half of the fiscal year ended March 31, 2010, it did not pay any interim dividends. However, performance picked up as orders in the fourth quarter were strong, and the Company has decided to pay a year-end dividend of ¥5 per share.

The Company plans to pay an annual dividend of ¥10 per share, an interim dividend of ¥5 and a year-end dividend of ¥5, in the fiscal year ending March 31, 2011.

## II. Current Status of the Company

### (1) Shares (as of March 31, 2010)

- (i) Number of authorized shares: 320,000,000  
(ii) Number of shares outstanding: 68,019,379  
(iii) Number of shareholders: 13,279  
(iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.)	4,592	6.86
The Dai-ichi Mutual Life Insurance Company (now The Dai-ichi Life Insurance Company, Limited)	2,100	3.14
Mori Seiki Co., Ltd.	2,000	2.99
Sumitomo Mitsui Banking Corporation	1,516	2.26
The Hokuetsu Bank, Ltd.	1,484	2.21
Japan Trustee Services Bank, Ltd. (trust account)	1,314	1.96
Tsugami Customers' Shareholding Association	1,313	1.96
The Master Trust Bank of Japan, Ltd. (trust account)	1,274	1.90
Bank of New York GCM Client Account JPRD ISG FE-AC (Standing agency: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1,082	1.61
SIX SIS Ltd. (Standing agency: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1,011	1.51

- Notes
1. In calculating the ratio of holdings, treasury stock was excluded. The ratio was rounded down to the second decimal place.
  2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu Co., Ltd., new trust custodian: Trust & Custody Services Bank, Ltd.) are an employee retirement benefit trust that Tokyo Seimitsu has created at Mizuho Trust & Banking, and Tokyo Seimitsu reserves the right to direct the exercise of the voting rights associated with the shares. The Company holds 1,033 thousand shares in Tokyo Seimitsu (2.50% of the stock).
  3. Although the Company holds 1,154 thousand shares of treasury stock, it is excluded from the list of major shareholders.



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

**(i) Subscription rights to shares held by directors (as of March 31, 2010)**

Date of relevant resolution		June 24, 2005	June 23, 2006
Number of subscription rights to shares		119	51
Type and number of shares underlying subscription rights to shares		Common shares: 119,000 (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	608 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 1, 2005 to June 30, 2025	From July 21, 2006 to July 20, 2026
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the “Subscription Rights to Shares Allocation Agreement,” entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 3 Number of subscription rights to shares held: 68 Number of shares to be issued: 68,000	Number of holders: 2 Number of subscription rights to shares held: 34 Number of shares to be issued: 34,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: 3 Number of subscription rights to shares held: 27 Number of shares to be issued: 27,000	Number of holders: 3 Number of subscription rights to shares held: 17 Number of shares to be issued: 17,000

Date of relevant resolution		June 23, 2006	June 22, 2007
Number of subscription rights to shares		46	67
Type and number of shares underlying subscription rights to shares		Common shares: 46,000 (1,000 shares per subscription rights to share)	Common shares: 67,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	513 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 21, 2006 to July 20, 2026	From July 10, 2007 to July 9, 2027
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 16 Number of shares to be issued: 16,000	Number of holders: 2 Number of subscription rights to shares held: 46 Number of shares to be issued: 46,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 21 Number of shares to be issued: 21,000
Date of relevant resolution		June 22, 2007	June 20, 2008
Number of subscription rights to shares		72	83
Type and number of shares underlying subscription rights to shares		Common shares: 72,000 (1,000 shares per subscription rights to share)	Common shares: 83,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	279 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 10, 2007 to July 9, 2027	From July 8, 2008 to July 7, 2028
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 2 Number of subscription rights to shares held: 24 Number of shares to be issued: 24,000	Number of holders: 4 Number of subscription rights to shares held: 54 Number of shares to be issued: 54,000
	Outside directors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 1 Number of subscription rights to shares held: 4 Number of shares to be issued: 4,000
	Auditors	Number of holders: - Number of subscription rights to shares held: - Number of shares to be issued: -	Number of holders: 3 Number of subscription rights to shares held: 20 Number of shares to be issued: 20,000

Date of relevant resolution		June 20, 2008	June 19, 2009
Number of subscription rights to shares		51	191
Type and number of shares underlying subscription rights to shares		Common shares: 51,000 (1,000 shares per subscription rights to share)	Common shares: 191,000 (1,000 shares per subscription rights to share)
Issue price of subscription rights to shares		Gratuitous	123 yen
Amount to be paid for the exercise of subscription rights to shares		One yen per share	One yen per share
Exercise period		From July 8, 2008 to July 7, 2028	From July 7, 2009 to July 6, 2029
Conditions for the exercise of subscription rights to shares		Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.	Partial exercise of each subscription rights to shares is not allowed. Other conditions shall be as set forth in the "Subscription Rights to Shares Allocation Agreement," entered into between the Company and each holder.
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 1 Number of subscription rights to shares held: 8 Number of shares to be issued: 8,000	Number of holders: 5 Number of subscription rights to shares held: 136 Number of shares to be issued: 136,000
	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: 14 Number of shares to be issued: 14,000
	Auditors	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: 41 Number of shares to be issued: 41,000
Date of relevant resolution		June 19, 2009	
Number of subscription rights to shares		800	
Type and number of shares underlying subscription rights to shares		Common shares: 800,000 (1,000 shares per subscription rights to share)	
Issue price of subscription rights to shares		Gratuitous	
Amount to be paid for the exercise of subscription rights to shares		225 yen per share	
Exercise period		From July 7, 2011 to June 30, 2014	
Conditions for the exercise of subscription rights to shares		Conditions are specified by resolutions of the Board of Directors of the Company and Subscription Rights to Shares Allocation Agreements between the Company and persons to receive subscription rights to shares based on the resolutions.	
Status of subscription rights to shares held by directors	Directors (excluding outside directors)	Number of holders: 5 Number of subscription rights to shares held: 160 Number of shares to be issued: 160,000	
	Outside directors	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: 24 Number of shares to be issued: 24,000	

(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 19, 2009

- Number of subscription rights to shares  
800 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
800,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
225,000 yen per unit (225 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 256 yen  
Amount per share to be credited to capital: 128 yen
- Period during which subscription rights to shares can be exercised  
From July 7, 2011 to June 30, 2014
- 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	582	582,000	122
Directors of the Company’s subsidiaries	34	34,000	7

Subscription rights to shares resolved by the annual shareholders meeting held on June 19, 2009

- Number of subscription rights to shares  
111 (1,000 shares per subscription rights to share)
- Number of shares underlying subscription rights to shares  
111,000
- Amount to be paid for the exercise of subscription rights to shares  
Gratuitous
- Amount invested when exercising a subscription rights to share  
1,000 yen per unit (1 yen per share)
- Items related to an increase in capital and capital legal reserve when shares are issued as a result of the exercise of the subscription rights to shares  
Issue price: 124 yen  
Amount per share to be credited to capital: 62 yen
- Period during which subscription rights to shares can be exercised  
From July 7, 2009 to July 6, 2029
- Conditions for the exercise of the subscription rights to shares
  - (i) In principle, a person having new subscription rights to shares may exercise them only if he or she relinquishes all positions of director (or executive officer in a company with a committees system), statutory auditor, executive officer with a specific title, and employee similar to these positions. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
  - (ii) Any conditions for the exercise of subscription rights to shares other than the above shall be approved by the Board of Directors.
- Status of subscription rights to shares held by the Company's employees, etc.

	Number of subscription rights to shares	Number of shares to be issued	Number of holders
Employees of the Company	111	111,000	14

### (3) Officers

#### (i) Directors and Statutory Auditors (as of March 31, 2010)

Names	Position, responsibility and important concurrent post
Takao Nishijima	Representative Director (Chairman and CEO)
Nobuyuki Moriuchi	Representative Director (Senior Executive Officer)
Yoshiharu Kikuchi	Representative Director (Senior Executive Officer)
Toshiharu Niijima	Representative Director (Senior Executive Officer)
Toshio Honma	Director (Managing Executive Officer)
Takeo Nakagawa	Director
Mitsuhiro Masumi	Director
Ikuo Oomiya	Standing Statutory Auditor
Kyouji Umeoka	Statutory Auditor
Kouichiro Watanabe	Statutory Auditor
Kunimasa Ohta	Statutory Auditor; CFO of Tokyo Seimitsu Co., Ltd.

- Notes
1. Directors Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi are outside directors.
  2. The Company has notified the Tokyo Stock Exchange of the appointment of Director Mr. Takeo Nakagawa as an independent director.
  3. Mr. Kyouji Umeoka, Mr. Kouichiro Watanabe, and Mr. Kunimasa Ohta, the Statutory Auditors, are outside auditors.
  4. Important concurrent positions of the Company's officers in the fiscal year under review:  
The details are stated in the items associated with outside officers.

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

Not applicable

#### (iii) Compensation paid to Directors and Statutory Auditors

Post	Number of Officers	Total amount of compensation, etc.
Directors (Outside Directors included)	8 (2)	126 million yen (11 million yen)
Statutory Auditors (Outside Statutory Auditors included)	5 (4)	38 million yen (19 million yen)
Total (Outside Officers included)	13 (6)	164 million yen (30 million yen)

- Notes
1. The above figures include one director and one outside statutory auditor who retired at the end of the 106<sup>th</sup> annual shareholders meeting held on June 19, 2009.
  2. Total compensation, etc. for directors did not include salaries paid to employees concurrently holding a position as director.
  3. The maximum amount of compensation, etc. for directors was resolved to be not more than cash compensation of 200 million yen per annum by the 103<sup>rd</sup> annual shareholders meeting (excluding salaries for employees). In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 60 million yen per annum by the 104<sup>th</sup> annual shareholders meeting.
  4. The maximum amount of compensation, etc. for statutory auditors was resolved to be not more than cash compensation of 60 million yen per annum by the 103<sup>rd</sup> annual shareholders meeting. In addition to the above compensation, the maximum amount of compensation, etc. associated with subscription rights to shares allocated as stock options for a stock-linked compensation plan was resolved to be not more than 20 million yen per annum by the 104<sup>th</sup> annual shareholders meeting.
  5. The total amount of compensation, etc. included the following compensation.

- Compensation in the form of stock options
  - 8 directors: 20 million yen (including 2 million yen for 2 outside directors)
  - 5 statutory auditors: 6 million yen (including 3 million yen for 4 outside statutory auditors)

(iv) Matters concerning out officers

- a. Posts held concurrently by outside officers (in the case of the executing persons of other companies) and relationships between the Company and other relevant companies
  - Mr. Takeo Nakagawa, Director, concurrently holds the position of Director; CEO of FINETECH Inc.
  - Statutory Auditor Mr. Kyouji Umeoka stepped down as advisor of Mori Seiki Co., Ltd. on March 31, 2010. The Company has trading relationships, including sales of products, with Mori Seiki Co., Ltd.
  - Kouichiro Watanabe, Statutory Auditor concurrently, holds the position of Director and Senior Managing Executive Officer of the Daiichi Mutual Life Insurance Company (now The Dai-ichi Life Insurance Company, Limited). He became president and representative director of The Dai-ichi Life Insurance Company, Limited on April 1, 2010. The Company has concluded insurance agreements, including corporate pension plans, with The Dai-ichi Life Insurance Company, Limited.
  - Mr. Kunimasa Ohta, the Statutory Auditor, concurrently holds the position of CFO of Tokyo Seimitsu Co., Ltd. The Company has trading relationships, including sales of products, with Tokyo Seimitsu Co., Ltd.
- b. Concurrent posts in other companies (e.g. outside officer in another company) and the relationships between the Company and the other companies
  - Mr. Takeo Nakagawa, the Director, concurrently holds the position of Outside Statutory Auditor of FANUC Ltd. and the position of Outside Director of Nippon Pillar Packing Co., Ltd. The Company has trading relationships, including sales of products, with FANUC Ltd.
  - Mr. Mitsuhiro Masumi, the Director, concurrently holds the position of Outside Director of Sanki Engineering Co., Ltd. and the position of Outside Statutory Auditor of Toho Co., Ltd.
- c. Major activities in the fiscal year under review

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

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

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

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



**(4) Status of Independent Auditor**

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

KPMG AZSA & Co. ceased to be the accounting auditor of the Company when its term expired at the end of the 106th annual shareholders meeting held on June 18, 2009. At the shareholders meeting, Ernst & Young ShinNihon LLC was appointed the accounting auditor of the Company. Ernst & Yong ShinNihon carried out an accounting audit for the fiscal year under review.

(ii) Amount of Compensation

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

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

(iii) Details of non-audit services

Not applicable

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

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

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

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

There are no contracts in question.

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

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

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

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

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

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

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

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

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

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

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

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

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

(ix) Systems for ensuring the reliability of financial reporting

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

(x) Systems for getting rid of antisocial forces

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

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2010)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>20,191</b>	<b>Current liabilities:</b>	<b>9,296</b>
Cash and deposits	3,892	Trade notes and accounts payable	6,946
Trade notes and accounts receivable	7,541	Short-term borrowings	1,008
Inventories	8,203	Corporate bonds due for redemption within one year	300
Deferred tax assets	136	Accrued income tax	67
Other current assets	459	Reserve for product warranties	53
Allowance for doubtful accounts	-43	Reserve for bonus payment	189
<b>Fixed assets:</b>	<b>10,930</b>	Other current liabilities	730
<b>Tangible fixed assets:</b>	<b>6,208</b>	<b>Long-term liabilities:</b>	<b>1,968</b>
Buildings and structures	3,691	Corporate bonds	900
Machinery, equipment and vehicles	1,729	Reserve for retirement benefits	837
Land	591	Deferred tax liabilities	129
Other tangible fixed assets	195	Reserve for directors' retirement benefits	8
<b>Intangible fixed assets</b>	<b>53</b>	Other long-term liabilities	92
<b>Investments and other assets:</b>	<b>4,667</b>	<b>Total liabilities</b>	<b>11,264</b>
Investment securities	4,283	<b>NET ASSETS:</b>	
Investments in affiliates	226	<b>Shareholders' equity</b>	<b>19,334</b>
Other investments and other assets	157	<b>Common stock</b>	<b>10,599</b>
<b>Deferred assets</b>	<b>25</b>	<b>Capital surplus</b>	<b>4,151</b>
Bond issuance expenses	25	<b>Retained earnings</b>	<b>4,791</b>
		<b>Treasury stock</b>	<b>-207</b>
		<b>Valuation and translation adjustments:</b>	<b>343</b>
		<b>Unrealized gains on marketable securities</b>	<b>463</b>
		<b>Deferred gains (losses) on hedges</b>	<b>-99</b>
		<b>Translation adjustments</b>	<b>-20</b>
		<b>Subscription rights to shares</b>	<b>204</b>
		<b>Total net assets</b>	<b>19,882</b>
<b>Total Assets</b>	<b>31,147</b>	<b>Total Liabilities and Total Net Assets</b>	<b>31,147</b>

## CONSOLIDATED STATEMENTS OF INCOME

(From April 1, 2009 to March 31, 2010)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>15,598</b>
<b>Cost of sales:</b>	<b>12,538</b>
<b>Gross profit</b>	<b>3,059</b>
Selling, general and administrative expenses	2,974
<b>Operating income</b>	<b>84</b>
<b>Non-operating income:</b>	<b>295</b>
Interest received	0
Dividends received	26
Rent received	4
Insurance benefits received	41
Subsidy income	127
Other non-operating income	95
<b>Non-operating expenses:</b>	<b>498</b>
Interest paid	21
Loss on sales of trade notes	40
Dormant expense	321
Other non-operating expenses	115
<b>Ordinary loss</b>	<b>-117</b>
<b>Extraordinary expenses:</b>	<b>1</b>
Loss on retirement of fixed assets	0
Loss on sales of fixed assets	1
<b>Loss before taxes and other adjustments</b>	<b>-119</b>
Corporate, inhabitant and enterprise taxes	72
Deferred taxes	35
Corporate taxes for prior periods	17
<b>Net loss</b>	<b>-244</b>

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2009 to March 31, 2010)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2009	10,599	4,138	5,373	-92	20,019
Change during the fiscal year					
Cash dividends paid			-337		-337
Net loss			-244		-244
Purchase of treasury stock				-131	-131
Disposal of treasury stock		12		16	29
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	-	12	-582	-115	-685
Balance as of March 31, 2010	10,599	4,151	4,791	-207	19,334

	Valuation and translation adjustments				Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2009	-508	-	20	-487	187	19,718
Change during the fiscal year						
Cash dividends paid						-337
Net loss						-244
Purchase of treasury stock						-131
Disposal of treasury stock						29
Changes in items other than shareholders' equity during the fiscal year (net)	971	-99	-41	831	17	849
Total change during the fiscal year	971	-99	-41	831	17	163
Balance as of March 31, 2010	463	-99	-20	343	204	19,882

## Notes to Consolidated Financial Statements

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

#### (1) Scope of consolidation

##### (i) State of consolidated subsidiaries

- Number of consolidated subsidiaries: 4

- Names of major consolidated subsidiaries:

Tsugami Machinery Co., Ltd.

Tsugami General Service Co., Ltd.

Tsugami Precision Co., Ltd.

Precision Tsugami (China) Corporation

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

- Names of major non-consolidated subsidiaries:

Tsugami (Thai) Co., Ltd.

Tsugami GmbH.

Tsugami Korea Co., Ltd.

- Reason for non-consolidation

The non-consolidated subsidiaries are excluded from the scope of consolidation because they are small in scale, and their total assets, net sales, net income or net loss (amounts corresponding to equity), retained earnings (amounts corresponding to equity) and the like have no significant effect on consolidated financial statements.

#### (2) Application of equity method

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

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

0

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

- Names of major companies:

Tsugami (Thai) Co., Ltd.

Tsugami GmbH

Tsugami Korea Co., Ltd.

Fastener Kohan, K.K.

REM SALES LLC

- Reason for not applying the equity method:

These non-consolidated subsidiaries and affiliates are excluded from the scope of equity method application because their exclusion produces minor effects on consolidated financial statements and has no significance in light of their respective net income or net loss (amount corresponding to equity), retained earnings and other items.

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

Not applicable

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

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

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

(5) Matters concerning significant accounting policies

(i) Valuation standard and valuation method of major assets

a. Other securities

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

- Securities without fair market value:

Cost accounting method using the moving average method

b. Derivatives:

Stated at market value

c. Valuation standard and valuation method for inventories

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

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

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

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

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

The significant service lives are summarized as follows:

Buildings and structures: 15-38 years

Machinery, equipment and vehicles: 9 years

b. Intangible fixed assets (excluding leased assets)

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

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

c. Leased assets

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

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

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

(iii) Accounting standards for major deferred assets

Corporate bonds issuance expenses

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

(iv) Accounting standards for significant allowances

a. Allowance for doubtful accounts To provide for a loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts.



	Specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectibility of certain doubtful accounts.
b. Allowance for employees' bonuses	To prepare for bonus payments to employees of the Company and its consolidated subsidiaries in Japan, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates.
c. Allowance for directors' bonuses	To prepare for bonus payment to the directors of the Company and its consolidated subsidiaries, amounts that need to be paid in the consolidated fiscal year under review are provided as estimates. However, since the Company was unable to reasonably project the amount at the end of the consolidated fiscal year under review, this was not posted.
d. Allowance for retirement benefits	To prepare for retirement benefits paid to employees of the Company and its consolidated subsidiaries in Japan, an allowance is provided on the basis of estimated amounts of retirement benefit obligations and pension assets in the consolidated fiscal year under review. (Changes in accounting policies) Starting the consolidated fiscal year under review, the Group is applying the Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (Accounting Standards Board of Japan Statement No. 19 issued on July 31, 2008). The change did not have any effects on the operating income, ordinary loss, or net loss before taxes and other adjustments. (Additional information) With the enforcement of the Defined-Benefit Corporate Pension Act, the Company and certain consolidated subsidiaries in Japan abolished their qualified pension systems in January 2010 and have since applied defined-benefit corporate pension systems. The effect of the change on the operating income, ordinary loss, and net loss before taxes and other adjustments was minor.
e. Allowance for directors' retirement benefits	Certain of the Company's consolidated subsidiaries recorded an allowance for retirement benefits for directors equivalent to the amount payable in accordance with their rules for directors' retirement benefits.
f. Allowance for product warranties	To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.
(v) Significant hedge accounting method	
Hedge accounting method	Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where

- requirements for using the method were fulfilled.
- Hedging instruments and hedged items Hedge accounting was applied to the following hedging instrument and hedged item during the consolidated fiscal year under review.  
Hedging instruments: exchange contracts  
Hedged items: foreign currency receivables
- Hedging policy Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.
- Method for assessing hedging effectiveness:  
An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.
- (vi) Other important matters for the preparation of consolidated financial statements  
Accounting method for consumption taxes  
The tax-exclusion method is used for the calculation of consumption tax and local consumption tax.
- (6) Matters relating to valuation method for assets and liabilities of consolidated subsidiaries  
All assets and liabilities of consolidated subsidiaries are valued using the full fair value method.

## 2. Notes to Consolidated Balance Sheets

- (1) Amounts rounded down to the nearest one million yen.
- (2) Aggregated depreciation for tangible fixed assets 11,766 million yen
- (3) Amount of discount for bills receivable 476 million yen  
Amount of discount for export bills receivable 831 million yen
- (4) The amount of an allowance for doubtful accounts that is directly deducted from assets  
Investments and other assets 189 million yen

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

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

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

#### (2) Matters relating to the number of treasury stock

Share type	Number of shares at the end of the previous consolidated fiscal year	Increase in shares in the consolidated fiscal year under review	Decrease in shares in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	453 thousand	786 thousand	85 thousand	1,154 thousand

Note The increase in the number of treasury stock by 786 thousand shares reflected an increase of 7 thousand shares with the acquisition of odd-lot shares and the purchase of 779 thousand shares of treasury stock. The decrease in the number of treasury stock by 85 thousand shares resulted from the exercise of stock options.

#### (3) Matters relating to dividends

##### (i) Dividends paid

Matters relating to dividends resolved at the Board of Directors meeting on May 14, 2009

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

##### (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 13, 2010 for approval.

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

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	119,000	51,000
Unexercised subscription rights to shares	119	51
	Resolved at the annual shareholders meeting on June 23, 2006	Resolved at the Board of directors meeting on June 22, 2007
Type of subject shares	Common shares	Common shares
Number of subject shares	46,000	67,000
Unexercised subscription rights to shares	46	67
	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	72,000	83,000
Unexercised subscription rights to shares	72	83
	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	51,000	191,000
Unexercised subscription rights to shares	51	191
	Resolved at the annual shareholders meeting on June 19, 2009	
Type of subject shares	Common shares	
Number of subject shares	111,000	
Unexercised subscription rights to shares	111	

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

#### 4. Notes on Financial Instruments

##### (1) Situation of financial instruments

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

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

Short-term borrowings are used for operating funds.

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

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

##### (2) Market values of financial instruments

The table below shows the consolidated balance sheet amounts and market values of financial instruments and the differences between them as of March 31, 2010. (Million yen)

	Carrying amount on the consolidated balance sheet(*)	Market value(*)	Difference
(i) Cash and deposits	3,892	3,892	–
(ii) Trade notes and accounts receivable	7,541	7,541	–
(iii) Investment securities			
Other securities	4,264	4,264	–
(iv) Trade notes and accounts payable	(6,946)	(6,946)	–
(v) Short-term borrowings	(1,008)	(1,008)	–
(vi) Bonds	(1,200)	(1,208)	-8
(vii) Derivatives trading	(99)	(99)	–

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

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

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

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

(iii) Investment securities, Other securities

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

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

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

(vi) Bonds

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

(vii) Derivatives trading

Hedge accounting is not applied: No derivatives trading.

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

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

(Additional information)

Starting the fiscal year under review, the Company is applying the Accounting Standard for Financial Instruments (Accounting Standards Board of Japan Statement No. 10 issued on March 10, 2008) and the Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 issued on March 10, 2008).

**5. Notes on Per Share Information**

- |                          |            |
|--------------------------|------------|
| (1) Net assets per share | 294.29 yen |
| (2) Net loss per share   | -3.65 yen  |

## NON- CONSOLIDATED BALANCE SHEET

(As of March 31, 2010)

(Million yen)

Account title	Amount	Account title	Amount
<b>ASSETS:</b>		<b>LIABILITIES:</b>	
<b>Current assets:</b>	<b>18,691</b>	<b>Current liabilities:</b>	<b>8,552</b>
Cash and deposits	3,145	Trade notes payable	5,004
Trade notes receivable	166	Trade accounts payable	1,849
Accounts receivable	7,066	Short-term borrowings	300
Products, commodities	984	Corporate bonds due for redemption within one year	300
Goods in process	4,563	Accounts payable	351
Raw materials, supplies	1,658	Accrued expenses payable	187
Deferred tax assets	135	Accrued income tax	44
Accounts due	269	Reserve for product warranties	53
Advance paid	14	Reserve for bonus payment	171
Other current assets	750	Other current liabilities	291
Allowance for doubtful accounts	-61	<b>Long-term liabilities</b>	<b>1,899</b>
<b>Fixed assets</b>	<b>11,054</b>	Corporate bonds	900
<b>Tangible fixed assets</b>	<b>5,260</b>	Deferred tax liabilities	77
Buildings	3,197	Reserve for retirement benefits	829
Structures	128	Other long-term liabilities	92
Machinery and equipment	1,151	<b>Total liabilities</b>	<b>10,451</b>
Vehicles	8	<b>NET ASSETS:</b>	
Tools, furniture and fixtures	159	<b>Shareholders' equity</b>	<b>18,750</b>
Land	591	<b>Common stock</b>	<b>10,599</b>
Leased assets	22	<b>Capital surplus</b>	<b>4,151</b>
<b>Intangible fixed assets</b>	<b>38</b>	Capital legal reserve	4,138
<b>Investments and other assets</b>	<b>5,755</b>	Other capital surplus	12
Investment securities	4,267	<b>Retained earnings</b>	<b>4,207</b>
Shares in affiliates	136	<b>Other retained earnings</b>	<b>4,207</b>
Investments in affiliates	1,209	Deferred retained earnings	4,207
Other investments	143	<b>Treasury stock</b>	<b>-207</b>
<b>Deferred assets</b>	<b>25</b>	<b>Valuation and translation adjustments</b>	<b>364</b>
Bond issuance expenses	25	<b>Unrealized gains on marketable         securities</b>	<b>463</b>
		<b>Deferred gains (losses) on hedges</b>	<b>-99</b>
		<b>Subscription rights to shares</b>	<b>204</b>
		<b>Total net assets</b>	<b>19,319</b>
<b>Total Assets</b>	<b>29,771</b>	<b>Total Liabilities and Total Net Assets</b>	<b>29,771</b>

**NON- CONSOLIDATED STATEMENTS OF INCOME**

(From April 1, 2009 to March 31, 2010)

(Million yen)

Account title	Amount
<b>Net sales</b>	<b>14,818</b>
<b>Cost of sales:</b>	<b>12,519</b>
<b>Gross profit</b>	<b>2,299</b>
Selling, general and administrative expenses:	2,664
<b>Operating loss</b>	<b>-365</b>
<b>Non-operating income:</b>	<b>399</b>
Interest received	0
Dividends received	106
Rent received	11
Insurance benefits received	41
Subsidy income	119
Other non-operating income	119
<b>Non-operating expenses:</b>	<b>426</b>
Interest paid	21
Leased asset expenses	9
Sales discount	10
Loss on sales of trade notes	40
Dormant expense	310
Other non-operating expenses	35
<b>Ordinary loss</b>	<b>-393</b>
<b>Extraordinary income:</b>	<b>1</b>
Gain on sales of fixed assets	1
<b>Extraordinary expenses:</b>	<b>0</b>
Loss on retirement of fixed assets	0
<b>Loss before taxes and other adjustments</b>	<b>-392</b>
Corporate, inhabitant and enterprise taxes	19
Deferred taxes	-21
Corporate taxes for prior periods	17
<b>Net loss</b>	<b>-408</b>



## NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2009 to March 31, 2010)

(Million yen)

	Shareholders' equity						
	Common stock	Capital surplus			Retained earnings	Treasury stock	Total shareholders' equity
		Capital legal reserve	Other capital surplus	Total capital surplus	Other retained earnings Deferred retained earnings		
Balance as of March 31, 2009	10,599	4,138	–	4,138	4,954	-92	19,599
Change during the fiscal year							
Cash dividends paid					-337		-377
Net loss					-408		-408
Purchase of treasury stock						-131	-131
Disposal of treasury stock			12	12		16	29
Changes in items other than shareholders' equity during the fiscal year (net)							
Total change during the fiscal year	–	–	12	12	-746	-115	-848
Balance as of March 31, 2010	10,599	4,138	12	4,151	4,207	-207	18,750

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Unrealized gains on marketable securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2009	-508	–	-508	187	19,277
Change during the fiscal year					
Cash dividends paid					-337
Net loss					-408
Purchase of treasury stock					-131
Disposal of treasury stock					29
Changes in items other than shareholders' equity during the fiscal year (net)	971	-99	872	17	890
Total change during the fiscal year	971	-99	872	17	41
Balance as of March 31, 2010	463	-99	364	204	19,319

## Notes to Non-Consolidated Financial Statements

### 1. Matters Concerning Significant Accounting Policies

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

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

#### (ii) Other securities:

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

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

(iii) Derivatives: Stated at market value

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

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

#### (2) Depreciation method for fixed assets

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

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

The significant service lives are summarized as follows:

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

##### (ii) Intangible fixed assets (excluding leased assets)

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

##### (iii) Leased assets

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

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

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

#### (3) Long-term prepaid expenses

The straight-line method is used.

#### (4) Deferred assets

Expenses for issuing corporate bonds

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

(5) Accounting standards for allowances

(i) Allowance for doubtful accounts

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

(ii) Allowance for employees' bonuses

To prepare for bonus payments to employees, an amount that needs to be paid in the fiscal year under review are provided as an estimate.

(iii) Allowance for directors' bonuses

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

(iv) Allowance for retirement benefits

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

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

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

(Changes in accounting policies)

Starting the fiscal year under review, the Company is applying the Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (Accounting Standards Board of Japan Statement No. 19 issued on July 31, 2008).

The change did not have any effects on the operating income, ordinary loss, or net loss before taxes and other adjustments.

(Additional information)

With the enforcement of the Defined-Benefit Corporate Pension Act, the Company abolished its qualified pension systems in January 2010 and have since applied defined-benefit corporate pension systems.

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

- (v) Allowance for product warranties To provide for expenses for repair cost that arise in the after-sales free-repair warranty period, the Company accrues repair expenses using an amount projected based on the past ratio of repairs.
- (vi) Significant hedge accounting method
- Hedge accounting method Deferred hedge accounting was adopted. In addition, a method for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts was adopted for hedging the risk of exchange rate fluctuations in cases where requirements for using the method were fulfilled.
- Hedging instruments and hedged items Hedge accounting was applied to the following hedging instrument and hedged item during the fiscal year under review.
- Hedging instruments: exchange contracts
- Hedged items: foreign currency receivables
- Hedging policy Hedging was performed within the scope of subject receivables for avoiding the risk of exchange rate fluctuations and establishing profit/loss.
- Method for assessing hedging effectiveness:
- An assessment of hedging effectiveness is omitted because the hedging instrument and an important requirement for the hedged item are the same and hedging is assumed to completely offset market fluctuations at the point of its launch and in the subsequent period.
- (6) Other matters that form the basis for the production of financial statements
- Accounting method for consumption taxes The tax-exclusion method is used for the calculation of consumption tax and local consumption tax.
- (7) Changes in accounting policies
- Not applicable

## 2. Notes to Balance Sheets

- (1) Amounts rounded down to the nearest one million yen.
- (2) Aggregated depreciation for tangible fixed assets 11,528 million yen
- (3) Amount of discount for bills receivable 476 million yen
- Amount of discount for export bills receivable 831 million yen
- Debt guarantees 708million yen (52 million yuan)
- (4) The amount of an allowance for doubtful accounts that is directly deducted from assets
- Investments and other assets 181 million yen
- (5) Monetary receivables from and monetary payables to affiliates are as follows:
- (i) Short-term monetary receivables 3,955 million yen
- (ii) Short-term monetary payables 362 million yen

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

Transactions with affiliates

(i) Sales	4,753 million yen
(ii) Purchases	1,943 million yen
(iii) Transactions other than operating transactions	335 million yen

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

(1) Matters relating to the number of treasury stock

Share type	Number of shares at the end of the previous fiscal year	Increase in shares in the fiscal year under review	Decrease in shares in the fiscal year under review	Number of shares at the end of the fiscal year under review
Common shares	453 thousand	786 thousand	85 thousand	1,154 thousand

Note The increase in the number of treasury stock by 786 thousand shares reflected an increase of 7 thousand shares with the acquisition of odd-lot shares and the purchase of 779 thousand shares of treasury stock.

The decrease in the number of treasury stock by 85 thousand shares resulted from the exercise of stock options.

### 5. Deferred Tax Accounting

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

(Deferred tax assets)

Allowance for doubtful accounts	99
Reserve for bonus payment	69
Reserve for retirement benefits	337
Reserve for product warranties	21
Loss on devaluation of investment securities	89
Loss on devaluation of shares in affiliates	9
Loss on devaluation of inventories	68
Impairment loss	48
Accrued enterprise taxes	2
Stock-based compensation expense	64
Net loss carried forward	766
Other	41
Deferred tax assets subtotal	1,619
Valuation reserve	-1,147
Deferred tax assets total	472

(Deferred tax liabilities)

Unrealized gains on marketable securities	-414
Deferred tax liabilities total	-414
Net deferred tax assets	58

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

Since a net loss before taxes and other adjustments was posted in the fiscal year under review, notes are omitted.

## 6. Notes on Fixed Assets Used under Lease Contracts

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

	Acquisition cost equivalent	Accumulated depreciation equivalent	Fiscal year-end outstanding balance equivalent
Tools, furniture and fixtures	21 million yen	17 million yen	4 million yen
Others	10 million yen	8 million yen	2 million yen
Total	32 million yen	25 million yen	6 million yen

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

Equivalent of unexpired lease fees at end of fiscal year

Within a year 4 million yen

Longer than a year 1 million yen

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Total 6 million yen

## 7. Notes on Transactions with Related Parties

Notes on transactions with subsidiaries and affiliates

Attributes	Company names	Ownership of voting rights in percentage (%)	Relationships	Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
Subsidiary	Precision Tsugami (China) Corporation	(Owning) Direct: 100.0%	Concurrent service by directors	Sale of products of the Company	2,969	Trade accounts receivable	2,340
			Manufacture and sales of products of the Company	Purchase of products of the company	1,118	Trade accounts payable	124
			Purchase of products of the company	Transfer of fixed assets	218	Accounts due	111
			Transfer of fixed assets	Providing loans	558	Short-term loans	558
			Funding	Receipt of interest	0	Accounts due	0
				Underwriting of newly issued shares	274	–	–
Affiliate	REM SALES LLC	(Owning) Direct: 29.5%	Sales of the Company's products and parts	Sales of the Company's products and parts	589	Trade accounts receivable	32

Note: Business terms and policies for their determination, etc.

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

### Officers and major individual shareholders

Attribute	Name	Capital or investments (million yen)	Business or job	Ownership of voting rights in percentage	Relationship		Transactions	Transaction amount (million yen)	Account	Balance at end of year (million yen)
					Officers holding concurrent posts	Business relationship				
Officer	Kunimasa Ohta	-	Statutory auditor of the Company Representative Director of Tokyo Seimitsu Co., Ltd.	(Owning) Direct: 2.50% (Owned) Direct: 6.91%	-	-	Sale of products of the Company	3	-	-
							Purchase of Tokyo Seimitsu's products	29	Trade notes payable	17
									Trade accounts payable	1
							Underwriting of newly issued shares	999	-	-

Note: Transaction terms and the policy for their decision, etc.

Terms for the sales of the Company's products, purchases of Tokyo Seimitsu Co., Ltd.'s products and the like are decided on the basis of market value.

Underwriting the newly issued shares refers to the underwriting of all 968,000 shares Tokyo Seimitsu issued through private placement on December 3, 2009 by the Company for the price of 1,033 yen per share. The issue price was decided on the basis of 1,135 yen, the average closing share price for Tokyo Seimitsu in the most recent one-month period up to the day before the date on which a Board of Directors meeting adopted a resolution in connection with the capital increase.

### 8. Notes on Per Share Information

- (1) Net assets per share           285.88 yen
- (2) Net loss per share           -6.09 yen

# Accounting Audit Report on Consolidated Financial Statements

## Independent Auditors' Report

May 11, 2010

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Michiaki Miyajima

Designated Limited Partner and Operating Partner

Certified Public Accountant

Akira Igarashi

Designated Limited Partner and Operating Partner

Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner

Certified Public Accountant

We have audited the consolidated financial statements of Tsugami Corporation (the "Company"), namely the consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets, and notes to consolidated financial statements, for the consolidated fiscal year from April 1, 2009 to March 31, 2010, in accordance with Paragraph 4, Article 444 of the Company Law. Responsibility for preparation of these consolidated financial statements lies with the Company's management. Our responsibility is to express an opinion on these consolidated financial statements from an independent perspective.

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

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

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



# Accounting Audit Report on Non-Consolidated Financial Statements

## Independent Auditors' Report

May 11, 2010

To the Board of Directors of Tsugami Corporation

Ernst & Young ShinNihon LLC

Michiaki Miyajima

Designated Limited Partner and Operating Partner

Certified Public Accountant

Akira Igarashi

Designated Limited Partner and Operating Partner

Certified Public Accountant

Naoki Nomoto

Designated Limited Partner and Operating Partner

Certified Public Accountant

We have audited the non-consolidated financial statements of Tsugami Corporation (the "Company"), namely the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statements of changes in net assets, notes to non-consolidated financial statements, and their supporting schedules, for the 107<sup>th</sup> fiscal year from April 1, 2009 to March 31, 2010, in accordance with Item 1, Paragraph 2, Article 436 of the Company Law. Responsibility for preparation of these non-consolidated financial statements and their supporting schedules lies with the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements and their supporting schedules from an independent perspective.

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

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

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

## Report by the Board of Statutory Auditors

### Auditors' Report

The Board of Statutory Auditors (the "Board") hereby reports its audit findings as follows based on its deliberation of audit reports on the execution of duties by the Directors in the 107<sup>th</sup> fiscal year from April 1, 2009 to March 31, 2010 prepared by Statutory Auditors.

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

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

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

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

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

## 2. Results of the Audit

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

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

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

The methods and results of the audit conducted by 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 12, 2010

Board of Statutory Auditors  
Tsugami Corporation

Ikuo Oomiya, Standing Statutory Auditor  
Kyouji Umeoka, Statutory Auditor  
Koichiro Watanabe, Statutory Auditor  
Kunimasa Ohta, Statutory Auditor

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

## Reference Materials for the Annual Shareholders Meeting

### Item 1: Appointment of Seven Directors

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

We therefore propose the reappointment of the seven Directors.

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

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (important concurrent posts)	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 2006      Representative Director, Chairman and CEO (current positions)</p>	10 thousand
2	Yoshiharu Kikuchi (April 17, 1948)	<p>April 1971      Joined the Company</p> <p>June 2000      Director and Leader of the Automatic Lathe Group, Nagaoka Factory</p> <p>June: 2001      Managing Director and Leader of the Automatic Lathe Group, Nagaoka Factory</p> <p>April 2002      Managing Director and General Manager of the Technology Headquarters, Nagaoka Factory</p> <p>April 2004      Director, Senior Executive Officer and General Manager of the Sales Headquarters</p> <p>April 2006      Representative Director, Senior Executive Officer and General Manager of the Sales Headquarters</p> <p>April 2008      Representative Director, Senior Executive Officer (current positions)</p>	35 thousand

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (important concurrent posts)	Number of shares in the Company held
3	Toshiharu Nijima (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        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        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 (current positions)</p>	14 thousand
4	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 2006        Manager of the Naoetsu Branch of 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 (current positions)</p>	0
5	Donglei Tang (November 27, 1962)	<p>July 1992        Joined Tokyo Seimitsu Co., Ltd.</p> <p>November 2005   Administration Officer and General Manager of China Office of the Company, and President of Precision Tsugami (China) Corporation</p> <p>April 2009        Executive Officer and Manager of Shanghai Office of the Company, and President of Precision Tsugami (China) Corporation</p> <p>April 2010        Managing Executive Officer in Charge of China Operations of the Company, and President of Precision Tsugami (China) Corporation (current positions)</p>	0

Candidate number	Name (Date of birth)	Career summary, and positions and responsibilities at the Company (important concurrent posts)		Number of shares in the Company held
6	Takeo Nakagawa (October 12, 1938)	May 1999	Professor Emeritus at the University of Tokyo (current post)	20 thousand
		October 2000	CEO of Fine Tech Corporation (current positions)	
		June 2002	Director of Nippon Pillar Packing Co., Ltd. (current positions)	
		June 2007	Auditor at FUNUC LTD. (current position)	
		June 2008	Director of the Company (current position)	
7	Mitsuhiro Masumi (July 29, 1942)	April 1965	Joined the Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)	0
		June 1993	Director of the Sakura Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)	
		June 1996	Managing Director of the Sakura Bank, Ltd.	
		June 1999	Executive Director and Executive Officer of the Sakura Bank, Ltd.	
		June 2000	President of Sakura Mortgage Co., Ltd.	
		March 2002	President of SMBC Mortgage Co., Ltd.	
		June 2003	Director of Sanki Engineering Co., Ltd. (current position)	
		April 2007	Auditor at TOHO Co., Ltd. (current position)	
		June 2009	Director of the Company (current positions)	

- Notes:
- No special interest exists between the Company and each of the candidates nominated above.
  - Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi are candidates for the position of outside directors.
  - The Company has notified the Tokyo Stock Exchange of the appointment of Mr. Takeo Nakagawa as an independent director.
  - The Company requests the appointment of Mr. Takeo Nakagawa as its outside director based on its assessment that Mr. Nakagawa possesses deep insight and experience in the manufacturing industry in general, and can advise the Company's management from a broad perspective. Mr. Nakagawa is currently serving the Company as its outside director. His term of office as an outside director, however, will reach two years at the close of this annual shareholders meeting.
  - The Company requests the appointment of Mr. Mitsuhiro Masumi as its outside director based on its assessment that Mr. Masumi can advise the Company's management from a broad perspective based on the deep insight and abilities he has developed through his extensive business experience. Mr. Masumi is currently serving the Company as its outside director. His term of office as an outside director, however, will reach one year at the close of this annual shareholders meeting.
  - The Tokyo Summary Court issued a summary order for a penalty payment to Sanki Engineering Co., Ltd. on charges that the general manager of its sales department obstructed an auction in connection with construction work ordered by the Defense Facilities Administration Agency in February 2006 while Mr. Mitsuhiro Masumi was serving Sanki Engineering as its outside director. In an associated move, the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism ordered Sanki Engineering to suspend piping operations in connection with public works for 30 days within the jurisdictions of the Kanto Regional Development Bureau.

Mr. Masumi has properly and regularly performed his legal duties as a director seeking to prevent said fact from occurring. After the fact did occur, Mr. Masumi has been performing his duties properly with actions, including confirmation of the sufficient function of the Board of Directors and other meetings and measures to prevent a recurrence.

7. The Japan Fair Trade Commission issued retraction orders to TOHO Co., Ltd. in connection with the representation for its horse meat products in December 2007 and the representation for its charcoal-roasted liquid coffee products in December 2008 in accordance with the provisions of Paragraph 1, Article 6 of the Act against Unjustifiable Premiums and Misleading Representations while Mr. Mitsuhiro Masumi was serving TOHO as its outside auditor.

Mr. Masumi has made recommendations and raised cautions from the perspective of compliance at Board of Directors, Board of Statutory Auditors and other meetings on a regular basis. Following the issuance of the retraction orders, Mr. Masumi has been fulfilling his responsibilities as an outside auditor with actions that include the provision of opinions aimed at bolstering the internal control system for preventing recurrence and confirming that the function to prevent a recurrence is operating sufficiently.

8. The Company currently has agreements limiting liability with Mr. Takeo Nakagawa and Mr. Mitsuhiro Masumi. The Company plans to renew these agreements when the appointment of Mr. Nakagawa and Mr. Masumi as directors is approved.

With respect to said agreement, the Article 27 of the Articles of Incorporation of the Company prescribes that “the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside directors, in accordance with the provisions of Paragraph 1, Article 427 of the Companies Act” and that “liabilities based on such agreement shall be limited to the amount stipulated in law.”

**Item 2: Appointment of Two Statutory Auditors**

The term of office for Statutory Auditors, Mr. Kyouji Umeoka and Mr. Kouichiro Watanabe, will expire at the close of this Annual Shareholders Meeting. We therefore request the appointment of two statutory auditors.

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

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

Candidate number	Name (Date of birth)	Career summary, and positions at the Company (important concurrent posts)	Number of shares in the Company held
1	Yoshifumi Miyata (October 19, 1952)	<p>April 1978      Joined The Dai-ichi Mutual Life Insurance Company (currently The Dai-ichi Life Insurance Company, Limited)</p> <p>April 2001      General Manager of the Capital Market Department of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2003      General Manager of the Structure Investment Department of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2005      General Manager of the Finance Department of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2006      Executive Officer and General Manager of the Integrated Corporate Financial Services Department of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2008      Executive Officer of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2009      Managing Executive Officer of The Dai-ichi Mutual Life Insurance Company</p> <p>April 2010      Managing Executive Officer of The Dai-ichi Life Insurance Company, Limited (current position)</p>	0
2	Hiroaki Tamai (March 20, 1960)	<p>April 1983      Joined Mori Seiki Co., Ltd.</p> <p>March 1998      Deputy General Manager of Planning of Mori Seiki Co., Ltd.</p> <p>June 2000      General Manager of Planning and General Affairs of Mori Seiki Co., Ltd.</p> <p>June 2002      General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd.</p> <p>June 2003      Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd.</p> <p>June 2007      Managing Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd.</p> <p>June 2008      Senior Executive Managing Director and General Manager of the Administrative Headquarters of Mori Seiki Co., Ltd. (current positions)</p>	0



- Notes:
1. No special interest exists between the Company and the candidates nominated above.
  2. Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai are candidates for the position of outside statutory auditors.
  3. The Company believes that both candidates meet the independence requirements stipulated by the Tokyo Stock Exchange.
  4. The Company requests the appointment of Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai as its outside statutory auditor based on its assessment that Mr. Miyata and Mr. Tamai can fulfill audit functions by taking advantage of the deep insight and abilities they have developed through their extensive business experiences.
  5. The Company plans to conclude agreements limiting liability with Mr. Yoshifumi Miyata and Mr. Hiroaki Tamai upon the approval of their appointments as outside statutory auditors.  
With respect to said agreement, the Article 27 of the Articles of Incorporation of the Company prescribes that “the Company may conclude an agreement that limits liabilities for damages resulting from negligence of duties with outside statutory auditors, in accordance with the provisions of Paragraph 1, Article 427 of the Companies Act” and that “liabilities based on such agreement shall be limited to the amount stipulated in law.”

**Item 3: Appointment of One Reserve Statutory Auditor**

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

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

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

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

Name (Date of birth)	Career summary, and positions at the Company (important concurrent posts)	Number of shares in the Company held
Takafusa Tanaka (June 27, 1956)	April 1980      Joined the Mitsui Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)  April 2001      General Manager of the Machiya Branch of the Sumitomo Mitsui Banking Corporation  October 2002    General Manager of the Ikebukuro Branch of the Sumitomo Mitsui Banking Corporation  December 2004    General Manager of the Hibiya Branch of the Sumitomo Mitsui Banking Corporation  April 2010      Transferred to the Company on loan Administrative manager of head office of the Company (current position)	0

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

**Item 4:** 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

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

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

The Company has been granting subscription rights to shares as stock options for a stock-linked compensation plan. The grants were designed to establish a closer link between the Company’s stock prices and results and the officers and employees so that they share with shareholders not only benefits from high stock prices, but also the risks of low stock prices, bolstering their morale and enthusiasm for improving business results.

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

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

The maximum number of the subscription rights to shares as described in below (3) shall be 100.

The total number of the Company’s shares that are issued in exchange of the exercise of the subscription rights to shares shall be limited to a maximum of 100,000 shares of the Company’s common stock. If the number of shares (as defined below) is adjusted in accordance with the provisions stipulated in (i), (3) below, the maximum number of shares shall be the number calculated by multiplying the number of shares after the adjustment by the maximum number of the above subscription rights to shares.

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

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

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

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

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

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

In addition to the above case, if an adjustment of the Number of Granted Shares is considered to be

necessary for unavoidable reasons, the Company shall carry out the adjustment deemed reasonable.

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

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

(iii) Exercise period of the subscription rights to shares

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

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

- i. The amount of increase in capital when shares are issued with the exercise of the subscription rights to shares shall be one half of the maximum amount of increase in capital, etc., which is calculated in accordance with Paragraph 1 of Article 17 of the Corporate Calculation Regulation, and fractions of less than 1 yen shall be rounded up to the nearest 1 yen.
- ii. The amount of increase in the capital reserve when shares are issued upon exercise of the subscription rights to shares shall be the amount calculated by deducting the amount of capital to be increased as stated in the preceding paragraph i from the maximum amount of increase in capital, etc., as stated in the same paragraph i above.

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

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

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

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

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

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

- i. In principle, a holder of the subscription rights to shares may exercise the subscription rights to shares within the period described in Provision (iii) above, only when the holder no longer holds a position as the Company's director, corporate auditor, executive officer, and/or employee with a similar title. In this case, the holder may only exercise the subscription rights to shares within a period of seven days from the next day of the date when he/she loses the above titles.
- ii. Any other conditions associated with the exercise of the subscription rights to shares shall be determined by the resolution of a meeting of the Company's Board of Directors.

**Item 5:** Delegation to the Company’s Board of Directors of the determination of subscription requirements for subscription rights to shares to be issued as stock options under conditions particularly favorable to employees of the Company and directors of subsidiaries of the Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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