

PRECISION  
**TSUGAMI**

Integrated Report **2024**

# Tsugami machine tools combine and the latest innovations to fo

Our basic management policy here at Tsugami is to contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies we have been developing since the Company was first established.

We are determined to achieve sustained growth over the long term, through the provision of high-precision, high-speed, and high-rigidity products that meet our customers' needs.

## Outline of the Tsugami Group Code of Conduct

- Directors and employees at all Tsugami Group companies will comply with all applicable legislation and international trade regulations in areas where we operate, and will carry out their business activities ethically and in good faith, in line with company policy and regulations.
- We will never discriminate against prospective or current employees on the grounds of race, religion, nationality, age, gender, disability, or any other factor that has no relevance to the Company's legitimate interests.
- We will strive to reduce environmental impact, including saving energy, conserving resources, and minimizing waste, and will make every effort to contribute to a sustainable society.
- We will always engage in fair trade in relation to the procurement of goods and services, advertising, and promotion and sales activities.
- We will disclose information fairly and on a timely basis, ensuring that all information is accurate and easy to understand.

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# Overcome legacy technology and forge a new path to the future

## Medium- and long-term management policy

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

### 1 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, and the increasingly sophisticated IT and medical care markets.

### 2 Business strategies targeting growth regions

The Group will continue its efforts to build up production, sales and after-sales service organizations in China, Southeast Asia, India, and other markets with a strong appetite for capital investment over the medium and long term.

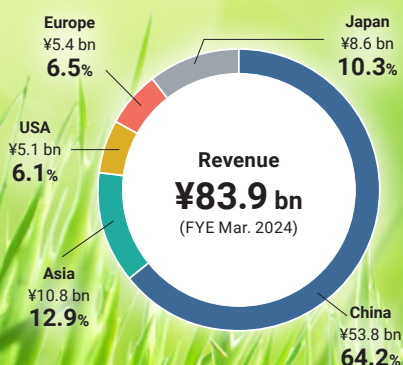
### 3 Management streamlining and customer satisfaction enhancement

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.

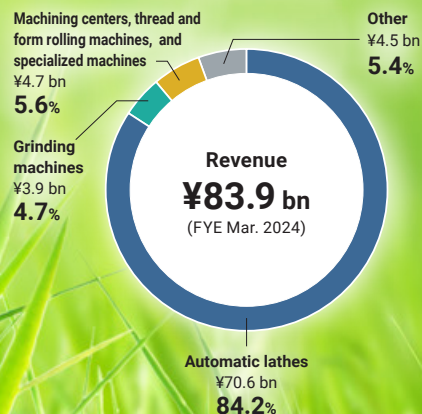
The Group will continue to make every effort to offer new products that satisfy customer demands, to expand and upgrade its services, to improve customer satisfaction on a constant basis, and to maintain the trust of its customers.

The Group will proactively implement these types of activities in addition to environmental conservation, compliance, and other CSR activities, and continue making every effort as a group of companies trusted by our shareholders, customers, and all other stakeholders.

Percentage of revenue by region



Percentage of revenue by machine type



# History of Value Generation

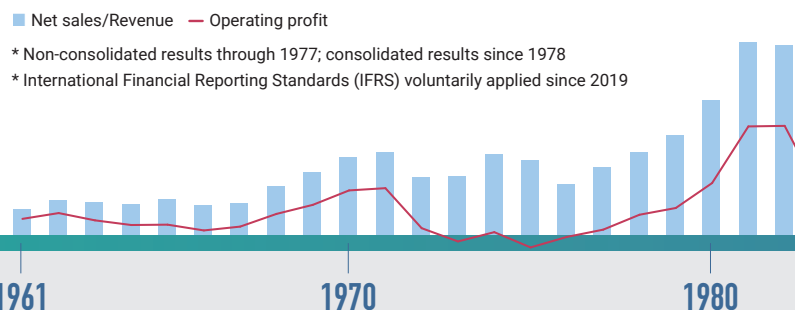
**We contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies we have been developing since the Company was first established.**

## 1930s–1960s

- ▶ **1937**  
Tsugami Mfg., Co., Ltd. was established in Nagaoka, Niigata  
Production of gauge block was started
- ▶ **1939**  
Production of L-type thread milling machine Model T-TML500 was started  
Production of hydraulic universal cylindrical grinding machine Model T-UG300 was started
- ▶ **1946**  
Production of grinding machines, thread and form rolling machines, and sewing machines was started
- ▶ **1949**  
Listed on Tokyo Stock Exchange, Osaka Securities Exchange, and Niigata Stock Exchange
- ▶ **1957**  
Production and sale of sliding head stock type automatic lathe T-7 was started

## 1970s & 1980s

- ▶ **1970**  
Corporate name was changed to TSUGAMI CORPORATION
- ▶ **1973**  
Gang-tool type automatic lathe Model VCL installed with lead-turner function was completed
- ▶ **1978**  
CNC composite automatic lathe Mercury series was developed and its sale was started
- ▶ **1989**  
TSUGAMI (THAI) CO., LTD. was established

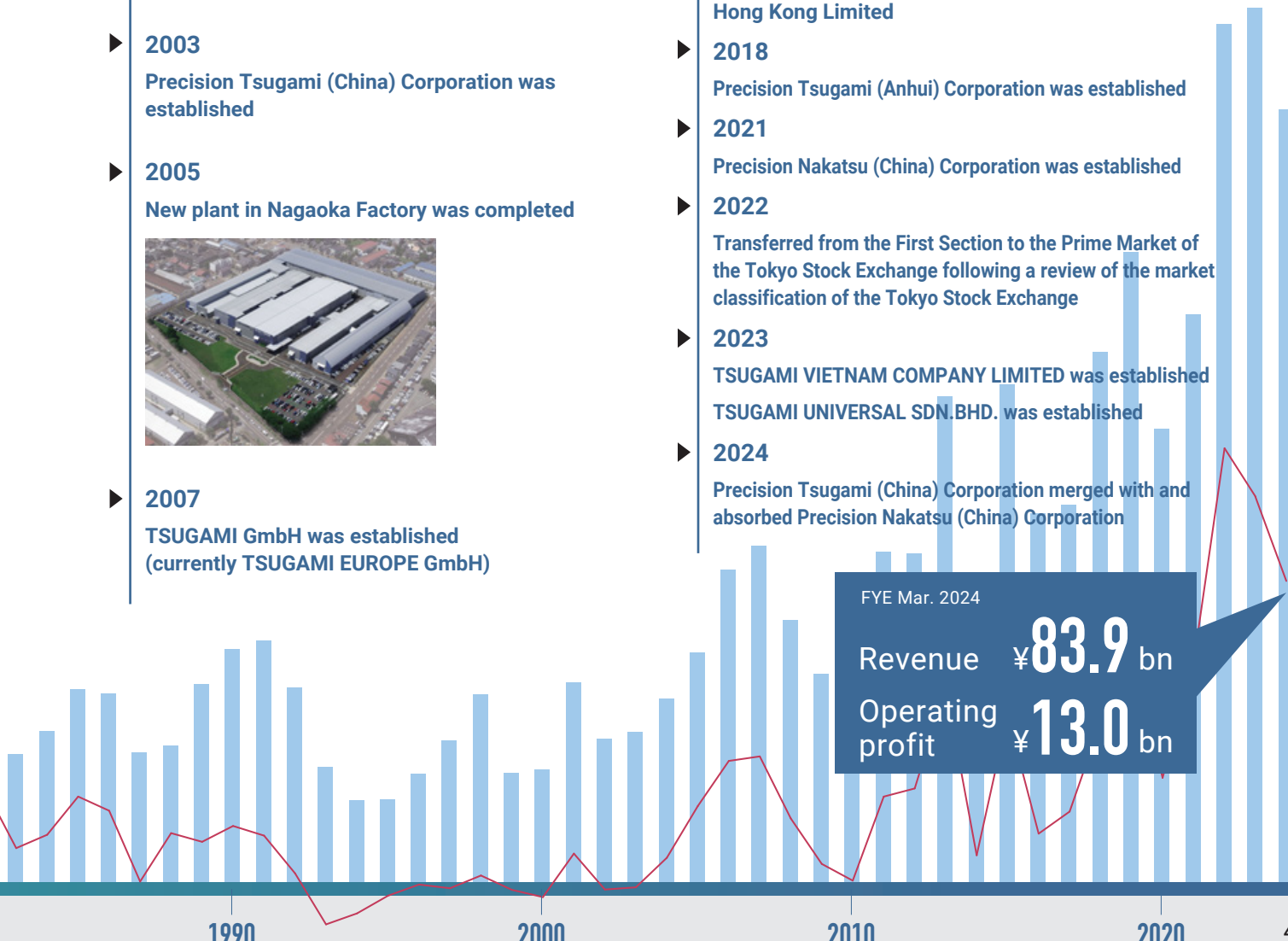


# 1990s & 2000s

- ▶ **1992**  
CNC precision automatic lathe S20 series were awarded the 22nd Machine Design Award
  - ▶ **1999**  
Quality Control Management System ISO 9001 was awarded to Nagaoka Factory
  - ▶ **2000**  
New plant to assemble automatic lathes in Nagaoka Factory was completed  
Environment Management System ISO 14001 was awarded to Nagaoka Factory
  - ▶ **2003**  
Precision Tsugami (China) Corporation was established
  - ▶ **2005**  
New plant in Nagaoka Factory was completed
- 
- ▶ **2007**  
TSUGAMI GmbH was established (currently TSUGAMI EUROPE GmbH)

# 2010s & 2020s

- ▶ **2010**  
TSUGAMI KOREA Co., Ltd. was established  
Shinagawa Precision Machinery (Zhejiang) Co., Ltd. was established
  - ▶ **2011**  
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED was established
  - ▶ **2012**  
TSUGAMI Universal Pte. Ltd. was established
  - ▶ **2013**  
Precision Tsugami (China) Corporation Limited was established  
Precision Tsugami (Hong Kong) Limited was established
- 
- ▶ **2017**  
Precision Tsugami (China) Corporation Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited
  - ▶ **2018**  
Precision Tsugami (Anhui) Corporation was established
  - ▶ **2021**  
Precision Nakatsu (China) Corporation was established
  - ▶ **2022**  
Transferred from the First Section to the Prime Market of the Tokyo Stock Exchange following a review of the market classification of the Tokyo Stock Exchange
  - ▶ **2023**  
TSUGAMI VIETNAM COMPANY LIMITED was established  
TSUGAMI UNIVERSAL SDN.BHD. was established
  - ▶ **2024**  
Precision Tsugami (China) Corporation merged with and absorbed Precision Nakatsu (China) Corporation



FYE Mar. 2024

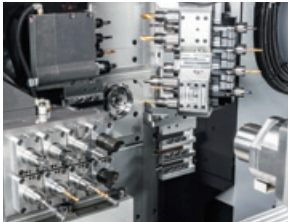
Revenue **¥83.9** bn

Operating profit **¥13.0** bn

# Tsugami: Stalwart of Industry

## Tsugami's strengths

We are a general machine tool manufacturer that supplies the world with lathes, turning centers, machining centers, grinding machines, thread and form rolling machines, and more. Our automatic lathes machine parts for smartphones and watches, and feature technology for massproducing micro parts only 0.05 mm from 1-mm diameter bar stock. Our stockpile of technology for achieving this level of versatility and precision helps us expand our market share of a wide range of products.



### CNC Precision Automatic Lathe

The long-term stable production is realized by tool configuration to minimize the thermal displacement and high-rigid casting base to prevent vibration at high-speed machining. Spindles suitable for long, short, or heavy-duty cutting can be selected, and TSUGAMI's guide-bushless spindle enables accurate machining with economical materials. Best for mass production of high-precision small components such as parts for office automation (OA) equipment, medical equipment, digital cameras, cellular phones, optical communications, and automobiles.



### CNC Lathe

Powerful turning machine with turret tool post and rigid machine structure. Ideal for machining parts for automobiles and construction equipment. A wide variety of machines are available, from basic machine to turning center with back spindle and Y axis. It allows users to select the most suitable machine for machining complex workpieces, regardless of bar or chucker. Automation system is supported with the optional NC loader and work stocker system.



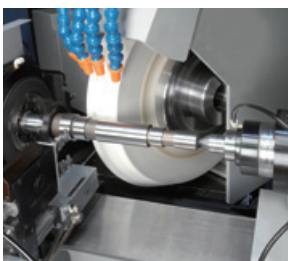
### Turning Center

Multi-tasking turning center that integrates turning and machining operations. Turning Center can meet the needs such as: the number of live tools is insufficient, the need to enhance milling capabilities, machining that used to be done with lathe and machining center needs to be consolidated into one, and multiple workpieces need to be machined without setup changes. Valuable to machine the complex-shaped components in the fields such as the automobile and aircraft industries, as well as in the medical and jewelry industries.



### Machining Center

Series of machining centers for various machining purposes, from small aluminum parts for IT-related applications including home appliances and OA equipment, to iron based automotive parts and industrial machinery parts. Worthful not only for drilling, tapping but for milling. Contributes to high-speed / accurate machining and improved productivity by minimizing the dimensional deviation over time.



### Precision Grinding Machine

Our grinding machine has stable accuracy and durability thanks to the wheelhead spindle with hydrodynamic bearings and V-flat guide with uniform contact face finished by scraper. The machine can handle from raw materials to hardened steel, ceramics, and small and medium-sized components. In addition, it responds to customers' needs from single piece products such as mold pins, small volume components such as engine, transmission, hydraulic equipment, IT-related, and medical equipment, to highvolume production of fully automated machining systems by the auto loaders and automatic measurement.



### Precision Thread and Form Rolling Machine

A plastic forming machine to transcribe the shape of a pair of rolling dies driven by hydraulic power or servo to the workpieces. Unlike cutting and grinding, no chips are generated, and this processing method also draws attention from an environmental protection perspective. With CNC control, a single machine can perform rolling at multiple positions, and realizes integration of processes. In addition to thread or knurling, high accuracy lead screws, worms, and forming are possible.

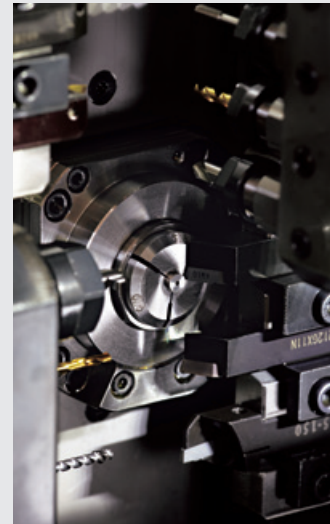
## CNC precision automatic lathes: In pursuit of precision down to the submicron

### Tsugami's expert technology enables high-precision, mass-produced machining of small-diameter parts

Our lead product is the CNC precision automatic lathe, which enables high-speed, high-precision machining. On a normal lathe, the material to be machined is protruded and machined; however, when parts are small, the materials sometimes bend when they come into contact with the cutting tool. To prevent this, a guide bushing must be located between the spindle and the tool to support the material in front of the tool. Our product with this function is the sliding headstock type CNC precision automatic lathe.

What sets our automatic lathes apart from others is tool placement that minimizes thermal displacement during machining and high-rigid casting base that limits vibrations during high-speed machining, which enable consistently precise machining over long periods of time. Our machines can be found on the front lines wherever high precision is required, for example in manufacturing parts for watches, mobile devices, optical communication, medical equipment, and automobiles.

Our lineup includes the P0/P0W series, which is optimized for micro-precision parts machining, accommodates materials under 5 mm in diameter and machines parts less than 0.1 mm in diameter, and is used to manufacture small parts, such as for semiconductor inspection equipment and watches.



#### Six keys to outstanding high-precision machining

- Unique chuck mechanism with no chuck lever, toggle, or disc spring on the spindle or back spindle continuously improves roundness, even during high-speed rotation
- Air-tube integrated spindle that enables high-speed machining
- Highly rigid symmetrical machine base to minimize the influence of heat
- Tool-height displacement compensation system that automatically detects tool height displacement
- Independent opposed tool post (P0W)
- Linear motor and linear scale are provided as standard (P0W)

## Composite machine that rises to the task of saving space and labor

### The solution for reducing machinery and downsizing production lines

Besides our small and precise automatic lathes, we also have expertise in turning centers that can perform complete machining of complexshaped workpieces by a single machine. The SS20MH series features productive multi-tasking machine tools that combine the capabilities of our CNC precision automatic lathes and machining centers\*. With the tool spindle, our turning centers can produce finished parts with complex shapes from bar stock, and the five-axis simultaneous control function enables machining that goes beyond what conventional automatic lathes can perform. Our turning centers meet pressing needs—particularly in Europe and North America—because they combine the functions of several machines with their capability of producing finished parts with complex shapes.

Our TMA series is also highly demanded. These composite machine tools perform both turning and machining, and the lathe's milling function makes it possible to machine multiple surfaces with a single chuck, combining the functions of a lathe and a machining center in a single machine. Another reason behind its popularity is the relative lack of defects because human intervention is not required between processes. We offer these multifunctional machines as solutions for reducing machinery and downsizing production lines.



TMA8F featuring five-axis simultaneous control function for machining complex shapes

\* Composite machine tool with an automatic tool-changing function, capable of performing different types of machining in succession

# Financial Highlights

		Japanese GAAP					
		March 2013	March 2014	March 2015	March 2016	March 2017	March 2018
<b>Operating results (fiscal year)</b>							
Net sales	(Millions of yen)	52,812	32,225	54,132	40,132	41,050	57,576
Gross profit	(Millions of yen)	14,699	7,102	14,241	8,968	9,631	14,554
Selling, general and administrative expenses	(Millions of yen)	6,251	5,918	6,988	6,843	6,547	7,612
Operating profit	(Millions of yen)	8,447	1,184	7,253	2,125	3,083	6,942
Ordinary income	(Millions of yen)	6,800	1,932	7,745	1,095	2,848	6,510
Net income attributable to owners of parent	(Millions of yen)	4,207	344	5,297	877	2,630	4,171
<b>Financial position (fiscal year-end)</b>							
Current assets	(Millions of yen)	30,547	35,953	36,861	30,639	32,468	44,165
Current liabilities	(Millions of yen)	12,808	19,316	17,851	13,983	16,762	22,821
Total assets	(Millions of yen)	45,919	52,250	56,829	47,859	50,127	62,656
Interest-bearing liabilities	(Millions of yen)	3,919	6,075	6,855	6,127	4,183	3,200
Net assets	(Millions of yen)	31,998	31,587	37,279	32,594	31,462	37,516
Shareholders' equity	(Millions of yen)	31,498	30,981	36,414	31,693	30,620	31,083
<b>Cash flows</b>							
Cash flows from operating activities	(Millions of yen)	1,914	714	3,135	4,226	5,550	6,832
Cash flows from investing activities	(Millions of yen)	(2,381)	(713)	(1,706)	(959)	920	(615)
Cash flows from financing activities	(Millions of yen)	303	445	(2,822)	(3,520)	(6,353)	(1,002)
Cash and cash equivalents at the end of the term	(Millions of yen)	5,296	6,044	4,952	4,589	4,561	10,181
<b>Key financial indicators</b>							
Operating margin	(%)	16.0	3.7	13.4	5.3	7.5	12.1
Return on assets (ROA)	(%)	14.1	3.9	14.2	2.1	5.8	11.5
Return on equity (ROE)	(%)	14.3	1.1	15.7	2.6	8.4	13.5
Capital adequacy ratio	(%)	68.6	59.3	64.1	66.2	61.1	49.6
Current ratio	(%)	229.5	180.5	196.9	205.9	184.4	188.1
Debt-to-equity (D/E) ratio	(x)	0.13	0.21	0.22	0.21	0.15	0.12
Net income per share (EPS)	(Yen)	57.16	4.72	74.37	13.04	41.91	74.71
Net assets per share (BPS)	(Yen)	427.86	428.18	522.94	473.78	510.43	585.58
Dividend per share	(Yen)	12	12	14	16	16	18
Dividend payout ratio	(%)	21.0	254.2	18.8	122.7	38.2	24.1

\* The Group has voluntarily applied International Financial Reporting Standards (IFRS) since the first quarter of the fiscal year ended March 31, 2019.

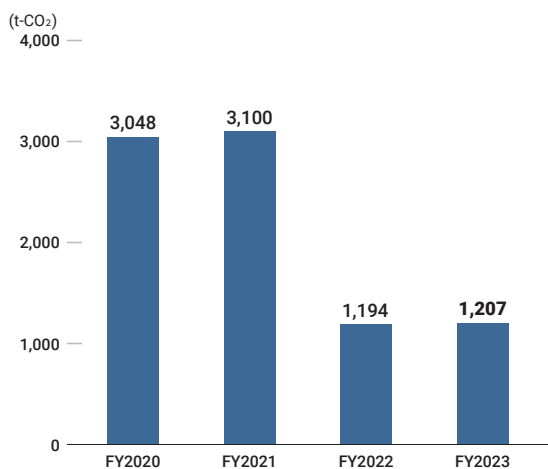


## International Financial Reporting Standards (IFRS)

		March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
Revenue	(Millions of yen)	68,486	49,310	61,662	93,174	94,963	<b>83,928</b>
Gross profit	(Millions of yen)	19,978	12,956	17,204	28,179	26,758	<b>23,669</b>
Selling, general and administrative expenses	(Millions of yen)	(9,803)	(8,369)	(8,297)	(10,223)	(11,044)	<b>(11,775)</b>
Operating profit	(Millions of yen)	10,215	4,549	9,533	18,860	16,758	<b>13,095</b>
Profit attributable to owners of parent	(Millions of yen)	6,192	2,001	4,917	9,486	7,695	<b>5,376</b>
Current assets	(Millions of yen)	52,493	42,952	60,023	82,036	90,370	<b>92,935</b>
Current liabilities	(Millions of yen)	27,933	20,866	30,204	42,873	43,689	<b>40,047</b>
Total assets	(Millions of yen)	69,692	61,860	79,278	103,761	112,364	<b>117,714</b>
Interest-bearing liabilities	(Millions of yen)	11,121	8,867	9,579	13,313	17,698	<b>16,816</b>
Total equity	(Millions of yen)	40,072	39,073	46,836	57,840	64,922	<b>72,361</b>
Equity attributable to owners of parent	(Millions of yen)	33,244	32,480	38,229	45,580	50,953	<b>56,605</b>
Cash flows from operating activities	(Millions of yen)	1,643	7,994	6,784	6,296	8,300	<b>11,883</b>
Cash flows from investing activities	(Millions of yen)	(1,362)	(3,246)	1,432	(3,009)	(1,278)	<b>(2,605)</b>
Cash flows from financing activities	(Millions of yen)	355	(4,261)	(2,781)	(3,514)	(379)	<b>(6,687)</b>
Cash and cash equivalents at the end of the term	(Millions of yen)	11,112	10,921	17,207	18,844	25,779	<b>30,495</b>
Operating margin	(%)	14.9	9.2	15.5	20.2	17.6	<b>15.6</b>
Return on equity attributable to owners of parent	(%)	19.1	6.1	13.9	22.6	15.9	<b>10.0</b>
Equity attributable to owners of parent ratio	(%)	47.7	52.5	48.2	43.9	45.3	<b>48.1</b>
Current ratio	(%)	187.9	205.8	198.7	191.4	206.9	<b>232.1</b>
D/E ratio	(x)	0.36	0.28	0.27	0.34	0.40	<b>0.36</b>
Basic earnings per share	(Yen)	117.98	38.60	95.21	191.99	159.39	<b>112.57</b>
Equity attributable to owners of parent per share	(Yen)	641.69	628.14	751.14	941.82	1,057.67	<b>1,190.52</b>
Dividend per share	(Yen)	21	24	26	40	46	<b>48</b>
Dividend payout ratio	(%)	17.8	62.2	27.3	20.8	28.9	<b>42.6</b>

# Non-Financial Highlights

## GHG emissions (Scope 1, Scope 2) (non-consolidated basis)



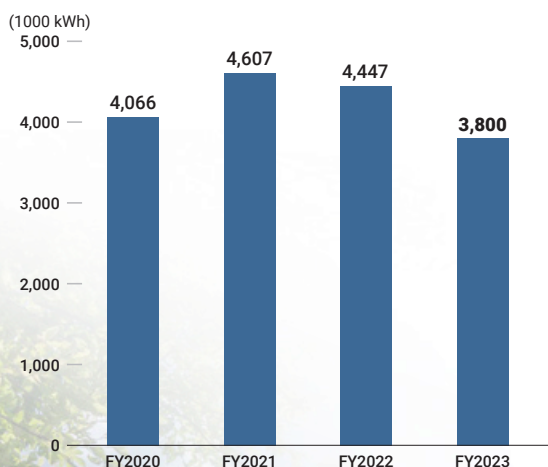
\* Total emissions of Nagaoka Factory, Takami Warehouse, Parts Center Warehouse, Head Office, and Sendai, Takasaki, Suwa, Shinshu, Nagoya, Osaka, and Fukuoka Sales Offices

\* Reduction in greenhouse gas emissions as a result of switching to electric power derived from renewable energy sources: FY2022 2,225t-CO<sub>2</sub>, FY2023 2,094t-CO<sub>2</sub>

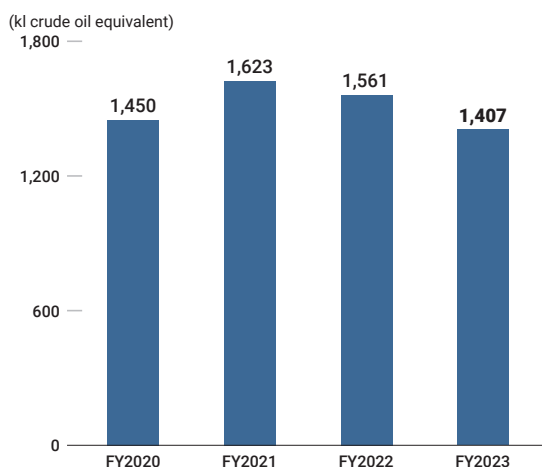
## GHG emissions (Scope 3) (non-consolidated basis)

	FY2021	FY2022	FY2023
Purchased products and services (t-CO <sub>2</sub> )	101,146	119,864	70,450
Transportation and distribution (upstream) (t-CO <sub>2</sub> )	2,574	2,564	1,390
Transportation and distribution (downstream) (t-CO <sub>2</sub> )	1,550	1,914	1,676
Use of sold products (t-CO <sub>2</sub> )	95,544	97,229	82,315
End-of-life treatment of sold products (t-CO <sub>2</sub> )	806	817	670
Categories other than the above (t-CO <sub>2</sub> )	1,279	1,176	1,127
<b>Total (t-CO<sub>2</sub>)</b>	<b>202,899</b>	<b>223,564</b>	<b>157,628</b>

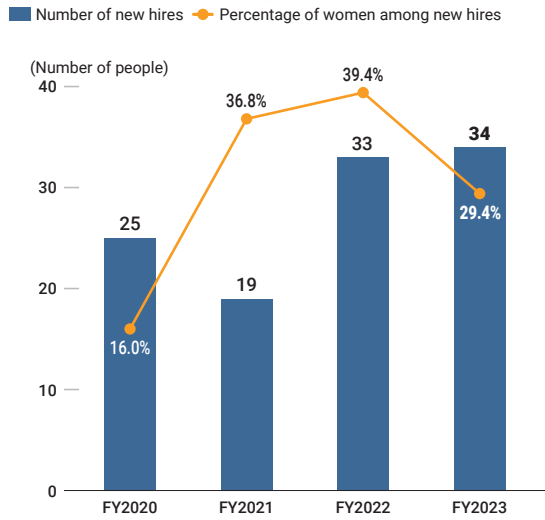
## Electricity used (non-consolidated basis)



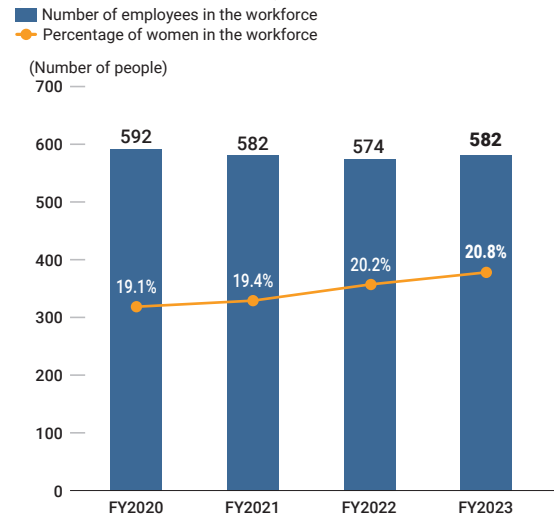
## Energy consumption (non-consolidated basis)



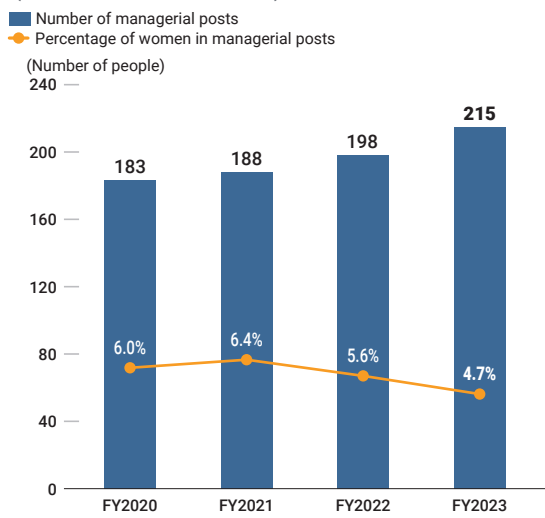
### Percentage of women among new hires (non-consolidated basis)



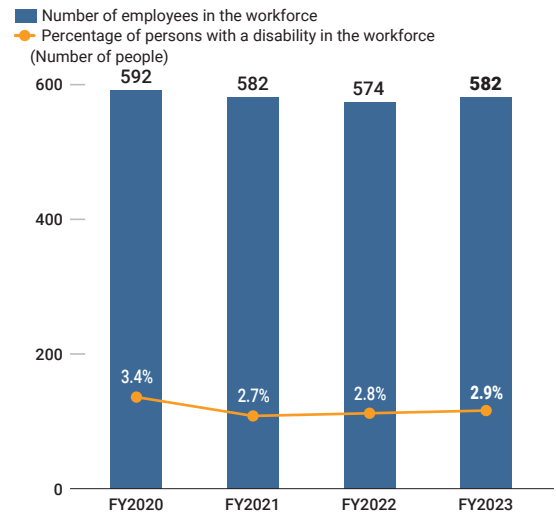
### Percentage of women in the workforce (non-consolidated basis)



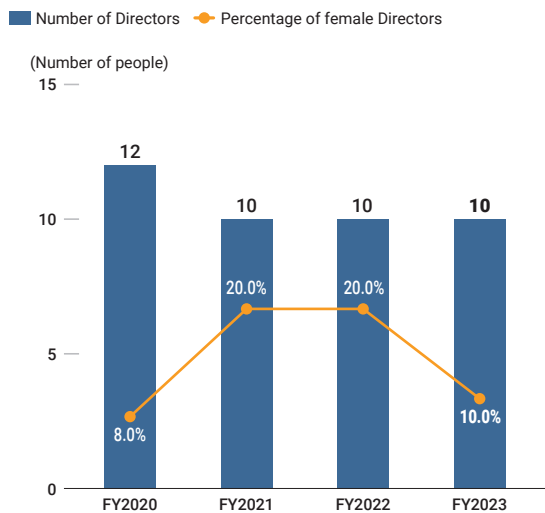
### Percentage of women in managerial posts (non-consolidated basis)



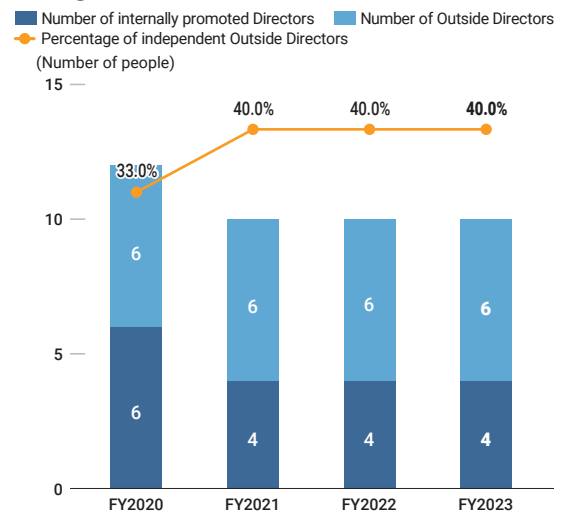
### Percentage of persons with a disability in the workforce (non-consolidated basis)



### Percentage of female Directors among Directors

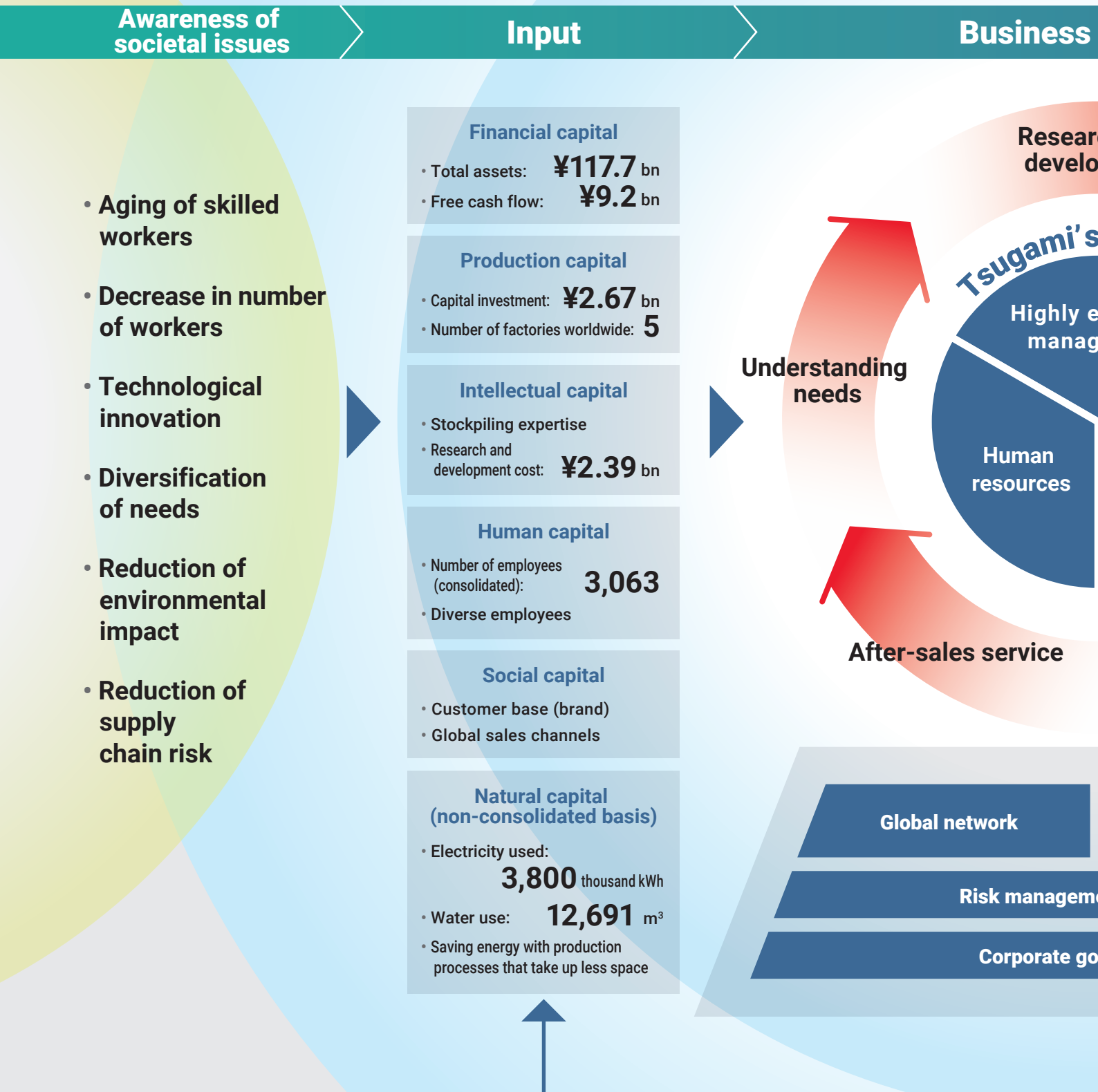


### Percentage of independent Outside Directors among Directors



# Value Generation Process

The Tsugami Group has grown because we contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies we have been developing since the Company was first established. As a Group, we aim to realize a sustainable world by applying our technological capability and values to strike a balance between sustainable growth and societal advancement.



Tsugami products in everyday life

Although users rarely have the opportunity to see our products, they fulfill their roles day in and day out in smartphones, watches, computers, automobiles, implants, and other familiar places.

Watches



Medical equipment



Automobiles



Electronic equipment



Model

Output

Outcome

Research and development

Core strengths

Efficient procurement

Technological capacity  
(high precision, high speed, high rigidity)

Procurement and production

Sales

- Revenue **¥83.9 bn**
- Operating profit **¥13.0 bn**
- ROE **At least 10%**

Main product lines



Precision automatic lathe



Precision grinding machine



Machining center



Precision thread and form rolling machine

Contributing to the advancement of a broad range of industries

Improving convenience for customers and users

Generating new value based on precision technology

Enhancing added value in final products and resolving societal issues with precision technology

SUSTAINABLE DEVELOPMENT GOALS



Extensive product lineup

Regulatory compliance

Governance

# Research and Development Strategy, Global Development

The Company's history traces back to the time our founder, Taisuke Tsugami, began studying gauge blocks, which are the standard for lengths. We successfully established domestic production of gauge blocks in Japan and used the underlying technology to begin developing and manufacturing precision measuring instruments, eventually expanding to precision machine tools such as grinding machines, thread and form rolling machines, automatic lathes, and machining centers. We intend to continue using the precision machining technology we have cultivated over decades of product and technological development to actively develop high-precision, high-speed, high-rigidity products with a sense of urgency to quickly meet customers' needs.

## Our technological capacity, cultivated over decades

Given the complex shapes and strict geometric tolerance of the precision parts of watches, computers, smartphones, and other information and communication devices we rely on every day, these parts are manufactured using CNC automatic lathes with outstanding machining precision.

As a major manufacturer, we have supplied machine tool users—from major Japanese manufacturers of precision electronic components to smaller companies in the parts machining industry—with products possessing the high precision, speed, and rigidity required in the mass-production of parts with consistent quality. For the automotive and medical industries, among others, our machine tools are also contributing to the manufacture of EV-related parts, motor and sensor parts, artificial joints, and implants. Our strength lies in our ability to create real-world-ready products that facilitate users' efforts to automate and save labor, and our underlying technological and development capacity is highly acclaimed by companies in the world's leading countries in need of high-precision machining, notably renowned watchmakers and smartphone manufacturers in Europe and North America.



Sliding head stock type automatic lathe production line

## Successfully developing an effective global system

Even as we tackle the development and production of high-end products that enhance precision and efficiency in Japan, Europe, and North America, we have consistently captured markets in China and other emerging economies to raise our earning power and prudently expand our business.

As the Japanese machining industry continues to mature, we aim to use our technological and development capacity as a foundation for enhancing our presence overseas. We took the Global Financial Crisis as an opportunity to ramp up local production in China of more affordable machine tools with limited functions for the largest market segment; consequently, we enjoyed rapid growth associated with the expansion of the local production industry. Although sales can be quite high in the largest market segment, it can also be difficult to turn a profit due to competition on prices.

We successfully secured ample profits in the largest market segment through substantial cost-cutting by switching to in-house production overseas for parts we had outsourced to Japanese suppliers. Concurrently, expansion of production lots had the effect of reducing the resetting of settings on production lines and other tasks, contributing to enhanced quality. We established a production company in India in 2011 and are continuing to expand and strengthen our production capacity.



China Factory (Maanshan, Anhui Province)



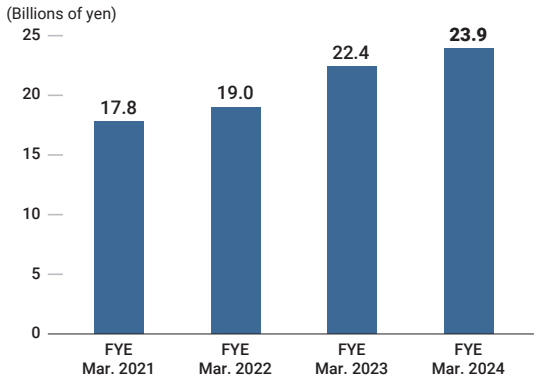
India Factory (Chennai)

# System

## Efforts to increase added value

We take steps to strengthen our production, sales, and after-sales service systems in China, Southeast Asia, India, and other markets with a strong appetite for capital investment over the medium and long term. We also aim to delve deeper into the markets of world-leading countries in North America and Europe; toward that end, we will introduce and promote high-end composite machines. In the area of new product development, we are working on machine tools for industries where demand should continue to increase significantly, for example auto parts, where companies must respond to environmental needs, and advancing industries such as IT, medical, and semiconductor inspection equipment.

## Research and development cost



## Exhibited at IMTS 2024 and JIMTOF 2024

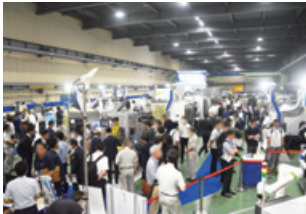
We exhibited nine models at the International Manufacturing Technology Show (IMTS) 2024, held in Chicago, Illinois, USA, over six days from September 9 to 14, 2024, and 12 models at the Japan International Machine Tool Fair (JIMTOF) 2024, held in Tokyo over six days from November 5 to 10, 2024, including new products. These exhibitions are known as two of the three major international exhibitions for machine tools. We exhibited the latest machine tools equipped with collaborative robots to demonstrate our technology that is at the forefront of automation and labor-saving.



IMTS2024

## TSUGAMI TECHNICAL FAIR

We held the TSUGAMI TECHNICAL FAIR 2024 at our Nagaoka Factory over two days from June 20 to 21, 2024. We prepared exhibits and demonstrations of our latest machine tools that meet customers' needs for increasing complexity and high-precision, including micro-machining, with our precision machining expertise cultivated over decades. Through events like these, we aim to both discover and propagate customers' automation and labor-saving needs.



TSUGAMI TECHNICAL FAIR 2024

## Message from an employee

### The strengths and attention to detail of Tsugami's technology

As machines become more complex amid the drive to consolidate processes to meet market needs, I think it is a strength to be able to engage in manufacturing that incorporates knowledge distinct to a general machine tool manufacturer with a broad lineup that includes automatic lathes, machining centers, grinding machines, and more.

In the context of new machine development, it is our calling to set development targets in line with market needs and apply our ample experience to bring to market machine tools that allow customers to gain maximum profits with minimal investment. My personal goal is to develop machines that will make customers say, "We made money thanks to this Tsugami machine."

I intend to improve productivity while enhancing energy-saving functions to help reduce environmental impact.

Shun Abe  
Technology Group III

# Human Resources Strategy

The Tsugami Group views human resources as the foundation of sustainable growth. Therefore, we think it is important to accept the values and characteristics and respect the diversity of the people who underpin our business, regardless of factors like their race, religion, nationality, age, gender, or disabilities. We will maintain environments where everyone can apply their abilities and aptitude to the fullest, and create an organizational culture that allows diverse human resources to flourish.

## Strategies for diversifying human capital

### 1. Recruitment policy

In addition to new graduates, the Group actively recruits mid-career employees with diverse experience, skills and qualifications and who are work ready to encourage capable human resources to join the Group. The Group aims to cultivate human resources who can demonstrate their capabilities in different environments with different customs and cultures.

### 2. Developing an environment where diverse employees can demonstrate their capabilities

The Group works to build a work environment where all employees can demonstrate their capabilities and grow regardless of age, gender, nationality or disability.

#### Recent efforts

- Has designed a system where highly skilled part-time employees are promoted to regular employees.
- Has set a target percentage of female regular employees for new regular employees to promote the participation of women.
- Has established a consultation desk in the Human Resources Department that provides consultation regarding childcare leave.
- Has expanded the scope of the shortened working hours system for childcare to include employees raising children up to the third grade of elementary school.

### 3. Health and productivity management

The Group promotes activities focusing on employees' health management and safety management.

#### Recent efforts

- Has all employees receive regular medical check-ups. Conducts stress tests to prevent mental disorders.
- Industrial physicians conduct mental health interviews.
- Has introduced new medical life insurance and insurance covering three major diseases.

## Indicators and targets

### 1. Promoting women to management positions

At the Company, female managers actively participate in overseas operations, which account for a large percentage of revenue, and major departments, particularly those involved in technical management. The Company will continue to actively promote female employees to managerial positions and take steps to increase the percentage of female managers to 10% by around 2026.

To increase the number of female managers, the Company has set the target of 20% of its new female regular employees and it is taking steps to recruit women.



## 2. Promoting mid-career hires to management positions

With so many mid-career hires on staff, we already ensure a proper percentage of mid-career hires in management positions. We have not set any particular target for such promotions because we decide to promote people based on a number of factors such as skills and aptitude, but not whether they were hired as new graduates or in the middle of their careers.

## Training programs

To avoid the negative effects of changes in the economy and continue to survive amid intense competition, we must further enhance our presence and broadly promote the Company. Human resources are our most important means of accomplishing this. Thus, we have established many training programs to develop human resources who take initiative, apply flexible ways of thinking to overcome difficulties, and continually attempt to meet challenging targets.

Type of training	Details
New employee training	Fundamental training, etiquette, safety and hygiene, production management, laws and regulations, internal control, ISO, intellectual property, export screening, rules and regulations, etc.
On-the-job training	OJT is conducted in small groups at all workplaces for one year after new employee training
English conversation training	Outside instructors are invited once a week to provide English conversation training (one year)
New manager training	Correspondence courses are held to teach newly appointed managers about management (four months)

### Message from an employee

## Organizational system for reliably promoting palpable growth

At Tsugami, we contribute to many industries by manufacturing automatic lathes, machining centers, and a wide array of other machine tools, and I find it appealing to be able to work with all the different types. The Group has internal systems that make it easy to ask questions and get answers whenever I am unclear about something regarding our products, and the ability to learn so much about such a broad range of machine tools has helped me grow as a person.

Right now, I am involved in development for saving energy and labor as a member of the technological development department, and I feel that we have successfully enhanced the drive of everyone in the Company to save energy by introducing energy-saving functions to all the machine tools we produce.

Yuki Nagumo  
Technology Division

# Corporate Governance

## Basic concept

The Company is committed to fulfilling the expectations of its shareholders and fulfilling its corporate social responsibility as a member of the international community by making quick and appropriate management judgments that facilitate continued growth in corporate value and maintaining sound management through the building and reinforcement of an internal control system and its effective operation.

In addition, the Company will strengthen the governance system of the Board of Directors by audits conducted by the Directors who are Audit and Supervisory Committee Members with voting rights at the Board of Directors meetings on the legality and adequacy of the execution of business and increase the mobility of the execution of business by delegating some of the business execution authority of the Board of Directors to Directors.

## Basic policy

1. We will work to secure the rights of the shareholders and equality among them.
2. We will work to cooperate with our stakeholders other than shareholders (including customers, suppliers, employees, and communities) appropriately.
3. We will disclose information appropriately under laws and regulations and will voluntarily provide other information to achieve transparency.
4. The Board of Directors will fulfill its roles and responsibilities appropriately to make transparent, fair, quick, and bold decisions.
5. Audit and Supervisory Committee will make efforts to strengthen the governance system of the Board of Directors by conducting audits properly and accurately.
6. We will pursue constructive communication with our shareholders to achieve sustainable growth and enhance corporate value in the medium to long term.

## Ensuring mobility of execution of duties (Corporate Management Committee)

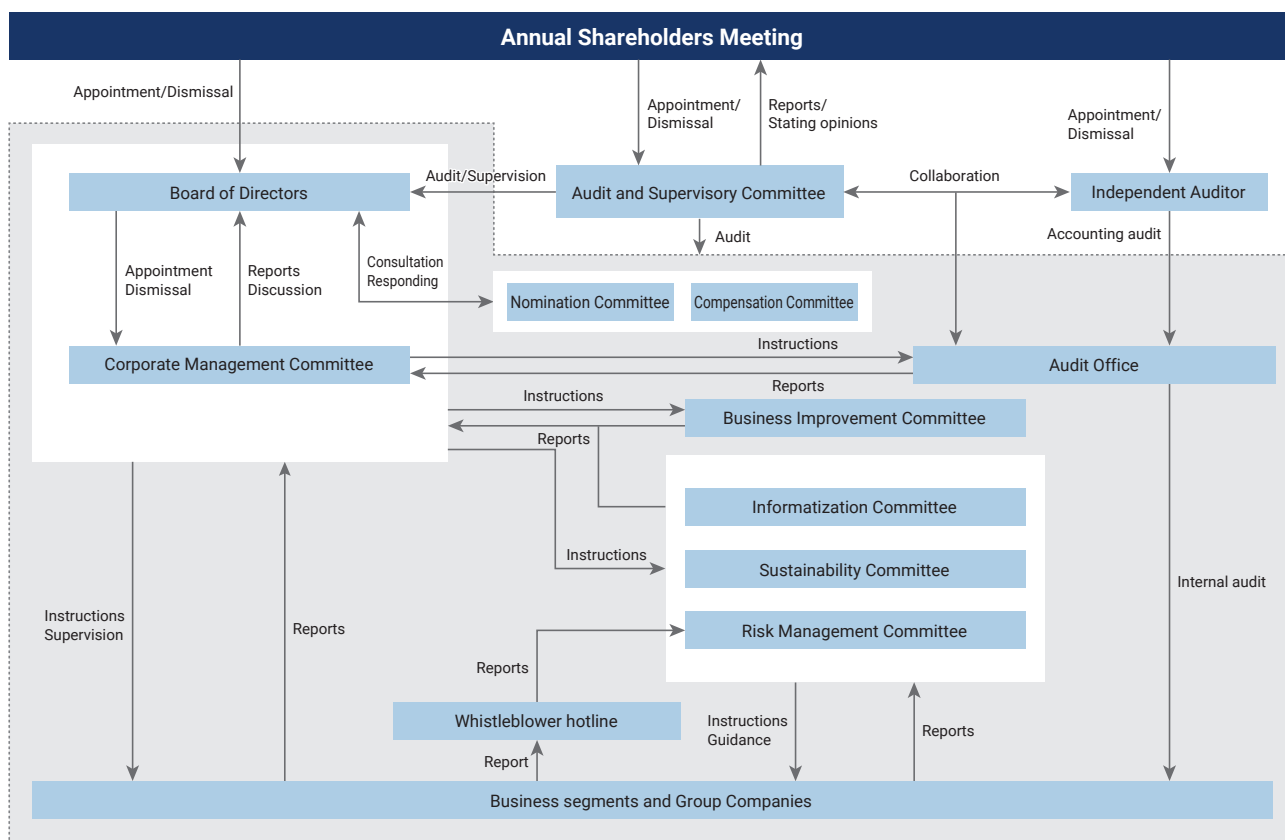
The Company has established the Corporate Management Committee, which consists of Representative Directors and major Executive Officers as an organ for reporting and discussing matters concerning the consensual decision making of important business execution issues including those submitted to the Board of Directors for discussion and other important operations and their execution. The committee meets monthly in principle 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.

The Corporate Management Committee is made up of Executive Officers who, as heads of departments, are responsible for departments. These Officers collaborate and hold discussions, thereby forming a system for making proper management decisions. Items discussed by the Corporate Management Committee are continuously reviewed to further ensure and improve mobility.

## Composition of the Corporate Management Committee

Member	<b>Nobuhiro Watabe</b>	Nagaoka Plant Manager (Head of Engineering and Production Operation), Head of Domestic Operation	Supreme Advisor	<b>Takao Nishijima</b>
Member	<b>Mami Matsushita</b>	Head of Overseas Sales and Operation, General Manager of Overseas Division		
Member	<b>Kenji Yoneyama</b>	Head of Administration, General Manager of Administration Division, General Manager of Secretariat		

## Corporate governance system chart



## Organizational design

### Board of Directors

The Company positions the Board of Directors as a key organization for corporate governance. In principle, the Board of Directors meets every month and makes decisions through comprehensive discussions and studies of management challenges and significant matters to address.

The following are the main topics of discussion by the Board of Directors.

Matters to be discussed	Major matters
Items to be resolved	Financial results, shareholder return, budgets, shareholders meetings, management and execution systems, officer compensation, election of Nomination Committee members, requesting that the Nomination Committee and Compensation Committee submit reports, personnel changes, organizational changes Management systems at subsidiaries, partial sale of shares of subsidiaries and associates, establishment of subsidiaries in Vietnam and Malaysia
Items to be reported	Results of surveys on the evaluation of the effectiveness of the Board of Directors, the status of the operations of the whistle-blowing system and the system for proposing improvements, publication of an integrated report regarding audits by the Audit Office and internal control

### Audit and Supervisory Committee

The Company is a company with an audit and supervisory committee, and five Audit and Supervisory Committee Members including four independent outside Directors who are the Audit and Supervisory Committee Members audit the execution of duties of Directors.

### Nomination Committee and Compensation Committee (voluntary committees)

The Company has established the Nomination Committee and Compensation Committee, voluntary committees, as advisory bodies to the Board of Directors and ensures the transparency and objectivity of the process for evaluating and determining the nomination and compensation, etc. of Directors and Executive Officers. Each committee is made up of three or more Directors elected by the Board of Directors and a majority of the members are independent Outside Directors.

## Corporate Governance

### Composition of Board of Directors (as of June 19, 2024)

Now that we operate globally in a volatile environment, candidates for the Board of Directors (including Directors who are Audit and Supervisory Committee Members) are elected taking into consideration their experience, knowledge, and expertise, with no distinction for their gender, age, or nationality, and giving due consideration to the overall balance of the Board. As for Outside Directors, we elect people with experience and skills in corporate management, legal affairs, accounting, research related to our business, and other areas as well as good judgment in an effort to ensure the diversity of the Board of Directors as a whole.

Name		Years in office	Attendance in FYE Mar. 2024 (Number of meetings attended/Number of meetings)			
			Board of Directors meetings	Nomination Committee meetings	Compensation Committee meetings	
Ken Kubo	Outside Director, Chairman of the Board of Directors	4 years	7/10	–	–	
Nobuhiro Watabe	Representative Director and President	1 year	8/8	–	–	
Mami Matsushita	Representative Director	–	Assumed office in June 2024	–	–	
Kenji Yoneyama	Representative Director	1 year	8/8	3/3	–	
Donglei Tang	Director	6 years	8/10	–	–	
Yutaka Kimura	Outside Director (Audit and Supervisory Committee Member)	1 year	8/8	–	–	
Yoshimi Takeuchi	Outside Director (Audit and Supervisory Committee Member)	4 years	10/10	–	4/4	
Kenyu Adachi	Outside Director (Audit and Supervisory Committee Member)	4 years	10/10	5/5	–	
Shu Hamba	Outside Director (Audit and Supervisory Committee Member)	–	Assumed office in June 2024	–	–	
Michiyo Yamamiya	Outside Director (Audit and Supervisory Committee Member)	4 years	10/10	–	4/4	

Notes: 1. Years in office indicated as of June 2024.

2. Mr. Yoneyama and Mr. Tang's years in office do not include the years they previously served as Director and Auditor.

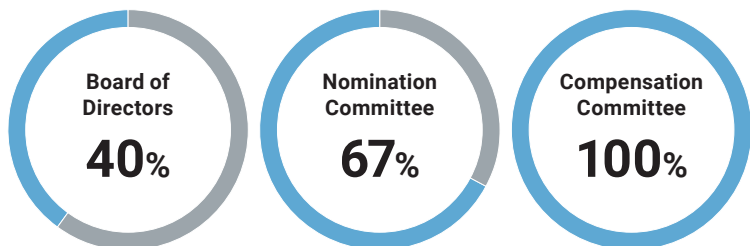
Yoneyama: Auditor from June 2017 to June 2018 (one year), Director who is an Audit and Supervisory Committee Member from June 2018 to June 2021 (three years)

Tang: Director from June 2010 to February 2017 (six years and eight months)

3. Ms. Matsushita and Mr. Hamba were newly elected as Directors at the 121st Annual Shareholders Meeting held on June 19, 2024 and assumed office then; thus, their attendance at meetings of the Board of Directors and the like is not indicated.

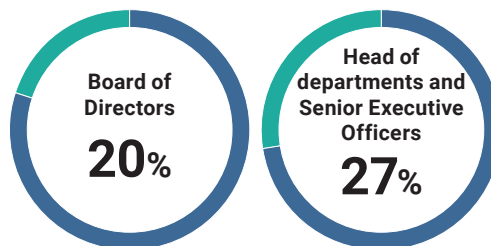
### Percentage of independent Outside Officers

Independent Outside



### Percentage of female Officers

Men Women



	Skills matrix						
	Corporate management	Industry knowledge	International experience	Sales, marketing	Technology, R&D	Legal affairs	Financial accounting
	●		●	●			●
	●	●	●	●	●		
	●	●	●	●		●	
	●					●	●
	●	●	●	●	●		
	●					●	●
		●	●		●		
	●		●			●	
			●			●	
			●			●	

Officers' career records are posted on the Tsugami website. → [https://www.tsugami.co.jp/ir/governance/houkokusyo\\_20240619.pdf](https://www.tsugami.co.jp/ir/governance/houkokusyo_20240619.pdf) (in Japanese)

### Officer compensation plan

We have set out the following policy for determining details of the compensation, etc. of individual Directors.

- In accordance with its basic policy for corporate governance, the Company adopts a compensation structure that aligns the values of Directors with those of shareholders to ensure that compensation effectively incentivizes Directors to strive for sustainable improvement in corporate value and, when determining compensation amounts for individual Directors, the Company sets these at an appropriate level in light of the responsibilities of each Director.
- Compensation is determined following deliberation by the Compensation Committee where a majority of members are independent Outside Directors, in order to ensure objectivity and transparency.
- Compensation must be within the total amount of compensation fixed by resolution of the shareholders meeting.

### Performance-linked compensation

Performance-linked compensation is monetary compensation that reflects performance indicators to motivate Directors to improve performance, and it is paid as monthly compensation. Performance indicators and their target levels are set and reviewed as appropriate according to changes in the environment to ensure that they are consistent with evaluations of the level of achievement of business performance forecasts (consolidated revenue, consolidated operating profit, etc.) and the performance of the business for which each Director is responsible.

### Restricted stock compensation

The Company pays non-monetary compensation in the form of restricted stock compensation as part of medium-to-long-term performance-linked compensation. The Company provides monetary compensation claims within the range of annual amounts set by resolution of a shareholders meeting, and each eligible director pays in the entire monetary compensation claim as an in-kind contribution to the Company and receives the allocated restricted stock. Restricted shares are allocated at a fixed time every year based on comprehensive consideration of a range of factors including rank, responsibilities and the Company's performance. Restrictions on transfer of shares are lifted at the time of retirement. With the introduction of a restricted stock compensation plan, stock compensation-type stock options were abolished except for those that were already granted. At the 121st Annual Shareholders Meeting held on June 19, 2024, the determination of compensation concerning measures to transition to restricted shares from share acquisition rights (unexercised portion) that were already granted as stock compensation-type stock options to reappointed Directors, etc. was resolved. In accordance with the transition measures, the unexercised portions of share acquisition rights that were already granted have been waived on the condition that restricted shares are allocated.

### Total amount of compensation, etc. in FY2023

Post	Total amount of compensation, etc.	Total amount of compensation, etc. by type			Number of eligible Directors
		Basic compensation	Performance-linked compensation, etc.	Non-monetary compensation, etc.	
Directors (excluding Audit and Supervisory Committee Members) [Outside Directors included]	¥130 million [¥16 million]	¥78 million [¥16 million]	¥22 million [-]	¥30 million [-]	8 [2]
Directors (Audit and Supervisory Committee Members) [Outside Director included]	¥51 million [¥47 million]	¥51 million [¥47 million]	- [-]	- [-]	6 [5]
Total [Outside Directors included]	¥182 million [¥63 million]	¥129 million [¥63 million]	¥22 million [-]	¥30 million [-]	14 [7]

Notes: 1. The above includes three Directors (excluding Directors who are Audit and Supervisory Committee Members) and one Director (Audit and Supervisory Committee Member) who retired as of the closing of the 120th Annual Shareholders Meeting held on June 21, 2023.

2. Performance indicators for performance-linked compensation, etc. and their target levels are set and reviewed as appropriate according to changes in the environment to ensure that they are consistent with evaluations of the level of achievement of business performance forecasts (consolidated revenue, consolidated operating profit, etc.) and the performance of the business for which each Director is responsible.

3. Non-monetary compensation, etc. consists of restricted stock compensation.

• Restricted stock compensation: The Company adopts a system whereby restricted shares are allocated at a fixed time each year based on comprehensive consideration of a range of factors including rank, responsibilities and the Company's performance. Restrictions on transfer of shares are lifted at the time of retirement.

4. It was resolved at the 115th Annual Shareholders Meeting held on June 20, 2018, that the amount of monetary compensation for Directors (excluding Directors who are Audit and Supervisory Committee Members) should be no more than ¥250 million per year. The number of Directors (excluding Directors who are Audit and Supervisory Committee Members) at the closing of the 115th Annual Shareholders Meeting was seven (including two Outside Directors). It was also resolved at the 118th Annual Shareholders Meeting held on June 16, 2021 that, separate from this monetary compensation, the provisions on the amount of compensation, etc. in the form of subscription rights to shares to be allocated as stock compensation-type stock options be repealed, and the amount of compensation, etc. related to restricted shares for Directors (excluding Directors who are Audit and Supervisory Committee Members) be set at not more than ¥80 million per year, and the total number of restricted shares allocated in each fiscal year be at not more than 150,000 shares. The number of Directors (excluding Directors who are Audit and Supervisory Committee Members as well as Outside Directors) at the closing of the 118th Annual Shareholders Meeting was three.

5. It was resolved at the 115th Annual Shareholders Meeting held on June 20, 2018 that the amount of monetary compensation for Directors who are Audit and Supervisory Committee Members should be no more than ¥80 million per year. The number of Directors who are Audit and Supervisory Committee Members at the closing of the 115th Annual Shareholders Meeting was four.

6. The Board of Directors delegates authority to determine the details of compensation, etc. (including amounts of basic compensation and performance-linked compensation) of individual Directors (excluding Directors who are Audit and Supervisory Committee Members) to the two Representative Directors, Nobuhiro Watabe and Kenji Yoneyama. The Board of Directors delegated authority based on the judgment that the panel of two Representative Directors are the right people to evaluate the performance of the business unit each Director is responsible for whilst taking into consideration the performance of the Company as a whole and other pertinent factors. The Company established voluntary Nomination and Compensation Committees where the majority of members are independent Outside Directors as advisory bodies to the Board of Directors. Upon determination of the details of compensation, etc. of Directors described above, the details are first deliberated at the Compensation Committee and then determined by the two Representative Directors, under authority delegated by the Board of Directors, giving due respect to the report of the Compensation Committee.

## Evaluating the effectiveness of the Board of Directors

Every year, our Board of Directors analyzes, evaluates, and discusses its effectiveness based on the results of surveys administered to the Directors with recommendations from an external organization.

According to the survey conducted in the fiscal year ended March 2024, our Board of Directors was run properly, and its effectiveness was largely ensured. However, response to issues surrounding sustainability, further enhancement of discussions regarding matters such as DX promotion and the development of management human resources and human resource strategies from a medium- to long-term perspective, and other improvements were cited as items to be implemented to further improve the effectiveness of the Board of Directors. We will continue to address these issues in an effort to further improve the effectiveness of the Board of Directors.

With regard to the further enhancement of non-financial disclosures, which was cited as an issue in the survey conducted in the fiscal year ended March 2023, we took action by publishing and disclosing an integrated report in December 2023, among other measures.

# Compliance

## Basic concept

The Tsugami Group views compliance as a priority management issue, and has set out a compliance policy under the Tsugami Group Code of Conduct, which was established to ensure that we operate based on sound social practices, and is making efforts to further promote and institutionalize awareness of compliance.

## Anti-corruption policy

The Tsugami Group believes that executing business in compliance with laws and regulations, engaging in fair, transparent and free competition and fair and responsible transactions, and ensuring that individual employees go about their day-to-day tasks with high ethical standards will lead to its corporate development in the long term. We do not tolerate corruption in any aspect of our business. We maintain appropriate relationships with our business partners, and ask all our Officers and employees and all our contractors to ensure free and fair competition. The Sustainability Committee will coordinate the planning, management, and operation of initiatives based on the anti-corruption policy set out below.

### Basic policy

1. We provide all our Officers and employees with appropriate training in an effort to increase awareness of anti-corruption.
2. We prohibit the granting or requesting of improper benefits to prevent the giving or receiving of bribes.
3. We completely sever all ties or relations with antisocial forces.
4. We seek cooperation with companies in the same industry and other stakeholders.
5. We publicly disclose our anti-corruption policy and the process and results of its implementation.

## Anti-corruption initiatives

The Tsugami Group shares this basic policy with the compliance officers of all group companies both inside and outside of Japan and encourages every company to establish internal regulations and guidelines and to provide compliance education, in a bid to stamp out bribery across the Group.

In FY2023, there were no instances of disciplinary action taken against employees on the grounds of bribery or other forms of corruption.

The Group also incurred no fines, penalties, or settlement costs in relation to corruption during FY2023.

# Business and Other Risks

The following are key risks we have identified as having the potential to substantially impact the Group's financial situation and operating results. Notably, the future-related key risks detailed below are those determined by the Group as of March 31, 2024.

## (1) Effects of business fluctuations

The machine tool industry is an industry that is susceptible to the effects of business fluctuations. The Group is continuing its efforts to minimize the effects that unexpected market downsizing can have on its performance, by reducing fixed costs and taking other steps in an attempt to maximize management efficiency. Sudden and unexpected changes, however, may affect the Group's production, business performance, and financial situation.

## (2) Effects of changes in prices of raw materials

The prices of cast metals and iron and steel products, the main raw materials of products of the Group, are influenced by movements of exchange rates and the international supply-demand situation. Increases in prices of raw materials for those reasons may affect the Group's production, business performance, and financial situation.

## (3) Effects of fluctuations in exchange rates

Each year, overseas sales are accounting for a greater percentage of total sales of the Group's products. Exports by the Group are denominated in yen, and they are not directly influenced by exchange rate fluctuations in principle. A sharp appreciation of the yen, however, prompts agents and users overseas to ask the Group to lower its selling prices for its products. In addition, the risk of an exchange loss attributable to fluctuations in the Chinese yuan is rising in proportion to the growing weight of production at manufacturing factories in China.

## (4) Effects of overseas operations

Subsidiaries in China and India manufacture and sell machine tools, and the Group sells products and provides after-the-sale services through subsidiaries in South Korea, Thailand, Germany and others. Deterioration in political situations and changes in laws and regulations in those countries may affect the Group's production, business performance, and financial standing.

## (5) Effects of matters relating to quality

The Group is united in its commitment to improving quality, in addition to proactively developing new products and introducing them to markets. Nonetheless, unexpected issues, such as accidents and poor service, may affect the Group's production, business performance, and financial conditions should they arise.

## (6) Effects relating to intellectual property rights

To protect its technologies, the Group applies for patents for them and acquires intellectual property rights. However, if other companies infringe on the intellectual property rights of the Group, if the invalidation of intellectual property rights of the Group is sought, or if injunctions against the manufacture and sale of products are filed against the Group in association with infringements of intellectual property rights, then this may affect the Group's production, business performance, and financial conditions.

## (7) Effects of the situation

The Group deals with range of industries, including the electronics, information and telecommunications, and automobile industries. The Group pays close attention to the environment and credit risk. However, if the situation of business partners, especially those with which the Group conducts large transactions, changes because of amendments to contracts, changes in the business environment, business downturns, or other factors, this may affect the Group's production, business performance, and financial situation.

## (8) Effects of natural disasters

The Group has production, selling, and service bases worldwide, and may therefore be affected by disasters that might be caused by a range of phenomena, including natural disasters, computer viruses, and terrorism. The Group has production bases in Niigata Prefecture in Japan, in Zhejiang and Anhui provinces, China and in Oragadam, Dt. Tamil Nadu, India. If large natural disasters, such as earthquakes and floods, should occur, and if as a result the supply of products should become impossible or be delayed, then this may affect the Group's production, business performance, and financial situation.

## (9) Effects of the spread of COVID-19

The COVID-19 pandemic is subsiding worldwide, but any new wave of COVID-19 infections resulting in many Group employees becoming infected could cause business activities to be suspended or affect the Group's business activities in other ways.



## Message from an Outside Director

### Using my expertise to support improvements to corporate value

#### Notable changes in the business environment since I have been in office

When I became an Outside Director of the Company in 2020, economic activity was slowing rapidly as a result of the global COVID-19 pandemic. Since then, we have seen increased geopolitical risk associated with Russia's invasion of Ukraine, the ongoing weakening of the yen, and surging raw material prices rooted in inflation. In short, the business environment surrounding the Company is changing swiftly.

Despite these challenging circumstances, we made steady efforts to achieve our management strategy goals while maintaining a balance between being proactive and conservative, for example investing in increasing production in the key market of China as well as the promising market of India.

The machine tool industry is characterized by substantial susceptibility to economic fluctuation, and it appears that the current uncertainty will continue for some time to come. Nonetheless, we remain convinced that being proactive and having the foresight to invest in key management resources in potential growth areas based on proper market analysis makes the Company more competitive and contributes to sustainable growth.

#### What I recognize and understand about the roles to be fulfilled by Outside Directors

I feel strongly that the importance of the roles of Outside Directors is increasing each year, especially since the introduction of the corporate governance code. Amid these circumstances, the Company has ensured a suitable number of Outside Directors with the right mix of skills and diversity to properly fulfill the roles expected of them by stakeholders.

Board of Directors meetings feature active discussion of issues. To ensure that decisions on important management matters are made properly, I aim to speak my mind calmly and openly in pursuit of corporate management that coexists with society, while applying my previous experience as an Outside Director.

I used to work at a financial institution, where I had plenty of opportunities to be involved in expanding the business and improving the management of many corporations. In my view, one of the most important roles of Outside Directors is to apply the knowledge they have cultivated through experience like this to contribute to the Company's management strategies and strengthen its governance to encourage voluntary reform and contribute to improving corporate value over the medium and long term.

#### The value that Tsugami's products and services create in society, and my expectations for the future

The Group's management policy is to contribute to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies the Company has been developing since its founding.

Specifically, the Group's high-precision technology gives it unparalleled advantages over its competition, and is indispensable in IT and other fields that require more precise machining.

The Group is also focusing on research and development in the area of sustainability to meet the need to save space and energy to help resolve environmental issues, and these efforts are leading to improved performance and more products on the market.

Given that individual employees are the ones who pass on this technology and expertise, I think the Company's human capital is an irreplaceable asset.

I expect the Company to continue using its advantages—namely its technological capacity and human resources—to keenly detect societal changes and accommodate the world's diverse needs, and I believe it is positioned to create a virtuous cycle in which it seizes new business opportunities and translates them into success.

**Ken Kubo**  
Outside Director

# Sustainability in the Tsugami Group

## Basic concept

The Tsugami Group recognizes sustainability as an important management issue. Based on our basic management policy of “contributing to society by constantly anticipating market needs and generating new value, underpinned by the precision technologies we have been developing since the Company was first established,” we undertake efforts with the aim of helping to resolve societal issues through our business activities and growing sustainably alongside society.

In April 2021, we established the Sustainability Committee, which is overseen by the Board of Directors, to expedite strategies to promote sustainability. In May 2021, we signed the UN Global Compact (UNGC), which consists of ten principles advocated by the United Nations in the four key areas of human rights, labor, the environment, and anti-corruption. We endorse the UNGC principles and will focus on ESG (environmental, social, and governance) concerns in line with international initiatives.

## Sustainability policy

### Tsugami will contribute to address social issues through its business activities, aiming to achieve sustainable growth together with society.

The Tsugami Group aims to achieve both the realization of a sustainable society and corporate growth based on its corporate philosophy of continuing to provide the world’s premier machine tools with high precision, high speed, and high rigidity. We take society’s expectations of us seriously and will cooperate with local communities to continue contributing to society through all our corporate activities.

Meanwhile, with the 2015 UN Summit’s adoption of the SDGs, which address the global challenges we face to achieve a sustainable future for all, the operating environment has changed dramatically, and sustainability has become an extremely important issue.

In face of these momentous changes, the Tsugami Group sees its own sustainability activities as an important element of management. We are also committed to providing other like-minded enterprises with solutions to help solve issues through business.

More specifically, we will develop an awareness of the risks caused by various issues around the world in areas of concern such as climate change, labor, and human rights, and take steps to prevent such issues from getting worse. In our business activities, we will also perceive innovation to resolve issues as a business growth opportunity.

We will set ourselves a medium-to-long-term goal of promoting appropriate sustainable practices throughout the entire supply chain, not to mention the Tsugami Group companies.

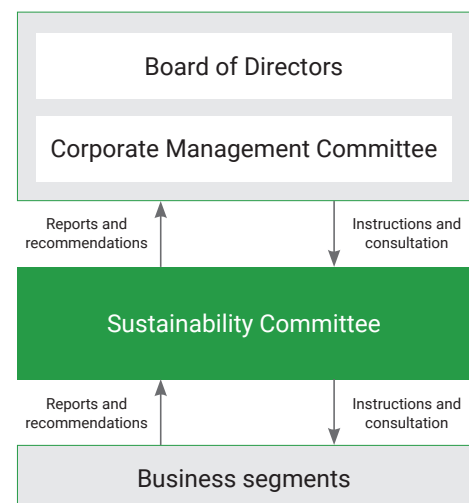
## Sustainability promotion system

We are developing a framework for sustainability initiatives, including establishing the Sustainability Committee, which is overseen by the Board of Directors, in April 2021 to expedite strategies to promote sustainability.

The Sustainability Committee has the role of proposing groupwide strategies to promote sustainability and managing their progress, and it comprehensively manages and promotes environmental, social, and governance (ESG) initiatives and makes appropriate ESG information disclosures.

The committee also takes the lead on initiatives that link sustainability with business through active communication with the relevant business segments, aiming to raise awareness and facilitate understanding of sustainability issues in order to promote sustainability on a groupwide basis.

The Sustainability Committee consists of committee members chaired by the Representative Director. It deliberates on ESG-related matters which have a bearing on management decisions such as action on climate change and a framework under which deliberated matters are reported to the Board of Directors has been established.



Information about more detailed sustainability initiatives is posted on the Tsugami website. → <https://www.tsugami.co.jp/eng/csr/>

# Environmental Efforts and TCFD

## Environmental policy

The Tsugami Group is acutely aware that action to address climate change and environmental issues is one of the important challenges facing management. Given the global framework set out in the Paris Agreement and the Japanese government's commitment to net zero carbon emissions by 2050, we believe that recognizing the role enterprises must play to realize a sustainable society and achieving solutions to such issues through business will lead to the Tsugami Group's sustainable growth.

The Sustainability Committee will coordinate the planning, management, and operation of initiatives based on the environmental policy.

### Basic policy

1. We recognize that climate change is a critical global issue and we are committed to continuously reducing the GHG emissions from our business activities based on a lifecycle perspective on products and services.
2. We will endeavor to reduce the environmental impact of our products and services, taking environmental impacts at all stages of the lifecycle into consideration.
3. We will comply with relevant environmental laws and regulations and other requirements, establish our own voluntary management standards, and strive to prevent environmental pollution.
4. We will establish environmental goals, targets, and action plans and make continuous improvements, aiming to reduce our environmental impact and conduct business activities in harmony with the environment. We will also review them where necessary.
5. We will provide environmental training and conduct activities to raise environmental awareness to ensure that all employees and all those who work for us understand and are well-informed of our environmental policy.
6. We will disclose environmental information. We will also seek interaction with the local community and society, actively cooperating with activities to protect the environment.

## Environmental initiatives

We implement environmental initiatives based on our environmental policy.

### Nagaoka Factory in Japan switches to 100% renewable energy

In February 2022, all the electricity used at the Tsugami Group's Nagaoka Factory (Nagaoka City, Niigata Prefecture) in Japan began to be entirely sourced from 100% renewable energy. By switching to renewable energy with non-fossil fuel energy certificates supplied by retail electricity provider ORIX Corporation, we have achieved net zero CO<sub>2</sub> emissions from energy consumption at our Nagaoka Factory.

### Initiatives to reduce water usage

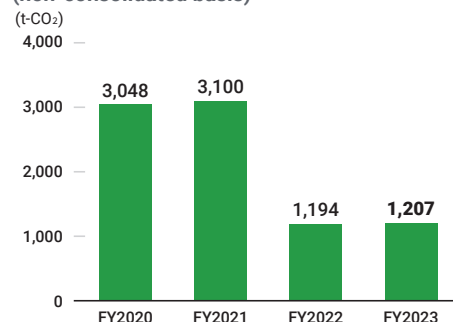
The Tsugami Group recognizes that ensuring safe water resources is an important environmental challenge. To fulfill our responsibilities as a company with manufacturing factories, we will focus on reducing water usage and water uptake in the course of our business activities and strive for the effective utilization of water resources.

### Environment Management System certification

TSUGAMI CORPORATION's Nagaoka Factory (Nagaoka City, Niigata Prefecture), which is the Company's only production site, has obtained the Environmental Management System certification.

■ **Environmental Management System (ISO14001)**  
(Certification status of production sites on a non-consolidated basis: 1/1)

GHG emissions (Scope 1, Scope 2)  
(non-consolidated basis)



\* Total emissions of Nagaoka Factory, Takami Warehouse, Parts Center Warehouse, Head Office, and Sendai, Takasaki, Suwa, Shinshu, Nagoya, Osaka, and Fukuoka Sales Offices

\* Reduction in greenhouse gas emissions as a result of switching to electric power derived from renewable energy sources: FY2022 2,225t-CO<sub>2</sub>, FY2023 2,094t-CO<sub>2</sub>

Water use (use at Nagaoka Factory in Japan)

	FY2020	FY2021	FY2022	FY2023
Water intake (m <sup>3</sup> )	12,249	13,328	11,762	12,691
Water discharge (m <sup>3</sup> )	12,249	13,328	11,762	12,691

\* The Company had no breaches or penalties in relation to water quality or water volume during FY2023.

## Environmental Efforts and TCFD

### TCFD

The Tsugami Group is acutely aware that action to address climate change and environmental issues is one of the important challenges facing management. We recognize that climate change is a critical global issue and one of our basic policies is to continuously reduce the GHG emissions from our business activities based on a lifecycle perspective on products and services.

The Tsugami Group announced its support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in June 2022, and recently disclosed climate-related information based on the TCFD recommendations.



### Governance

We have established a Sustainability Committee, which is supervised by the Board of Directors. The Sustainability Committee deliberates on ESG-related matters which have a bearing on management decisions such as action on climate change and reports those deliberated matters to the Board of Directors, which agrees on the necessary resolutions.

### Strategy

For the manufacture and sale of precision tools, which is the Tsugami Group's core business, the Company considered climate-related risks (transition risks and physical risks) and opportunities that will impact the Group's business and identified major risks and opportunities. We then conducted a scenario analysis with respect to the identified risks and opportunities.

The Company adopted two scenarios: (i) the 1.5°C/2°C scenario where society as a whole is on a decarbonization pathway and limits the global temperature rise and (ii) the 4°C scenario where economic development is given priority and the global temperature rise and its impact worsen. For each of the scenarios, we assessed and considered to what extent the identified risks and opportunities would impact the Tsugami Group's business and assessed the financial impact on business activities according to three levels: major, moderate and minor.

By recognizing major climate-related risks and opportunities and their impact for the Tsugami Group through the implementation of scenario analysis and by considering action to address the recognized risks and opportunities, we aim to build a sustainable and resilient framework for mitigating climate-related risks and tapping into more opportunities.

### Explanation of scenarios and summary of risks and opportunities

Explanation of scenarios	1.5°C/2°C	Scenario where countries around the world succeed in limiting the global temperature rise by stepping up the implementation of social policies, emission restrictions, investment in technology and other measures for achievement of the goals set out in the Paris Agreement and move closer to the realization of decarbonization
	4°C	Scenario where countries around the world fail to step up and implement sufficient measures to combat global warming, CO <sub>2</sub> emissions increase, and the Earth's temperature continues to rise, leading to a significant increase in the physical risks of climate change
Summary of risks	1.5°C/2°C	Risk of higher manufacturing costs, reflecting increased adoption of renewable energy and a shift to energy saving equipment as governments tighten regulations to realize decarbonization and efforts are made to decarbonize manufacturing processes in compliance with regulation Risk of rising procurement costs, with suppliers also facing higher manufacturing costs due to tighter regulation, including carbon taxes, and passing on increased costs to raw materials
	4°C	Higher risk of storm and flood damage, and risk of suspension of production due to damage to assets and repairs at affected manufacturing factories of the Group, or risk of decline in sales due to logistics disruptions
Summary of opportunities	1.5°C/2°C	Opportunity to expand sales assuming conservation of energy in production processes and successful market introduction of machine tools with improved environmental performance Opportunity to expand sales, as the decarbonization of society leads to even more widespread changes in behavior, fueling demand for new products
	4°C	Opportunity to expand or mitigate decline in sales by successfully maintaining a production and supply structure despite the increased severity of storm and flood damage, assuming successful maintenance and enhancement of existing network and implementation of BCP measures to strengthen disaster resilience and to avoid storm and flood damage

<Reference scenarios>

(i) 1.5°C/2°C scenarios

Considered with reference to the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario and the Sustainable Development Scenario, in which carbon neutrality is achieved by 2070

(ii) 4°C scenario

Considered with reference to the IEA Stated Policies Scenario and the Intergovernmental Panel on Climate Change (IPCC) RCP6.0 and RCP8.5 scenarios

## Business impacts and countermeasures in relation to major risk and opportunity factors

Classification		Matter	Financial impact assessment		Countermeasures	
			1.5/2°C	4°C		
Risks	Transition risks	Policies and legal restrictions	Higher costs due to introduction of carbon pricing	Minor	Minor	Adoption of the ICP system and shift to energy-saving manufacturing methods
			Costs incurred when forced to respond in some way to tighter regulation in China and India in the future or similar developments	Minor	Minor	Implementation of more energy-efficient manufacturing methods and processes
		Technology	Higher R&D costs due to the development of environmentally-friendly products	Moderate	Minor	Assessment of climate change needs and R&D and rapid response based on this assessment
		Market	Decline in revenue due to weakening demand amid changes in the needs of customers and business partners associated with climate change	Major	Moderate	Assessment of climate change needs and R&D and rapid response based on this assessment
			Higher energy and production costs due to the scaling-down of thermal power generation and substitution of thermal power with renewables, and rising fuel costs for thermal power generation	Moderate	Moderate	Implementation of more energy-efficient manufacturing methods and processes
		Reputation	Decrease in revenue and/or increase in financing costs due to delayed response to environmental concerns resulting in fiercer competition, rejection by customers and/or a reputational damage	Moderate	Moderate	Assessment of climate change needs and R&D and rapid response based on this assessment Enhancement of information disclosure regarding responses to climate change
	Physical risks	Acute risks	Decline in revenue and/or higher costs due to suspension of business amid increasing severity of natural disasters	Minor	Moderate	Enhancement of BCP for procurement and manufacturing
		Chronic risks	Higher costs due to increase in average global temperature	Minor	Minor	Improvement of energy efficiency in manufacturing to limit the rise in utilities
	Opportunities	Market	Reduction of financing costs due to improvement in reputation as a result of proactive response to climate change	Minor	Minor	Enhancement of information disclosure regarding responses to climate change
		Resource efficiency	Reduction of costs through manufacturing at highly efficient factories and lower costs as a result of energy conservation	Moderate	Moderate	Implementation of more energy-efficient manufacturing methods and processes
Products and services		Increase in revenue due to growing demand for new equipment associated with more widespread changes in behavior such as working remotely and going paperless	Major	Minor	Assessment of needs and R&D in line with transitioning society and optimization of production and sales	
		Increase in revenue due to growing demand for products that can contribute to a low carbon society	Major	Major	Assessment of needs and R&D in line with transitioning society and optimization of production and sales	
Resilience		Mitigation of decline in or increase of sales and/or reduction of costs in the event of disaster through enhancement of disaster resilience	Minor	Minor	Enhancement of BCP for procurement and manufacturing	

## Environmental Efforts and TCFD

### Risk management

To prevent the materialization of various business risks or minimize them, the Tsugami Group convenes the Risk Management Committee as appropriate, assesses and monitors groupwide risk including climate change risk, and takes appropriate measures in accordance with the Risk Management Rules and Essential Risk Management Execution Rules.

We recognize climate change risk as a material issue alongside other business risks and, under the supervision of the Board of Directors, the Sustainability Committee monitors groupwide climate change risk, proposes sustainability promotion strategies and manages their progress.

A framework for relevant divisions to report climate change risks to the Sustainability Committee has also been established.

We are also working to strengthen groupwide risk management through means such as status reports to and consultations with the Board of Directors and others as appropriate.

### Indicators and targets

Given the global framework set out in the Paris Agreement and the Japanese government's commitment to net zero carbon emissions by 2050, we believe that recognizing the role enterprises must play to realize a sustainable society and achieving solutions to such issues through business will lead to the Tsugami Group's sustainable growth. To reduce greenhouse gas emissions that cause global warming, we set ourselves the goal of achieving carbon neutrality by 2050 and have set medium- and long-term targets for this goal. We are committed to further strengthening and accelerating initiatives for action on climate change.

#### Establishment of medium- and long-term targets for achieving carbon neutrality by 2050

##### Medium-term target

55% reduction in CO<sub>2</sub> emissions by 2030 (compared with FY2013 levels)  
We will reduce CO<sub>2</sub> emissions (Scope 1 + Scope 2) from our business activities by 55%.

##### Long-term target

Achievement of carbon neutral by 2050  
We will reduce CO<sub>2</sub> emissions (Scope 1 + Scope 2) from our business activities to net zero.

As part of these initiatives, in February 2022, we switched to 100% renewable energy-derived electricity for all electricity consumption at the Nagaoka Factory, our domestic production base in the city of Nagaoka in Niigata Prefecture, achieving net zero CO<sub>2</sub> emissions associated with electricity consumption there.

To achieve carbon neutrality by 2050, we intend to further enhance and accelerate initiatives including introducing and updating energy-saving facilities, promoting production technology reforms at our factories, and developing new products aimed at improving production efficiency.

#### Participating in CDP surveys

Since FY2022, we have participated in surveys from the international NGO CDP\*. We filled out their climate change questionnaire again in FY2024.

\* An international NGO working in the environmental field. They administer questionnaires about environmental matters to corporations, organize the results, and analyze and evaluate them using common metrics.



# Quality Initiatives

## Quality policy

Everything we do is underpinned by our management policy of “Integrated Quality.” We focus particularly on “speeding up customer service,” so that we can respond quickly to our customers’ needs, and on “constantly striving to make improvements,” based on our determination to resolve problems. On behalf of the Nagaoka Factory, we have set out the following Quality Policy in line with that underlying management policy.

1. We will always put quality first, in order to earn customers’ trust and ensure satisfaction.
2. We will take responsibility for the quality of each process, to prevent issues affecting subsequent processes.
3. We will focus on education, training and improvement activities, in order to continually improve quality.

## Efforts to maintain and improve quality

We make efforts to maintain and improve quality based on our quality policy.

- We strive to improve quality by formulating quality policies for the Nagaoka Factory every six months, sharing specific quality targets with all employees, and setting out quality policies based on the targets for departments and workplaces.
- We record information about quality defects on designated forms, share them within production departments, and conduct training on each occasion.

## Quality Management System certification

TSUGAMI CORPORATION’s Nagaoka Factory (Nagaoka City, Niigata Prefecture), which is the Company’s only production site, has obtained the Quality Management System certification.

■ **Quality Management System (ISO9001)** (Certification status of production sites on a non-consolidated basis: 1/1)

# Human Rights and Labor Policy

## Human rights policy and labor policy

The Tsugami Group understands that the human rights of all people impacted by its business activities must be respected and has established the Tsugami Code of Conduct as its basic guidelines for corporate activities, identifying “respect for human rights” as a principle of action. We are committed to implementing initiatives to foster respect for human rights in line with the International Bill of Human Rights (Universal Declaration of Human Rights and International Covenants on Human Rights), the International Labor Organization (ILO) Declaration, the United Nations Global Compact, and the UN Guiding Principles on Business and Human Rights.

We will use this consideration for human rights as the basis for promoting diversity management, aimed at creating a pleasant and rewarding workplace where everyone can fully demonstrate their individual skills and share diverse values. The Sustainability Committee will coordinate the planning, management, and operation of initiatives based on the human rights policy set out below.

### Basic policy

1. We respect the human rights of all employees, regardless of the form of employment. We also ask all our business partners to support and comply with our policies on social activities and collaborate with them to fulfill our responsibility to respect human rights.
2. We respect diversity, and never engage in discrimination or harassment on the grounds of race, religion, nationality, age, gender, disability, or any other factor that has no relevance to our legitimate business interests.
3. We do not tolerate any form of forced labor or child labor or any form of modern-day slavery.
4. We respect basic labor rights, including workers’ rights to organize and bargain collectively and to participate in collective action.
5. We build a human rights due diligence framework and continuously implement human rights due diligence. We also identify human rights issues and seek to prevent or minimize any issues.
6. We also take advantage of the human rights expertise of independent third-party organizations and engage in dialogue and discussion with relevant outside stakeholders.
7. We seek to embed compliance with laws and regulations and principles relating to human rights into our business activities by making all Officers and employees aware of our human rights policy and providing them with appropriate human rights training.
8. We publicly disclose our human rights policy and the process and results of its implementation.

## Human Rights and Labor Policy

### Human rights and labor initiatives

We implement human rights and labor initiatives based on our human rights policy.

#### Ensuring a safe and pleasant workplace

The Tsugami Group strives to maintain a healthy and safe workplace free from discrimination and harassment. Sexual advances or other verbal or physical conduct of a sexual nature, racist or religious slurs or jokes, and other verbal or physical conduct which creates an unhealthy working environment or disregards an individual's personality are not tolerated in the workplace. We promote the following efforts at the Company.

#### 1. Efforts for safety and hygiene

We prioritize the safety and health of our employees in all business activities and maintain work environments where they can work in safety and good health. We also comply with laws and regulations on industrial safety, hygiene, and health. The Company and its employees work together to continuously promote efforts for safety and health. We maintain systems, set goals, and systematically implement measures toward that end.

#### Tsugami's safety and hygiene promotion system

- Our Safety and Hygiene Committee, which comprises both employees and managers, holds monthly meetings attended by industrial physicians, conducts patrols mainly on production floors, and makes efforts to prevent accidents.
- Employees who work long hours are subject to fatigue checks when called for, and we make efforts to discover if anyone is in poor mental health as early as possible.
- We supply each workplace with report forms for close calls in an effort to prevent accidents.
- In an effort to mitigate disasters, our annual disaster drills include considerations for how the environment will be impacted by conceivable fires or earthquakes.
- Each department promotes 5S in an effort to prevent accidents.
- In an effort to mitigate disasters, each department patrols its workplaces as an earthquake countermeasure.

#### 2. Efforts to prevent harassment in the workplace

The Tsugami Group Code of Conduct clearly states that we should maintain healthy, safe work environments free of unfair discrimination and harassment based on race, religion, nationality, age, gender, disabilities, or any other factor that has no relevance to the Company's legitimate interests.

##### ▪ Anti-harassment training and awareness-raising activities

We conduct anti-harassment training as part of new employee training as well as awareness-raising activities, for example posting internal documents explaining that we do not tolerate harassment.

##### ▪ Maintaining contact points for internal reporting and consultation

We have established contact points for consultation both internally and at an attorney's office outside the Company to ensure that violations of laws, regulations, rules, and the like are reported and dealt with promptly after they are discovered while maintaining the anonymity of the whistle-blowers.



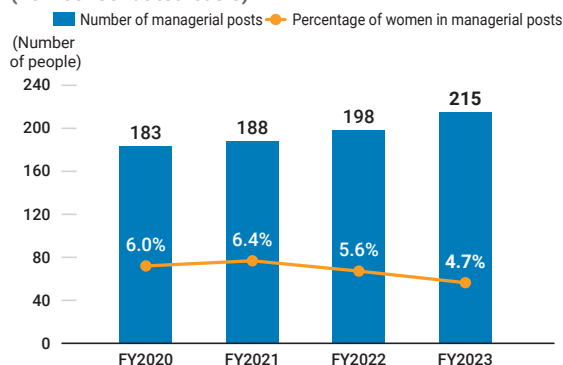
## Promoting diversity

The Tsugami Group sees human resources as the foundations underpinning sustainable growth. It is, therefore, important to accept the values and uniqueness of every individual who supports our business, regardless of race, religion, nationality, age, gender, disability, or personal background, and to respect diversity. We are pursuing the development of a working environment which allows all employees to fully demonstrate their unique skills and aptitudes and the creation of an organizational climate which allows the active participation of diverse human resources.

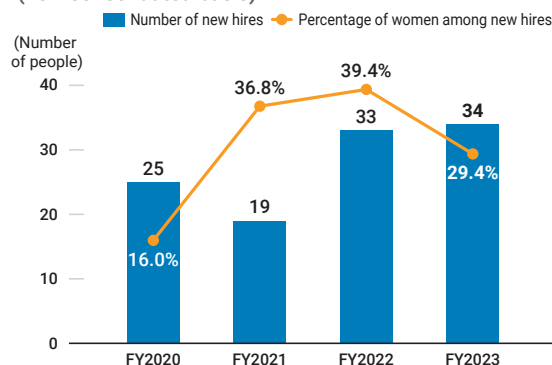
## Proactively promoting women to management positions

At the Company, female managers actively participate in overseas operations, which account for a large percentage of revenue, and major departments, particularly those involved in technical management. We take steps to further promote this effort.

Percentage of women in managerial posts (non-consolidated basis)



Percentage of women among new hires (non-consolidated basis)



## Establishment of fair and equitable personnel systems

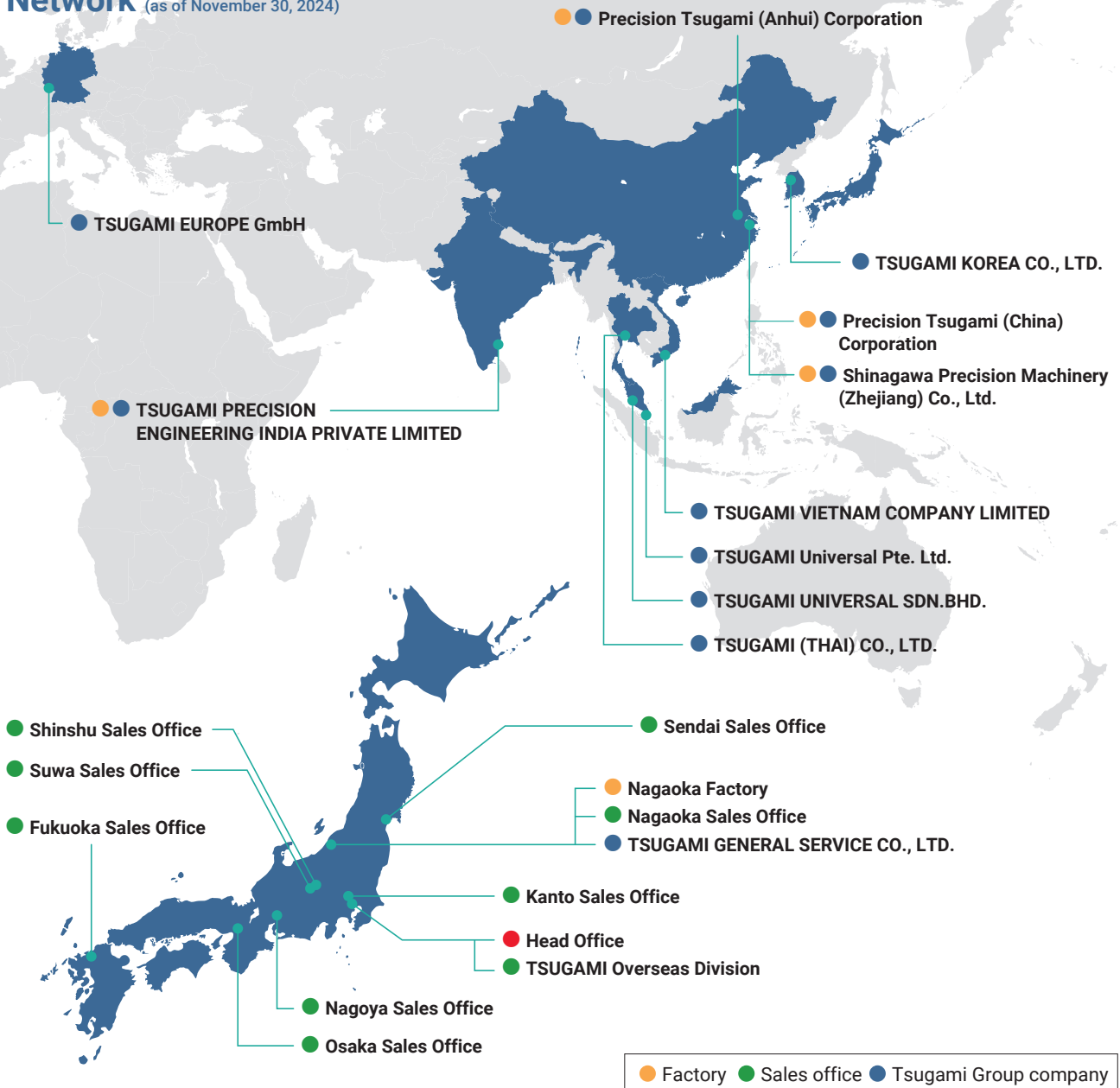
To get the most out of individual employees, it is necessary to fairly evaluate each individual employee based on his or her role and accomplishments and to strive to treat, train, and utilize them properly according to this evaluation. We try to ensure the transparency and fairness of evaluations by conducting interviews in which employees assess their own accomplishments and any outstanding issues with their managers.

# Corporate Information

## Corporate information (as of March 31, 2024)

**Corporate name:** TSUGAMI CORPORATION  
**Established:** March 1937  
**Address of home office:** Nihonbashi T&D Bldg., 12-20 Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo 103-0006 Japan  
**Paid-in capital:** 12,345 million yen  
**Number of employees:** 3,063 (consolidated)  
**Business activity:** Manufacture and sales of precision machine tools

## Network (as of November 30, 2024)



## Stock information (as of March 31, 2024)

**Stock code:** 6101  
(Tokyo Stock Exchange, Prime Market)

**Number of authorized shares:** 320,000,000 shares

**Number of shares outstanding:** 50,000,000 shares

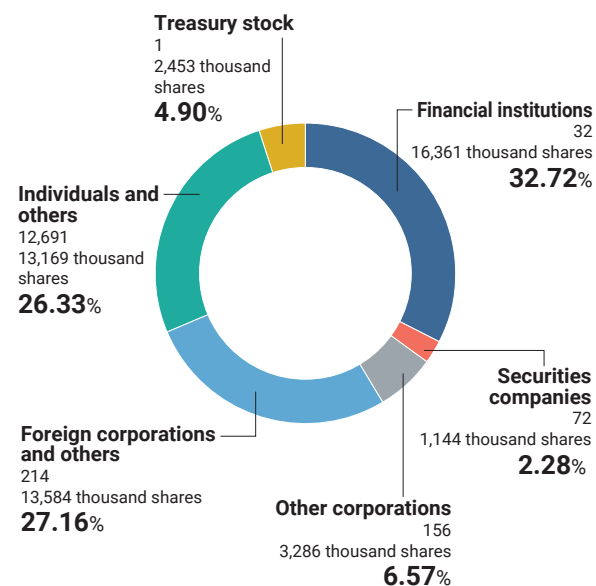
**Number of shareholders:** 13,166

### Major shareholders (top 10 shareholders)

Name	Investment in the Company	
	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	6,501	13.67
Daishi Hokuetsu Bank, Ltd.	2,184	4.59
Custody Bank of Japan, Ltd. (trust account)	1,781	3.74
Sumitomo Mitsui Banking Corporation	1,516	3.18
The Dai-ichi Life Insurance Company, Limited	1,470	3.09
Tsugami Customers' Shareholding Association	1,177	2.47
THE BANK OF NEW YORK 133652	984	2.07
JP MORGAN CHASE BANK 385632	978	2.05
NORTHERN TRUST CO. (AVFC) RE THE HIGHCLERE INTERNATIONAL INVESTORS SMALLER COMPANIES FUND	811	1.70
THE BANK OF NEW YORK MELLON 140042	755	1.58

Notes: 1. In calculating the ratio of holdings, treasury shares were excluded. The ratio was rounded down to the second decimal place.  
2. Although the Company holds 2,453 thousand treasury shares, it is excluded from the list of major shareholders.

### Shareholders composition by type



Fractions of shares rounded off, percentages rounded down to the second decimal place

## Endorsement of initiatives

### United Nations Global Compact (UNGC)

The UNGC is a voluntary initiative in which companies and organizations exhibit responsible, creative leadership to act as good members of society and achieve sustainable growth. In May 2021, we signed the UNGC, publicly pledging our support for its ten principles in the four key areas of human rights, labor, environment, and anti-corruption.

### Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD was established by the Financial Stability Board (FSB) at the request of the G20 for the purpose of considering how to disclose climate-related information. In 2017, the TCFD published a final report recommending that companies make disclosures on four items relating to climate change-related risks and opportunities. The Tsugami Group endorses the intent of the TCFD and takes the proper actions to maintain the recommended systems and make the recommended climate-related disclosures.



## About this report

### About this report

**Editing policy:** The aim of this report is to provide an overview of the Company's efforts to achieve sustainable growth in its business.

**Reporting period:** FY2023 (April 1, 2023–March 31, 2024)  
However, the report also includes information about efforts from other fiscal years.

**Scope of data collection:** Scope of consolidated accounts. The report also includes some data from TSUGAMI CORPORATION apart from the rest of the Group.

**Date of publishing:** December 2024

### Projections, forecasts, and plans

We ask readers of this report to be aware that the projections herein are based on the information available at the time it was written; factors such as changes in the business environment may cause results and events to differ from the projections.

 **TSUGAMI CORPORATION**

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URL: <https://www.tsugami.co.jp/eng/>