

PRECISION TSUGAMI

TSUGAMI CORPORATION

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Integrated Report 2023

 TSUGAMI CORPORATION

Corporate philosophy

Tsugami machine tools combine legacy technology and the latest innovations to forge a new path to the future

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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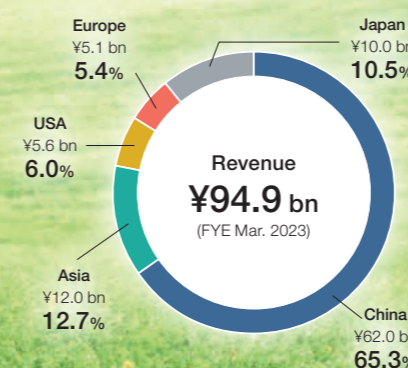
Medium- and long-term management policy

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

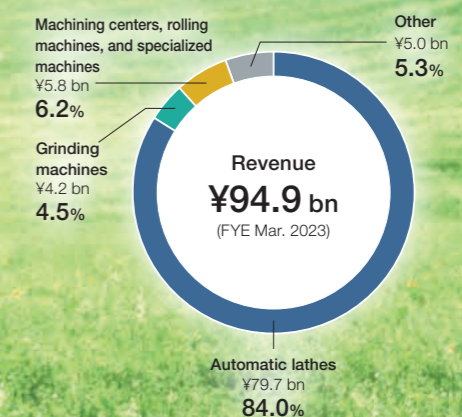
- 1 Introduction of new products targeting growth fields**
The Group will make every effort to launch new products that will sufficiently meet customers' requests in markets that are expected to grow, including the auto parts market, where eco-friendliness and energy saving are required, and the increasingly 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



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, 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

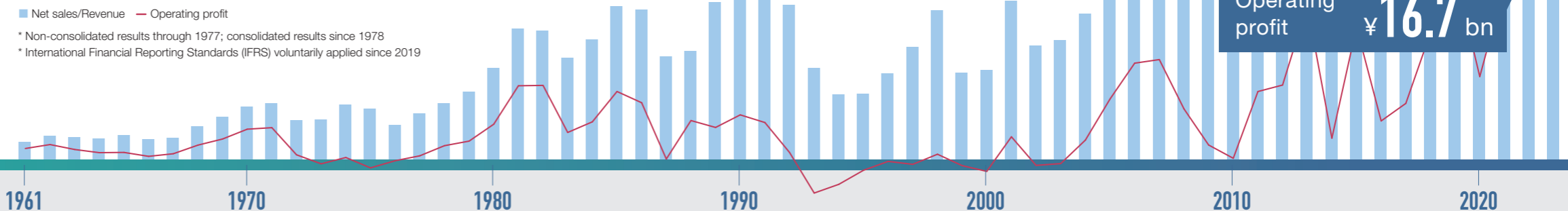
1990s & 2000s

- ▶ 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

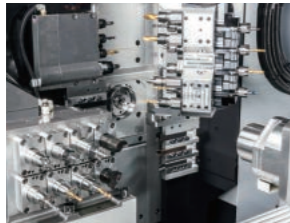
- ▶ 2010
TSUGAMI KOREA Co., Ltd. was established
Shinagawa Precision Machinery (Zhejiang) Co., Ltd. was established
- ▶ 2011
TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED was established
- ▶ 2012
TSUGAMI Universal Pte. Ltd. was established
- ▶ 2013
Precision Tsugami (China) Corporation Limited 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



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, rolling machines, and more. Our automatic lathes turn out parts for smartphones and clocks, and feature technology for mass-producing 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 lathes

With tool placement that minimizes heat deformation and highly rigid cast legs that limit vibrations during high-speed machining, these lathes make it possible to turn out work with consistent precision over long periods of time. Spindle options include those optimized for long pieces, short pieces, and roughing, and our distinct guide bush-less spindle enables high-precision machining with affordable materials. Our CNC precision automatic lathes are designed for high-precision mass production of small parts in a variety of fields, from OA and medical equipment to digital cameras, mobile devices, optical communication, automobiles, and more.



Turning centers

Composite machine tools that perform both turning and machining. Our turning centers meet many of our customers' needs, including providing extra rotating tools, enhancing milling capacity, consolidating turning and machining center functions, and working on multiple pieces without having to reset the settings.



Machining centers

Our series of machining centers meets different machining needs, from small aluminum parts for home electronics, OA, and other IT-related devices to steel parts for automobiles and industrial machinery. Punching and tapping are a given, but our machining centers show their true value with their milling capabilities. Our machining centers nearly eliminate changes in machining dimensions associated with longer operating hours, contributing to improved speed, precision, and productivity.



Precision grinding machines

The grinding wheel spindles feature high-precision, highly rigid pressure bearings to remove the limits on machining products into perfect circles and ideal cylinders, and the low-friction V-flat structure of the tables delivers consistent precision and durability. Our precision grinding machines meet a broad range of needs, from one-off products like the metal pins of small and medium-sized parts in all fields—to small-lot parts for engines, transmissions, hydraulic machines, and IT and medical equipment as well as mass production using fully automated machining systems complete with loaders and automated measuring.



Precision rolling machines

Plastic forming machines that transcribe the forms of opposing roller dies onto materials when the materials are fed through the dies hydraulically or via servomotor. Unlike cutting and grinding, this machining process generates no chips, making it an attractive option in terms of environmental conservation. Our CNC-enabled machines can roll workpieces singly in multiple places, saving space and consolidating processes. Our precision rolling machines are capable of not only threading and knurling, but also turning out high-precision leadscrews and worm gears, form-rolling, and more.

CNC precision automatic lathes: In pursuit of precision down to the micron

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

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

What sets our automatic lathes apart from others is tool placement that minimizes heat deformation during machining and highly rigid cast legs that limit 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 clocks, mobile devices, optical communication, medical equipment, and automobiles.

Our lineup includes the P0 series, which is optimized for micro-precision parts machining, accommodates materials under 3 mm in diameter and turns out parts less than 0.1 mm in diameter, and is used to manufacture small parts, namely semiconductor inspection equipment and clocks.



Four keys to outstanding high-precision machining

- Proprietary chuck opening and closing mechanism with no chuck lever, toggle, or disc spring on the spindle or back spindle continuously improves circularity, even during high-speed turning
- Air-tubeless structure that enables high-speed turning
- Highly rigid symmetrical legs to minimize the impact of heat
- Spindle zeroing system that automatically detects core height displacement

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

The solution for reducing machinery and downsizing production lines

Our turning centers may be small and highly precise, but they also take the place of other machines in that they can produce finished goods with complex shapes. The SS38MH series features productive combined machine tools that fuse the capabilities of our CNC precision automatic lathes and machining centers*. With the tool spindle, our turning centers can produce finished goods with complex shapes from bar stock, and the five-axis simultaneous control function is what makes machining such complex shapes possible. 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 goods with complex shapes thanks to a tool spindle that goes beyond what conventional automatic lathes can deliver.

Our TMA series is also quite popular. 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.

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



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

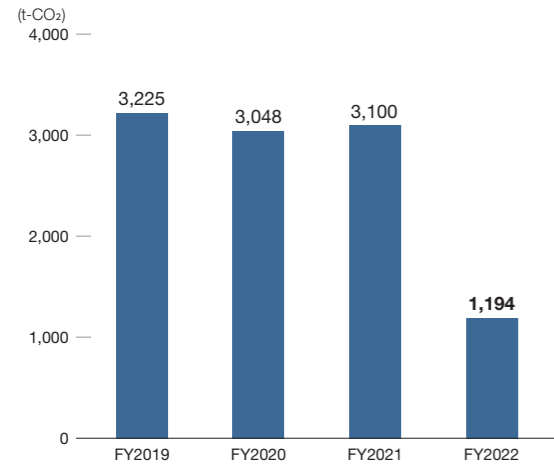
Financial Highlights

Japanese GAAP									International Financial Reporting Standards (IFRS)						
	March 2012	March 2013	March 2014	March 2015	March 2016	March 2017	March 2018		March 2019	March 2020	March 2021	March 2022	March 2023		
Operating results (fiscal year)															
Net sales	(Millions of yen)	35,739	52,812	32,225	54,132	40,132	41,050	57,576	Revenue	(Millions of yen)	68,486	49,310	61,662	93,174	94,963
Gross profit	(Millions of yen)	8,350	14,699	7,102	14,241	8,968	9,631	14,554	Gross profit	(Millions of yen)	19,978	12,956	17,204	28,179	26,758
Selling, general and administrative expenses	(Millions of yen)	4,264	6,251	5,918	6,988	6,843	6,547	7,612	Selling, general and administrative expenses	(Millions of yen)	(9,803)	(8,369)	(8,297)	(10,223)	(11,044)
Operating profit	(Millions of yen)	4,086	8,447	1,184	7,253	2,125	3,083	6,942	Operating profit	(Millions of yen)	10,215	4,549	9,533	18,860	16,758
Ordinary income	(Millions of yen)	3,875	6,800	1,932	7,745	1,095	2,848	6,510							
Net income attributable to owners of parent	(Millions of yen)	2,281	4,207	344	5,297	877	2,630	4,171	Profit attributable to owners of parent	(Millions of yen)	6,192	2,001	4,917	9,486	7,695
Financial position (fiscal year-end)															
Current assets	(Millions of yen)	37,108	30,547	35,953	36,861	30,639	32,468	44,165	Current assets	(Millions of yen)	52,493	42,952	60,023	82,036	90,370
Current liabilities	(Millions of yen)	21,476	12,808	19,316	17,851	13,983	16,762	22,821	Current liabilities	(Millions of yen)	27,933	20,866	30,204	42,873	43,689
Total assets	(Millions of yen)	50,757	45,919	52,250	56,829	47,859	50,127	62,656	Total assets	(Millions of yen)	69,692	61,860	79,278	103,761	112,364
Interest-bearing liabilities	(Millions of yen)	2,707	3,919	6,075	6,855	6,127	4,183	3,200	Interest-bearing liabilities	(Millions of yen)	11,121	8,867	9,579	13,313	17,698
Net assets	(Millions of yen)	27,717	31,998	31,587	37,279	32,594	31,462	37,516	Total equity	(Millions of yen)	40,072	39,073	46,836	57,840	64,922
Shareholders' equity	(Millions of yen)	27,371	31,498	30,981	36,414	31,693	30,620	31,083	Equity attributable to owners of parent	(Millions of yen)	33,244	32,480	38,229	45,580	50,953
Cash flows															
Cash flows from operating activities	(Millions of yen)	499	1,914	714	3,135	4,226	5,550	6,832	Cash flows from operating activities	(Millions of yen)	1,643	7,994	6,784	6,296	8,300
Cash flows from investing activities	(Millions of yen)	(1,915)	(2,381)	(713)	(1,706)	(959)	920	(615)	Cash flows from investing activities	(Millions of yen)	(1,362)	(3,246)	1,432	(3,009)	(1,278)
Cash flows from financing activities	(Millions of yen)	2,608	303	445	(2,822)	(3,520)	(6,353)	(1,002)	Cash flows from financing activities	(Millions of yen)	355	(4,261)	(2,781)	(3,514)	(379)
Cash and cash equivalents at the end of the term	(Millions of yen)	5,264	5,296	6,044	4,952	4,589	4,561	10,181	Cash and cash equivalents at the end of the term	(Millions of yen)	11,112	10,921	17,207	18,844	25,779
Key financial indicators															
Operating margin	(%)	11.4	16.0	3.7	13.4	5.3	7.5	12.1	Operating margin	(%)	14.9	9.2	15.5	20.2	17.6
Return on assets (ROA)	(%)	8.9	14.1	3.9	14.2	2.1	5.8	11.5							
Return on equity (ROE)	(%)	9.3	14.3	1.1	15.7	2.6	8.4	13.5	Return on equity attributable to owners of parent	(%)	19.1	6.1	13.9	22.6	15.9
Capital adequacy ratio	(%)	53.9	68.6	59.3	64.1	66.2	61.1	49.6	Equity attributable to owners of parent ratio	(%)	47.7	52.5	48.2	43.9	45.3
Current ratio	(%)	170.1	229.5	180.5	196.9	205.9	184.4	188.1	Current ratio	(%)	187.9	205.8	198.7	191.4	206.9
Debt-to-equity (D/E) ratio	(x)	0.10	0.13	0.21	0.22	0.21	0.15	0.12	D/E ratio	(x)	0.36	0.28	0.27	0.34	0.40
Net income per share	(Yen)	33.88	57.16	4.72	74.37	13.04	41.91	74.71	Basic earnings per share	(Yen)	117.98	38.60	95.21	191.99	159.39
Net assets per share (BPS)	(Yen)	372.21	427.86	428.18	522.94	473.78	510.43	585.58	Equity attributable to owners of parent per share	(Yen)	641.69	628.14	751.14	941.82	1,057.67
Dividend per share	(Yen)	10	12	12	14	16	16	18	Dividend per share	(Yen)	21	24	26	40	46
Dividend payout ratio	(%)	29.5	21.0	254.2	18.8	122.7	38.2	24.1	Dividend payout ratio	(%)	17.8	62.2	27.3	20.8	28.9

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

Non-Financial Highlights

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

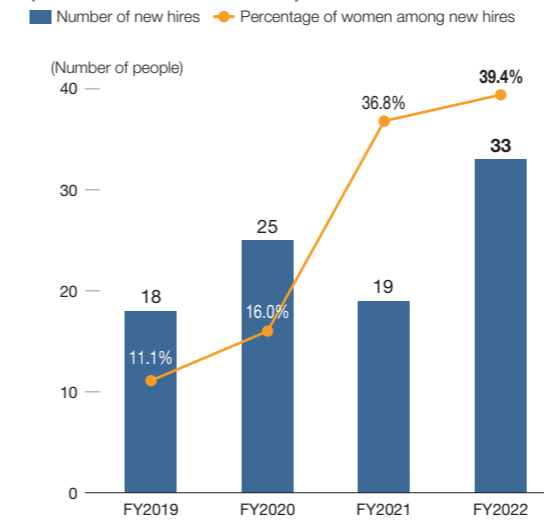


* Total emissions of Nagaoka Factory, Takami Warehouse, Parts Center Warehouse, Head Office, and Sendai, Takasaki, Suwa, Shinshu, Nagoya, Osaka, and Fukuoka Sales Offices
* FY2022: Reduction in greenhouse gas emissions as a result of switching to electric power derived from renewable energy sources: 2,225 t-CO₂

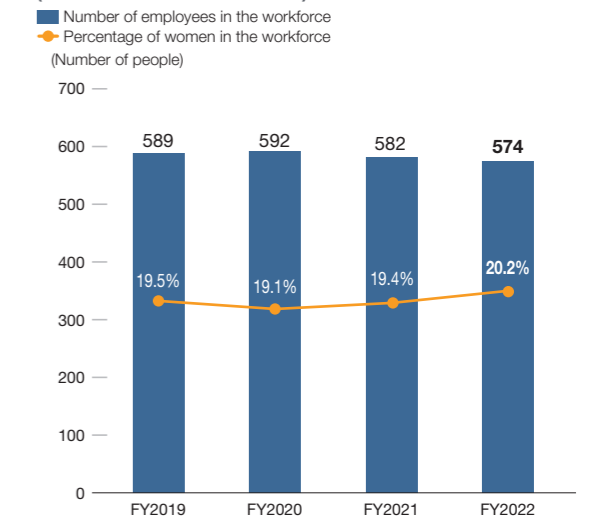
GHG emissions (Scope 3)
(non-consolidated basis)

	FY2021	FY2022
Purchased products and services (t-CO ₂)	101,146	119,864
Transportation and distribution (upstream) (t-CO ₂)	2,574	2,564
Transportation and distribution (downstream) (t-CO ₂)	1,550	1,914
Use of sold products (t-CO ₂)	95,544	97,229
End-of-life treatment of sold products (t-CO ₂)	806	817
Categories other than the above (t-CO ₂)	1,279	1,176
Total (t-CO₂)	202,899	223,564

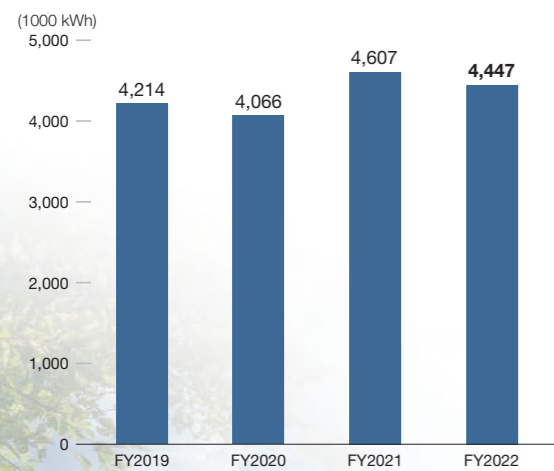
Percentage of women among new hires
(non-consolidated basis)



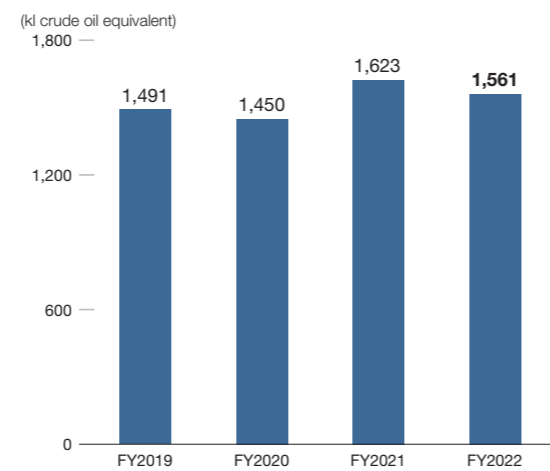
Percentage of women in the workforce
(non-consolidated basis)



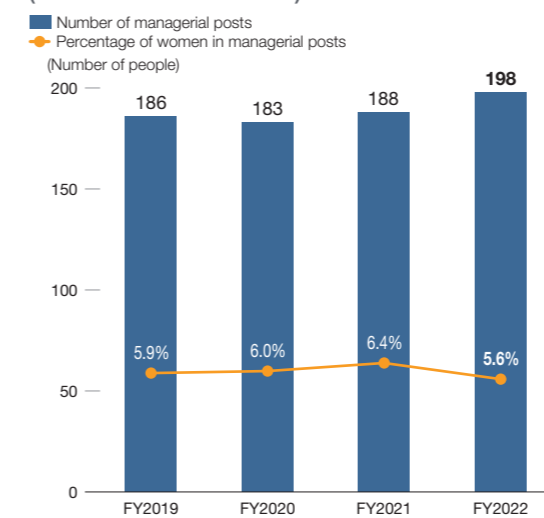
Electricity used
(non-consolidated basis)



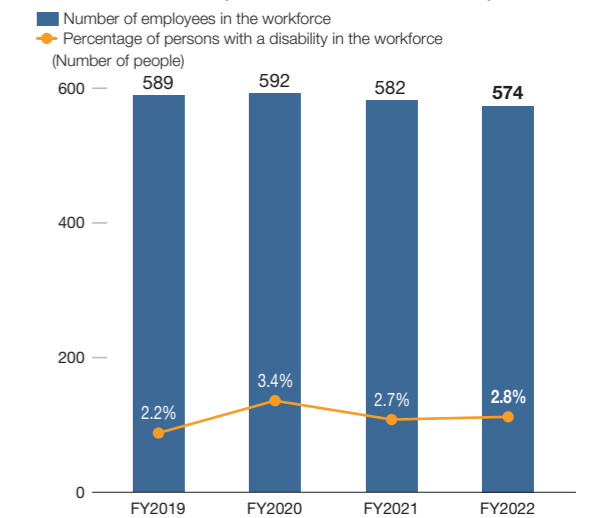
Energy consumption
(non-consolidated basis)



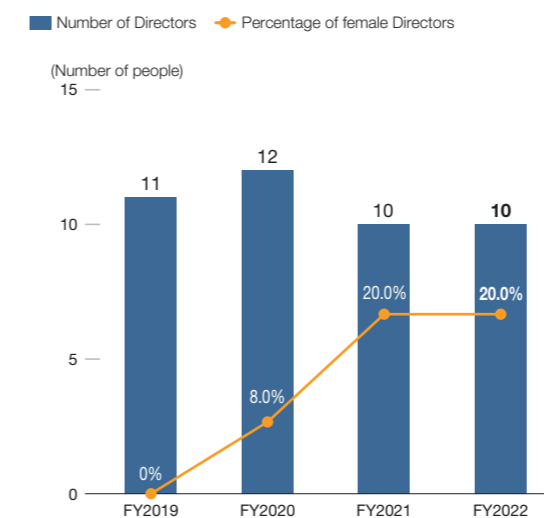
Percentage of women in managerial posts
(non-consolidated basis)



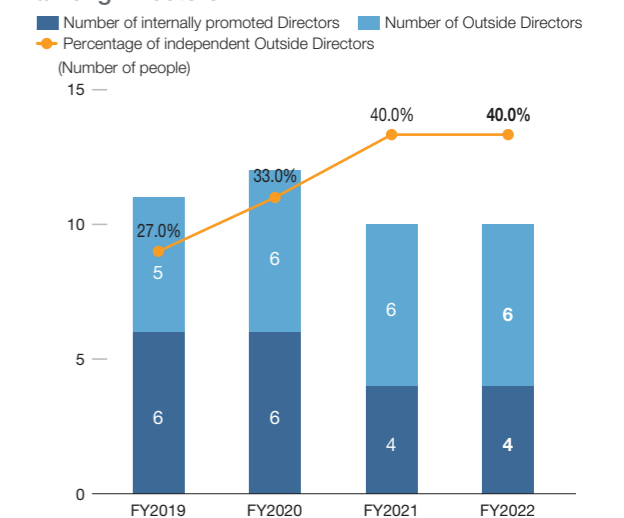
Percentage of persons with a disability in the workforce
(non-consolidated basis)



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, clocks, computers, automobiles, implants, and other familiar places.



Awareness of societal issues

Input

Business model

Output

Outcome

- Aging of skilled workers
- Decrease in number of workers
- Technological innovation
- Diversification of needs
- Reduction of environmental impact
- Reduction of supply chain risk

Financial capital

- Total assets: **¥112.3** bn
- Free cash flow: **¥7.0** bn

Production capital

- Capital investment: **¥1.36** bn
- Number of factories worldwide: **6**

Intellectual capital

- Stockpiling expertise
- Research and development cost: **¥2.24** bn

Human capital

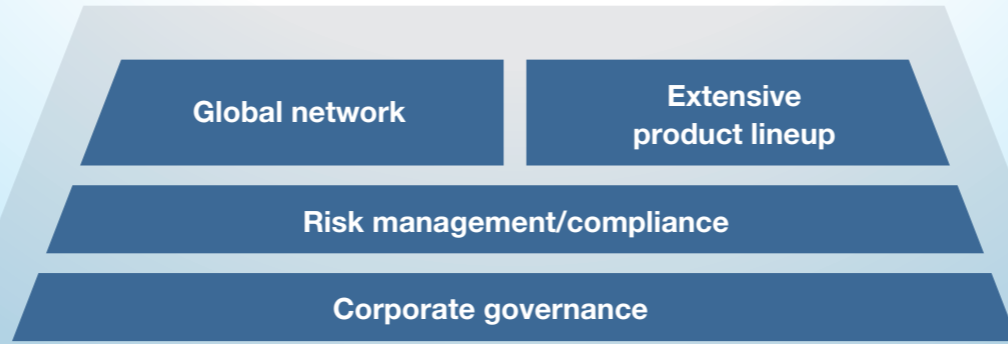
- Number of employees (consolidated): **3,103**
- Diverse employees

Social capital

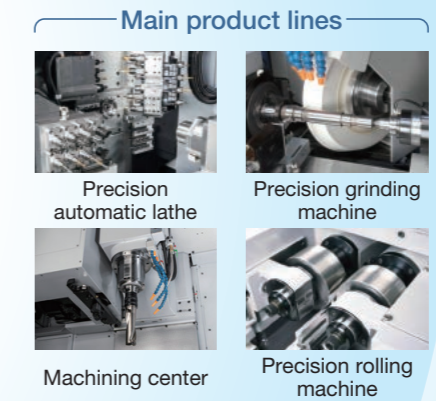
- Customer base (brand)
- Global sales channels

Natural capital (non-consolidated basis)

- Electricity used: **4,447** thousand kWh
- Water use: **11,762** m³
- Saving energy with production processes that take up less space



- Revenue **¥94.9** bn
- Operating profit **¥16.7** bn
- ROE At least **16%**



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

- Contributing to the advancement of a broad range of industries
- Improving convenience for customers and users
- Generating new value based on precision technology



Research and Development Strategy, Global Development System

The Company's roots trace back to the time our founder, Taisuke Tsugami, began studying gauge blocks, which are the standard for lengths in the machining industry. We successfully brought gauge block manufacturing to Japan and used the underlying technology to begin developing and manufacturing precision measuring instruments, eventually expanding to grinding machines, rolling machines, automatic lathes, machining centers, and precision machine tools. 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 clocks, 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 of these parts, we have supplied users who need machine tools—from major Japanese manufacturers of precision electronic components to smaller companies in the parts machining industry—with products that allow them to mass-produce parts with consistent quality with high precision, speed, and rigidity.

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 clockmakers 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)



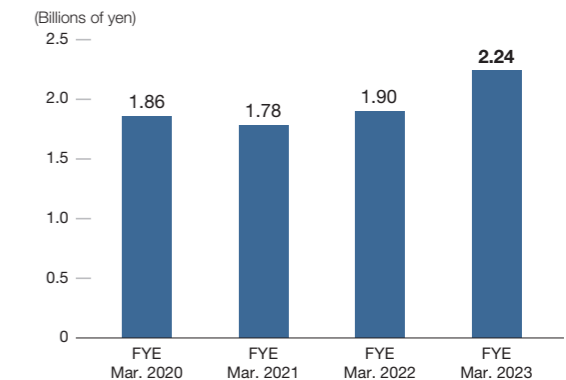
India Factory (Chennai)

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



Received the IDEA Award for Machine Industrial Design

In July 2022, our turning center SS26MH-II-5AX received the Review Committee Special Award of the 52nd IDEA Award for Machine Industrial Design (sponsored by The Nikkan Kogyo Shimbun, Ltd.). This product is a productive combined machine that integrates sliding head stock type automatic lathe and machining center. The turning center can mass-produce parts with complex shapes from bar stock, including those that require five-axis simultaneous machining. It features many functions that enhance operability and safety—for example, an obstruction check function that prevents obstructions—and is equipped with software that supports efforts to save space, energy, and labor, helping to reduce energy consumption.



Turning center SS26MH-II-5AX

TSUGAMI TECHNICAL FAIR

On June 23–24, 2022, we held the TSUGAMI TECHNICAL FAIR 2022 at our Nagaoka Factory. We prepared exhibits and demonstrations of our latest precision machine tools that meet customers' micro-machining and other increasingly complex and sophisticated needs with our precision machining expertise cultivated over decades. Through events like these, we aim to both discover and propagate customers' labor- and energy-saving needs.



TSUGAMI TECHNICAL FAIR 2022

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

No. 1 Group, No. 3 Engineering Department

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.

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
No. 3 Group, No. 3 Engineering Department

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)

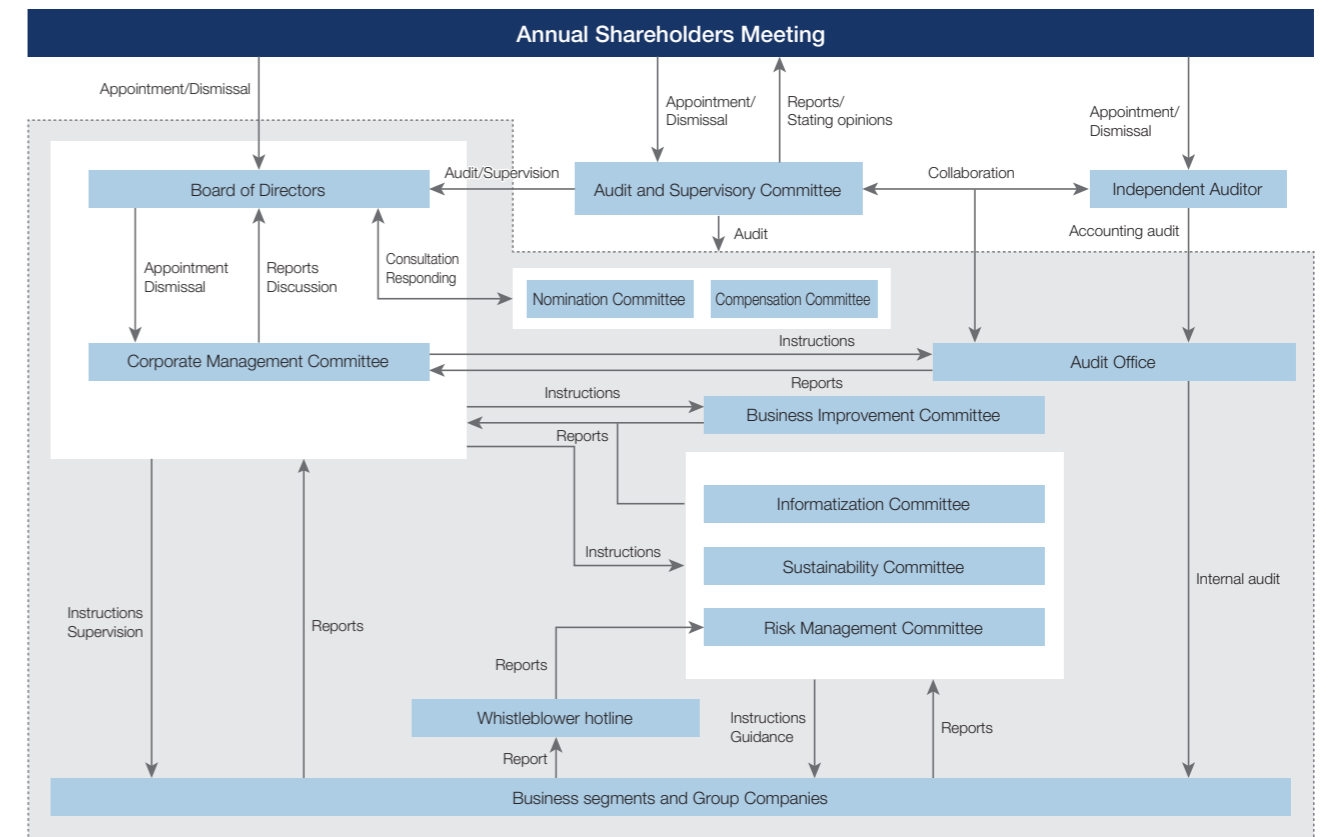
The Company has established the Corporate Management Committee, which consists of Representative Directors and major Executive Officers as an organ for reporting and discussing matters concerning the consensual decision making of important business execution issues including those submitted to the Board 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	Nobuhiro Watabe	Head of Domestic Sales and Operation and Factories, General Manager of Domestic Sales and Operation and Corporate Planning Division	Supreme Advisor	Takao Nishijima
Member	Mami Matsushita	Head of Overseas Sales and Operation, General Manager of Overseas Division	Advisor	Toshiharu Niijima
Member	Kenji Yoneyama	Head of Administration, General Manager of Administration Division		

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, revisions to important internal regulations
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, reports on audits by the Audit Office and internal control Measures for the electronic provision of documents for shareholders meetings

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)

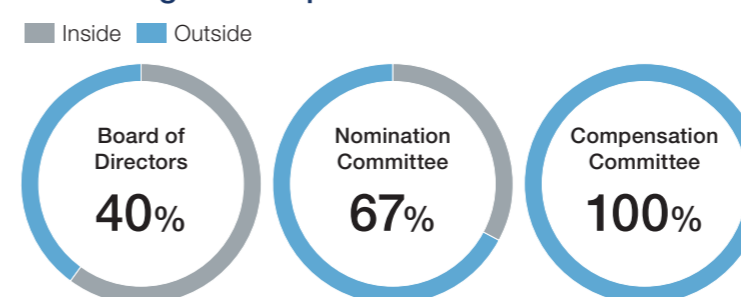
The Company has established the Nomination Committee and Compensation Committee, voluntary committees, as advisory bodies to the Board of Directors and ensures the transparency and objectivity of the process for evaluating and determining the nomination and compensation, etc. of Directors and Executive 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

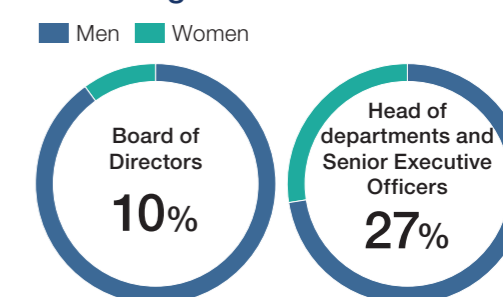
Composition of Board of Directors (as of June 21, 2023)

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.

Percentage of independent Outside Officers



Percentage of female Officers



Name	Years in office	Attendance in FYE Mar. 2023 (Number of meetings attended/Number of meetings)			Skills matrix							
		Board of Directors meetings	Nomination Committee meetings	Compensation Committee meetings	Corporate management	Industry knowledge	International experience	Sales, marketing	Technology, R&D	Legal affairs	Financial accounting	
Ken Kubo Outside Director, Chairman of the Board of Directors	3 years	9/9	–	–	●		●	●				●
Nobuhiro Watabe Representative Director and President	–	Assumed office in June 2023	–	–		●	●	●	●			
Kenji Yoneyama Representative Director	–	Assumed office in June 2023	–	–						●		●
Donglei Tang Director	5 years	9/9	–	–		●	●	●	●			
Takeshi Hirayama Director	–	Assumed office in June 2023	–	–						●		●
Yutaka Kimura Outside Director (Audit and Supervisory Committee Member)	–	Assumed office in June 2023	–	–	●					●		●
Yoshimi Takeuchi Outside Director (Audit and Supervisory Committee Member)	3 years	9/9	–	4/4		●	●		●			
Kenyu Adachi Outside Director (Audit and Supervisory Committee Member)	3 years	9/9	6/6	–	●		●			●		
Kunio Shimada Outside Director (Audit and Supervisory Committee Member)	12 years	9/9	6/6	4/4			●			●		
Michiyo Yamamiya Outside Director (Audit and Supervisory Committee Member)	3 years	9/9	–	4/4			●			●		

Notes: 1. Years in office indicated as of June 2023.

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. Mr. Shimada served as an Outside Director from June 2011 to June 2018 (seven years), and has served as an Outside Director who is an Audit and Supervisory Committee Member since June 2018 (five years).

4. Mr. Watabe, Mr. Yoneyama, Mr. Hirayama, and Mr. Kimura were newly elected as Directors at the 120th Annual Shareholders Meeting held on June 21, 2023 and assumed office then; thus, their attendance at meetings of the Board of Directors and the like is not indicated.

Officers' career records are posted on the Tsugami website. → https://www.tsugami.co.jp/ir/governance/houkokusyo_20230621.pdf (in Japanese)

Corporate Governance

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.

Total amount of compensation, etc. in FY2022

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]	¥112 million [¥28 million]	¥78 million [¥28 million]	¥12 million [-]	¥21 million [-]	7 [2]
Directors (Audit and Supervisory Committee Members) [Outside Director included]	¥54 million [¥36 million]	¥54 million [¥36 million]	- [-]	- [-]	5 [4]
Total [Outside Directors included]	¥166 million [¥64 million]	¥132 million [¥64 million]	¥12 million [-]	¥21 million [-]	12 [6]

- Notes: 1. The above includes two Directors (excluding Directors who are Audit and Supervisory Committee Members) who retired as of the closing of the 119th Annual Shareholders Meeting held on June 22, 2022.
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 stock compensation-type stock options and restricted stock compensation.
- Stock compensation-type stock option: The Company determines the number of share acquisition rights of the Company to be granted based on comprehensive consideration of a range of factors including rank, responsibilities and the Company's performance and adopts a system whereby the share acquisition rights can then be exercised upon retirement. With the introduction of a restricted stock compensation plan, stock compensation-type stock options were abolished except for those that were already granted.
 - Restricted stock compensation: The Company adopts a system whereby restricted shares are allocated 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 be set at not more than ¥80 million per year (excluding Directors who are Audit and Supervisory Committee Members). 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.

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 fiscal year ended March 2023, our Board of Directors was run properly, and its effectiveness was largely ensured. However, further enhancement of non-financial disclosures (including ESG information) 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.

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 FY2022, 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 FY2022.

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, 2023.

(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-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 in my three years 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 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 CO₂ emissions from energy consumption at our Nagaoka Factory.

Initiatives to reduce water usage

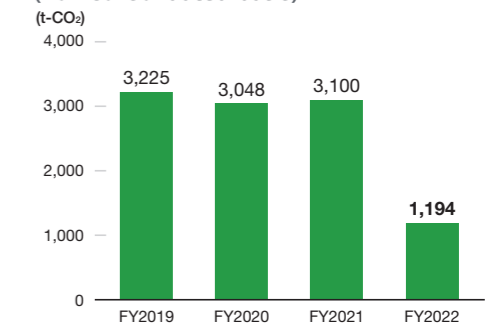
The Tsugami Group recognizes that ensuring safe water resources is an important environmental challenge. To fulfill our responsibilities as a company with manufacturing factories, we will focus on reducing water usage and water uptake in the course of our business activities and strive for the effective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

* FY2022: Reduction in greenhouse gas emissions as a result of switching to electric power derived from renewable energy sources: 2,225 t-CO₂

Water use (use at Nagaoka Factory in Japan)

	FY2019	FY2020	FY2021	FY2022
Water intake (m ³)	12,599	12,249	13,328	11,762
Water discharge (m ³)	12,599	12,249	13,328	11,762

* The Company had no breaches or penalties in relation to water quality or water volume during FY2022.

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 overseen 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 ₂ 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	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 set new 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 CO₂ emissions by 2030 (compared with FY2013 levels)
We will reduce CO₂ emissions (Scope 1 + Scope 2) from our business activities by 55%.

Long-term target Achievement of carbon neutral by 2050
We will reduce CO₂ 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 CO₂ 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*. In FY2023, we filled out their climate change questionnaire.

* 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

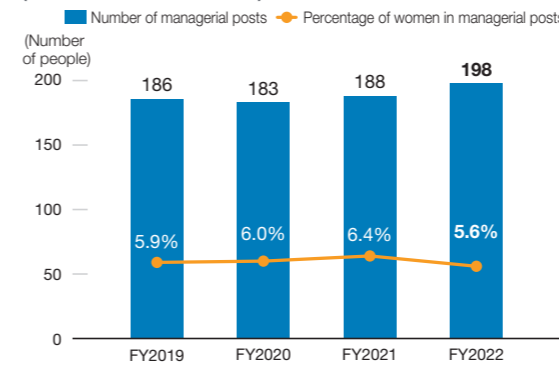
The Tsugami Group sees human resources as the foundations underpinning sustainable growth. It is, therefore, important to accept the values and uniqueness of every individual who supports our business, regardless of race, religion, nationality, age, gender, disability, or personal background, and to 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

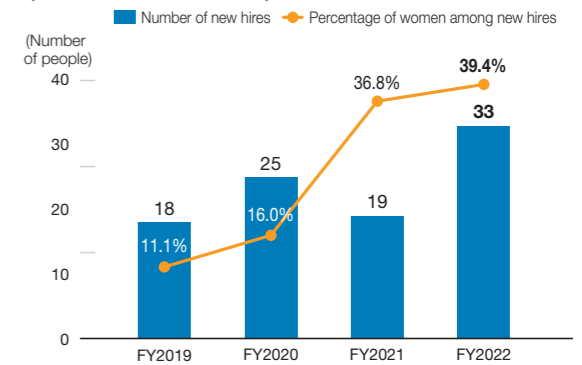
At the Company, female managers actively participate in overseas operations, which account for a large percentage of revenue, and major departments, particularly those involved in technical management. We take steps to further promote this effort.



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

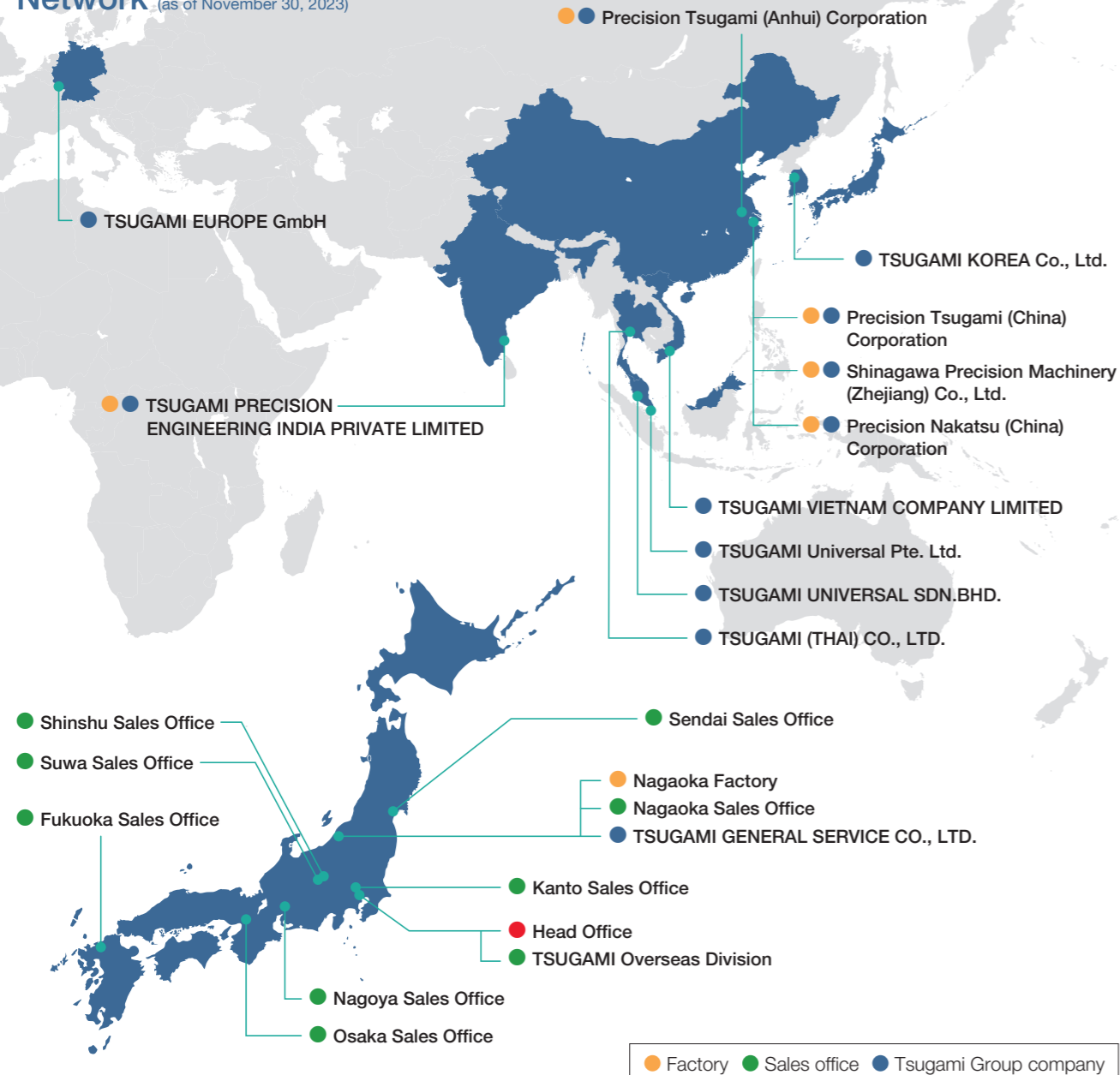
To get the most out of individual employees, it is necessary to fairly evaluate each individual employee based on his or her role and accomplishments and to strive to treat, train, and utilize them properly according to this evaluation. We try to ensure the transparency and fairness of evaluations by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

Corporate Information

Corporate information (as of March 31, 2023)

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: 3,103 (consolidated)
 Business activity: Manufacture and sales of precision machine tools

Network (as of November 30, 2023)



Stock information (as of March 31, 2023)

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: 10,224

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)	7,197	14.94
Custody Bank of Japan, Ltd. (trust account)	2,826	5.86
Daishi Hokuetsu Bank, Ltd.	2,184	4.53
J.P. MORGAN CHASE BANK 385632	1,939	4.02
The Dai-ichi Life Insurance Company, Limited	1,785	3.70
Sumitomo Mitsui Banking Corporation	1,516	3.14
THE BANK OF NEW YORK 133652	1,375	2.85
Tsugami Customers' Shareholding Association	1,148	2.38
THE BANK OF NEW YORK MELLON 140051	1,111	2.30
DAIKIN INDUSTRIES, LTD.	717	1.48

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 1,824 thousand treasury shares, it is excluded from the list of major shareholders.

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: FY2022 (April 1, 2022–March 31, 2023)
 However, the report also includes information about efforts from other fiscal years.

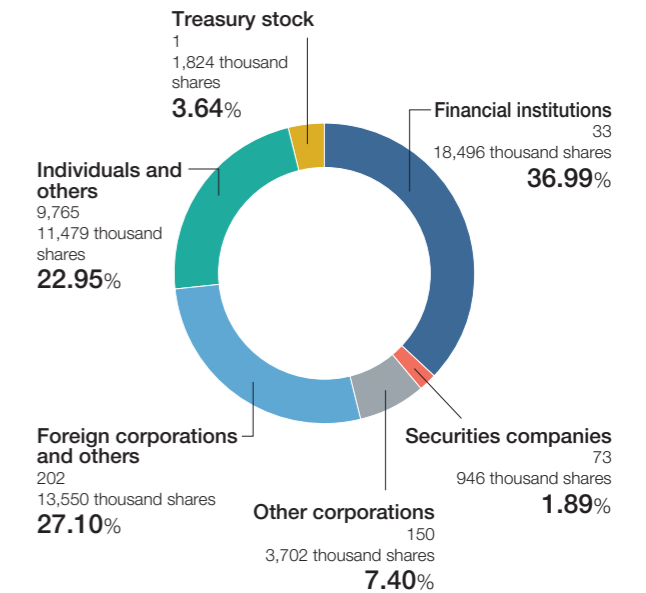
Scope of data collection: Scope of consolidated accounts. The report also includes some data from TSUGAMI CORPORATION apart from the rest of the Group.

Date of publishing: December 2023

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.

Shareholders composition by type



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