

Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2016

July 30, 2015

TSUGAMI CORPORATION

Stock code: 6101

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Scheduled date of commencement of dividend payments: --

Quarterly results supplementary briefing materials to be created: Yes

Quarterly results investors meeting to be held: None

1. Consolidated business performance for the first quarter of the fiscal year ending March 31, 2016

(From April 1, 2015 to June 30, 2015)

(Figures are rounded down to the nearest one million yen.)

(1) Consolidated operating results (cumulative totals)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q1 of the fiscal year ending March 31, 2016	11,892	-6.1	908	-52.3	974	-41.9	721	-34.1
Q1 of the fiscal year ended March 31, 2015	12,670	81.2	1,903	358.6	1,676	49.8	1,094	31.1

(Note): Comprehensive income: Q1 of the fiscal year ending March 31, 2016: 1,000 million yen (-7.7%)

Q1 of the fiscal year ended March 31, 2015: 1,082 million yen (-10.7%)

	Net income per share	Net income per share after residual equity adjustment	
		Yen	Yen
Q1 of the fiscal year ending March 31, 2016	10.58		10.35
Q1 of the fiscal year ended March 31, 2015	15.17		14.91

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
Q1 of the fiscal year ending March 31, 2016	60,894	35,521	57.0	519.29
Fiscal year ended March 31, 2015	56,829	37,279	64.1	522.94

(Reference): Shareholders' equity: Q1 of the fiscal year ending March 31, 2016: 34,725 million yen

Fiscal year ended March 31, 2015: 36,414 million yen

2. State of dividends

(Base date)	Dividends per share					
	End of Q1	End of Q2	End of Q3	End of FY	Annual	
Fiscal year ended March 31, 2015	--	Yen 6.00	Yen --	Yen 8.00	Yen 14.00	
Fiscal year ending March 31, 2016	--					
Fiscal year ending March 31, 2016 (forecast)		8.00	--	8.00	16.00	

(Note) Revision of dividend forecasts for the quarter under review: none

3. Consolidated business performance forecasts for the fiscal year ending March 31, 2016

(From April 1, 2015 to March 31, 2016)

(Percentage figures denote increases or decreases compared with the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim	26,000	-12.5	3,600	-24.3	3,400	-30.3	2,300	-32.5	33.62
Full-year	54,000	-0.2	7,500	3.4	7,000	-9.6	4,800	-9.4	70.27

(Note) Revision of consolidated business performance forecasts for the quarter under review: none

***Notes**

- (1) Important changes in subsidiaries during the quarter under review
(changes in specified subsidiaries that caused the scope of consolidation to change): none
Companies added to the scope: -- companies (names)
Companies removed from the scope: -- companies (names)
- (2) Application of peculiar accounting treatment for quarterly consolidated financial statements: none
- (3) Changes in accounting policy and in accounting estimates, and restatements
(i) Changes in accounting policy due to the revision of accounting standards and the like: yes
(ii) Changes in accounting policy other than those stated in item (i) above: none
(iii) Changes in accounting estimates: none
(iv) Restatements: none
- (4) Numbers of outstanding shares (common shares)
(i) Numbers of outstanding shares at the end of the terms (including treasury shares):
Q1 of FY2015 | 74,919,379 shares | FY2014 | 74,919,379 shares
(ii) Numbers of treasury shares at the end of the terms:
Q1 of FY2015 | 8,048,447 shares | FY2014 | 5,285,426 shares
(iii) Average numbers of shares outstanding during the periods (quarterly consolidated accumulation periods):
Q1 of FY2015 | 68,208,922 shares | Q1 of FY2014 | 72,163,329 shares

*** State of quarterly review execution**

This quarterly financial summary falls outside the scope of quarterly reviews based on the Financial Instruments and Exchange Act. Reviews of the quarterly financial statements presented herein in compliance with the Financial Instruments and Exchange Act had not been completed at the time this quarterly financial summary was disclosed.

*** Explanations for the appropriate use of business forecasts and other items warranting special mention**

The forward-looking statements, including business forecasts, included in this document are based on information available on the date of announcement and certain assumptions we consider reasonable. Actual performance may differ materially from the statements due to a range of factors. For assumptions for business forecasts and notes on the use of business forecasts, please refer to "Information Relating to Consolidated Business Performance Forecasts" on page 2 of the accompanying documents of this summary of financial results for the first quarter.

Accompanying Documents

Contents

1. Qualitative Information Relating to Consolidated Quarterly Results, Etc	2
(1) Information Relating to Consolidated Operating Results	2
(2) Information Relating to the Consolidated Financial Position	2
(3) Information Relating to Consolidated Business Performance Forecasts	2
2. Summary information (notes)	3
Changes in accounting policy and in accounting estimates, and restatements	3
3. Quarterly Consolidated Financial Statements	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statements of Income	6
Quarterly Consolidated Statements of Comprehensive Income	7
(3) Consolidated Statements of Cash Flows	8
(4) Notes relating to the Quarterly Consolidated Financial Statements	9
Notes relating to the going concern assumption	9
Notes for cases where shareholders' equity underwent a major change in value	9
Segment information	9
4. Supplementary Information	10
(1) Overseas net sales	10
(2) Net sales by machinery category	10

1. Qualitative Information Relating to Consolidated Quarterly Results, Etc.

(1) Information Relating to Consolidated Operating Results

During the first quarter under review, corporate earnings improved in a wide range of fields, and consumer spending was firm. The Japanese economy remained on a modest recovery path.

In the machine tool industry, the domestic market continued its moderate upward trend on the back of subsidies and tax favors, with products for auto parts continuing to perform well. The U.S. and European markets were steady, while in the Chinese market, demand for smartphones slowed and uncertainty over the future of the economy emerged.

In this environment, net sales at TSUGAMI Corporation (the "Company") and its affiliates (the "Group") in the first quarter under review declined 6.1% year on year, to 11,892 million yen, primarily reflecting continued stable shipments of products for auto parts and lack of large demand in the IT products industry. Operating income fell 52.3% year on year, to 908 million yen, and ordinary income decreased 41.9% year on year, to 974 million yen chiefly due to the decrease in net sales and the posting of additional social insurance expenses associated with overtime working hours for two years, etc. of approximately 300 million yen. Net income attributable to owners of parent declined 34.1%, to 721 million yen.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled 60,894 million yen at the end of the first quarter under review, rising 4,065 million yen from the end of the previous fiscal year. The increase resulted primarily from an increase of 3,457 million yen in inventories, 460 million yen increase in cash and deposit and 313 million yen increase in investment securities.

Liabilities came to 25,373 million yen, up 5,823 million yen from the end of the previous fiscal year. The result was mainly attributable to an increase of 5,417 million yen in trade notes and accounts payable.

Net assets stood at 35,521 million yen at the end of the first quarter under review, decreasing 1,757 million yen from the end of the previous fiscal year. The decline mainly reflected increases of 721 million yen in net income attributable to owners of parent and 204 million yen in foreign currency translation adjustment which offset 557 million yen in dividends paid and 2,114 million yen decrease in treasury shares.

As a result of the changes stated above, the capital adequacy ratio came to 57.0%, declining 7.1 percentage points from the end of the previous fiscal year.

(ii) State of cash flows during the quarter under review

Cash and cash equivalents amounted to 5,411 million yen at the end of the first quarter under review, increasing 459 million yen from the end of the previous fiscal year. A description of each cash flow during the first quarter was as follows:

(Cash flows from operating activities)

Cash generated through operating activities was 3,422 million yen.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of 1,003 million yen, depreciation and amortization of 290 million yen, and 5,266 million yen increase in trade notes and accounts payable, which offset decrease in cash, such as a 108 million yen rise in trade notes and accounts receivable, 3,182 million yen increase in inventories and 558 million yen in corporate and other taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was 234 million yen.

The cash outflow was primarily attributable to decrease in cash that resulted from a 234 million yen outlay for the acquisition of property, plant and equipment.

(Cash flows from financing activities)

Cash used for financing activities was 2,765 million yen.

The cash outflow resulted mainly from decreases in cash, including expenditure for acquisition of treasury shares of 2,239 million yen and cash dividends paid of 557 million yen.

(3) Information Relating to Consolidated Business Performance Forecasts

Our consolidated business performance forecasts for the first half and full year of the fiscal year ending March 31, 2016, and our dividend forecast remain unchanged from the initial forecasts (announced on May 13, 2015).

2. Summary information (notes)

Changes in accounting policy and in accounting estimates, and restatements

Changes in Accounting Policy

(Application of Accounting Standard for Business Combinations)

From the first quarter under review, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under the newly-applied accounting standards, the Company shall post a gain or loss on change in the Company's equity in subsidiaries that the Company continues to control in capital surplus and shall post expenses related to acquisitions as expenses in a consolidated fiscal year when they are incurred. Any review of the allocation of the acquisition cost in provisional accounting of a business combination from the beginning of the first quarter under review shall be reflected in quarterly consolidated financial statements for the quarter in which the date of the business combination belongs. The presentation of net income etc. has also been changed. To reflect the change in presentation, the consolidated financial statements for the first quarter of the previous fiscal year have been reorganized.

In the consolidated statements of cash flows for the first quarter under review, cash flows related to acquisitions or sales of shares in subsidiaries without change in the scope of consolidation shall be posted in cash flows from financial activities. Cash flows related to expenses associated with acquisitions of shares in subsidiaries that change the scope of consolidation or expenses associated with acquisitions or sales of shares in subsidiaries without change in the scope of consolidation shall be posted in cash flows from operating activities.

The application of the Accounting Standard for Business Combinations, etc. follows the transitional treatment set forth in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and the accounting standards are applied from the beginning of the first quarter under review.

The application of the accounting standards has no impact on the Group's earnings.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Million yen)	Figures at the end of the previous consolidated fiscal year (As of March 31, 2015)	Figures at the end of the consolidated first quarter under review (As of June 30, 2015)
Assets			
Current assets			
Cash and deposits	5,175	5,635	5,635
Trade notes and accounts receivable	7,054	7,201	7,201
Merchandise and finished goods	8,264	10,625	10,625
Work in process	5,684	6,096	6,096
Raw materials and supplies	8,750	9,434	9,434
Consumption taxes receivable	1,017	567	567
Deferred tax assets	443	509	509
Other	513	507	507
Allowance for doubtful accounts	-43	-34	-34
Total current assets	36,861	40,545	40,545
Non-current assets			
Property, plant and equipment			
Buildings and structures, net	6,396	6,431	6,431
Machinery, equipment and vehicles, net	4,171	4,159	4,159
Land	564	564	564
Leased assets, net	27	25	25
Construction in progress	3	45	45
Other, net	287	311	311
Total property, plant and equipment	11,451	11,537	11,537
Intangible assets	756	760	760
Investments and other assets			
Investment securities	6,148	6,461	6,461
Shares of subsidiaries and associates	11	11	11
Investments in capital of subsidiaries and associates	1,131	1,110	1,110
Long-term loans receivable	316	316	316
Deferred tax assets	1	1	1
Other	149	149	149
Total investments and other assets	7,759	8,052	8,052
Total non-current assets	19,967	20,349	20,349
Deferred assets	0	--	--
Total assets	56,829	60,894	60,894

	(Million yen)	
	Figures at the end of the previous consolidated fiscal year (As of March 31, 2015)	Figures at the end of the consolidated first quarter under review (As of June 30, 2015)
Liabilities		
Current liabilities		
Trade notes and accounts payable	8,276	13,693
Short-term loans payable	6,855	6,961
Income taxes payable	616	337
Provision for bonuses	227	163
Provision for product warranties	448	455
Other	1,427	2,052
Total current liabilities	17,851	23,664
Non-current liabilities		
Deferred tax liabilities	1,084	1,160
Provision for directors' retirement benefits	18	19
Net defined benefit liability	535	471
Other	58	57
Total non-current liabilities	1,698	1,708
Total liabilities	19,550	25,373
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	5,889	5,884
Retained earnings	15,963	16,116
Treasury shares	-2,738	-4,852
Total shareholders' equity	31,460	29,493
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,798	2,870
Foreign currency translation adjustment	2,123	2,327
Remeasurements of defined benefit plans	32	34
Total accumulated other comprehensive income	4,953	5,232
Subscription rights to shares	865	796
Total net assets	37,279	35,521
Total liabilities and net assets	56,829	60,894

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 (Quarterly Consolidated Statements of Income)

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2014 to June 30, 2014)	Consolidated first quarter under review (From April 1, 2015 to June 30, 2015)
Net sales	12,670	11,892
Cost of sales	9,260	8,872
Gross profit	<u>3,409</u>	<u>3,020</u>
Selling, general and administrative expenses		
Salaries and allowances	363	448
Provision of allowance for doubtful accounts	17	--
Provision for bonuses	30	44
Retirement benefit expenses	19	13
Provision for directors' retirement benefits	1	1
Research and development expenses	279	308
Insurance expenses	40	48
Provision for product warranties	-27	147
Other	780	1,099
Total selling, general and administrative expenses	<u>1,505</u>	<u>2,112</u>
Operating income	<u>1,903</u>	<u>908</u>
Non-operating income		
Interest income	2	5
Dividend income	34	82
Rent income	9	12
Reversal of allowance for doubtful accounts	--	8
Foreign exchange gains	--	88
Insurance income	0	--
Other	17	9
Total non-operating income	<u>64</u>	<u>207</u>
Non-operating expenses		
Interest expenses	52	59
Foreign exchange losses	169	--
Loss on sales of notes payable	38	50
Other	31	31
Total non-operating expenses	<u>291</u>	<u>141</u>
Ordinary income	<u>1,676</u>	<u>974</u>
Extraordinary income		
Gain on sales of non-current assets	--	0
Gain on reversal of subscription rights to shares	--	49
Total extraordinary income	<u>--</u>	<u>50</u>
Extraordinary losses		
Loss on retirement of non-current assets	3	0
Loss on sales of non-current assets	26	--
Loss on valuation of investments in capital of subsidiaries and associates	--	21
Total extraordinary losses	<u>29</u>	<u>21</u>
Income before taxes and other adjustments	<u>1,647</u>	<u>1,003</u>
Corporate, inhabitant and enterprise taxes	443	314
Deferred taxes	109	-32
Total corporate and other taxes	<u>552</u>	<u>281</u>
Net income	<u>1,094</u>	<u>721</u>
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	<u>1,094</u>	<u>721</u>

(Quarterly Consolidated Statements of Comprehensive Income)

(Million yen)

	Consolidated first quarter previous year (From April 1, 2014 to June 30, 2014)	Consolidated first quarter under review (From April 1, 2015 to June 30, 2015)
Net income	1,094	721
Other comprehensive income		
Valuation difference on available-for-sale securities	56	72
Foreign currency translation adjustment	-90	204
Remeasurements of defined benefit plans, net of tax	22	1
Total other comprehensive income	-11	278
Comprehensive income	1,082	1,000
(Breakdown)		
Comprehensive income attributable to owners of parent	1,082	1,000
Comprehensive income attributable to non-controlling interests	--	--

(3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2014 to June 30, 2014)	Consolidated first quarter under review (From April 1, 2015 to June 30, 2015)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	1,647	1,003
Depreciation and amortization	249	290
Loss on valuation of investments in capital of subsidiaries and associates	--	21
Gain on reversal of subscription rights to shares	--	-49
Increase (decrease) in allowance for doubtful accounts	19	-8
Increase (decrease) in provision for bonuses	-91	208
Increase (decrease) in provision for product warranties	-27	1
Increase (decrease) in net defined benefit liability	4	-64
Interest and dividend income	-37	-87
Interest expenses	52	59
Loss (gain) on sales of non-current assets	26	-0
Foreign exchange losses (gains)	93	20
Decrease (increase) in trade notes and accounts receivable	-3,227	-108
Decrease (increase) in inventories	-2,573	-3,182
Decrease (increase) in advance payments	6	-90
Increase (decrease) in trade notes and accounts payable	3,443	5,266
Decrease (increase) in consumption taxes refund receivable	272	449
Other	207	241
Subtotal	65	3,969
Interest and dividend income received	32	74
Interest expenses paid	-41	-62
Corporate and other taxes paid	-960	-558
Cash flows from operating activities	-904	3,422
Cash flows from investing activities		
Payments into time deposits	-10	--
Proceeds from withdrawal of time deposits	65	--
Purchase of property, plant and equipment	-181	-234
Proceeds from sales of property, plant and equipment	4	0
Purchase of intangible assets	-172	-1
Other	-1	1
Cash flows from investing activities	-295	-234
Cash flows from financing activities		
Increase in short-term loans payable	1,484	735
Decrease in short-term loans payable	-1,492	-736
Proceeds from sales of treasury shares	0	35
Purchase of treasury shares	-264	-2,239
Cash dividends paid	-434	-557
Repayments of lease obligations	-3	-2
Cash flows from financing activities	-710	-2,765
Effect of exchange rate change on cash and cash equivalents	-23	35
Net increase (decrease) in cash and cash equivalents	-1,934	459
Cash and cash equivalents at the beginning of the term	6,044	4,952
Cash and cash equivalents at the end of the term	4,110	5,411

(4) Notes relating to the Quarterly Consolidated Financial Statements

Notes relating to the going concern assumption

No corresponding item exists.

Notes for cases where shareholders' equity underwent a major change in value

No corresponding item exists.

Segment information

I. Consolidated first quarter previous year (From April 1, 2014 to June 30, 2014)

1. Information relating to net sales, income or loss by reportable segment.		(Million yen)			
		Reportable segment			
		Japan	China	South Korea	Total
Net sales					
Net sales to external customers	5,468	6,906	294	12,670	
Intersegment net sales or transfer to other accounts	4,338	2,703	5	7,048	
Total	9,807	9,610	300	19,718	
Segment income	334	1,682	25	2,042	

2. Total income or loss for reportable segments, its difference from the amount stated in quarterly consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	2,042
Elimination of unrealized income and others	-138
Operating income in quarterly consolidated statements of income	1,903

3. Information relating to impairment loss on non-current assets or goodwill, etc.

No corresponding item exists.

II. Consolidated first quarter under review (from April 1, 2015 to June 30, 2015)

1. Information relating to net sales, income or loss by reportable segment		(Million yen)			
		Reportable segment			
		Japan	China	South Korea	Total
Net sales					
Net sales to external customers	6,410	4,971	511	11,892	
Intersegment net sales or transfer to other accounts	3,583	3,443	10	7,037	
Total	9,994	8,414	521	18,929	
Segment income	335	491	60	887	

2. Total income or loss for reportable segments, its difference from the amount stated in quarterly consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	887
Elimination of unrealized income and others	20
Operating income in quarterly consolidated statements of income	908

3. Information relating to impairment loss on non-current assets or goodwill, etc.

No corresponding item exists.

4. Supplementary Information

(1) Overseas net sales

Consolidated first quarter under review (From April 1, 2015 to June 30, 2015)			(Million yen)	
	Asia	America	Europe	Total
I Overseas net sales	7,440	1,075	810	9,326
II Consolidated net sales				11,892
III Ratio of overseas net sales to consolidated net sales (%)	62.6	9.0	6.8	78.4

(Note) 1. National or regional classifications are based on geographic proximity.

2. Major countries or regions in each classification

- (1) Asia..... China, Thailand, South Korea, Singapore, the Philippines and India
- (2) America.... the United States and Mexico
- (3) Europe..... Switzerland, Germany, France and Italy

3. Overseas net sales refer to net sales achieved by the Company and its consolidated subsidiaries in countries or regions other than Japan.

(2) Net sales by machinery category

	Consolidated first quarter previous year (From April 1, 2014 to June 30, 2014)		Consolidated first quarter under review (From April 1, 2015 to June 30, 2015)		Year-on-year change	
Automatic lathes	11,468	% 90.5	9,036	% 76.0	-2,431	% -21.2
Grinding machines	486	3.8	889	7.5	403	83.0
Machining centers	427	3.4	232	1.9	-195	-45.7
Rolling machines and specialized machines.	215	1.7	1,665	14.0	1,449	672.8
Other	72	0.6	69	0.6	-3	-5.0
Total	12,670	100.0	11,892	100.0	-777	-6.1
(Overseas net sales)	11,054	87.2	9,326	78.4	-1,727	-15.6