

## Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017

July 28, 2016

TSUGAMI CORPORATION

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Scheduled quarterly report submission date: August 9, 2016

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, 2017

(From April 1, 2016 to June 30, 2016)

(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 attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q1 of the fiscal year ending March 31, 2017	8,665	-27.1	598	-34.1	267	-72.6	149	-79.2
Q1 of the fiscal year ended March 31, 2016	11,892	-6.1	908	-52.3	974	-41.9	721	-34.1

(Note): Comprehensive income: Q1 of the fiscal year ending March 31, 2017: -1,042 million yen (--%)

Q1 of the fiscal year ended March 31, 2016: 1,000 million yen (-7.7%)

	Net income per share		Net income per share after residual equity adjustment	
	Yen		Yen	
Q1 of the fiscal year ending March 31, 2017	2.30		2.25	
Q1 of the fiscal year ended March 31, 2016	10.58		10.35	

#### (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, 2017	45,441	29,845	63.8	451.07
Fiscal year ended March 31, 2016	47,859	32,594	66.2	473.78

(Reference): Shareholders' equity: Q1 of the fiscal year ending March 31, 2017: 28,999 million yen

Fiscal year ended March 31, 2016: 31,693 million yen

### 2. State of dividends

(Base date)	Dividends per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	--	8.00	--	8.00	16.00
Fiscal year ending March 31, 2017	--				
Fiscal year ending March 31, 2017 (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, 2017

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim	20,000	-5.4	1,500	13.5	1,300	53.3	900	32.4	13.81
Full-year	43,000	7.1	3,500	64.7	3,200	192.1	2,300	162.1	35.37

(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 stock):

Q1 of FY2016	74,919,379 shares	FY2015	74,919,379 shares
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(ii) Numbers of treasury shares at the end of the terms:

Q1 of FY2016	10,627,830 shares	FY2015	8,023,683 shares
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(iii) Average numbers of shares outstanding during the  
periods (quarterly consolidated accumulation periods):

Q1 of FY2016	65,162,097 shares	Q1 of FY2015	68,208,922 shares
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\* 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

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

### (1) Information Relating to Consolidated Operating Results

During the first quarter under review, corporate earnings and employment were stable, but uncertainty about the future of the economy remains, given a slowdown in Chinese economic growth and the sharp appreciation of the yen.

In the machine tool industry, the domestic market was weak because of the wait-and-see mood among consumers before the granting of manufacturing subsidies. Meanwhile, the U.S. and European markets were steady, while in the Chinese market, there remained a general sense of uncertainty over the future of the economy despite certain signs of recovery.

In this environment, net sales declined from a year ago and income also fell partly due to the sudden effect of the stronger yen as well as reflecting the decline in sales. Net sales in the first quarter under review declined 27.1% year on year, to 8,665 million yen, operating income fell 34.1% year on year, to 598 million yen, ordinary income decreased 72.6% year on year, to 267 million yen and net income attributable to owners of parent declined 79.2%, to 149 million yen.

### (2) Information Relating to the Consolidated Financial Position

#### (i) State of assets, liabilities and net assets

Assets totaled 45,441 million yen at the end of the first quarter under review, decreasing 2,418 million yen from the end of the previous fiscal year. The decrease resulted primarily from an increase of 441 million yen in cash and deposit, which offset decreases of 1,343 million yen decrease in inventories, 552 million yen decrease in consumption taxes receivable and 899 million yen decrease in property, plant and equipment.

Liabilities came to 15,596 million yen, up 330 million yen from the end of the previous fiscal year. The result was mainly attributable to an increase of 1,785 million yen in trade notes and accounts payable offsetting 1,611 million yen decrease in short-term loans payable.

Net assets stood at 29,845 million yen at the end of the first quarter under review, decreasing 2,748 million yen from the end of the previous fiscal year. The decline mainly reflected increase of 149 million yen in net income attributable to owners of parent which offset a decrease of 1,150 million yen in foreign currency translation adjustment, 535 million yen in dividends paid and 1,097 million yen in treasury stock.

As a result of the changes stated above, the capital adequacy ratio came to 63.8%, declining 2.4 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 5,041 million yen at the end of the first quarter under review, increasing 452 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 3,268 million yen.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of 291 million yen, depreciation and amortization of 237 million yen, 325 million yen decrease in inventories, 2,075 million yen increase in trade notes and accounts payable, 132 million yen increase in advances received and 552 million yen decrease in consumption taxes refund receivable which offset decrease in cash, such as a 329 million yen rise in trade notes and accounts receivable and 248 million yen in corporate and other taxes paid.

##### (Cash flows from investing activities)

Cash used for investing activities was 46 million yen.

The cash outflow was primarily attributable to decrease in cash that resulted from a 52 million yen outlay for the purchase of property, plant and equipment.

##### (Cash flows from financing activities)

Cash used for financing activities was 2,625 million yen.

The cash outflow resulted mainly from decreases in cash, 931 million yen decrease in short-term loans payable, 1,157 million yen spent on the purchase of treasury stock and dividends paid of 535 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, 2017, and our dividend forecast remain unchanged from the initial forecasts (announced on May 12, 2016).

## 2. Summary information (notes)

### Changes in accounting policy and in accounting estimates, and restatements

#### Changes in Accounting Policy

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

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

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

#### Others

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

Implementation Guidance on the Recoverability of Deferred Tax Assets (ASBJ No. 26 of March 28, 2016) was applied from the first quarter under review.

## 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, 2016)	Figures at the end of the consolidated first quarter under review (As of June 30, 2016)
Assets		
Current assets		
Cash and deposits	4,744	5,185
Trade notes and accounts receivable	5,862	6,059
Merchandise and finished goods	8,035	7,113
Work in process	3,800	4,156
Raw materials and supplies	6,463	5,686
Consumption taxes receivable	781	229
Deferred tax assets	489	470
Other	509	595
Allowance for doubtful accounts	-47	-46
Total current assets	30,639	29,449
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,625	5,210
Machinery, equipment and vehicles, net	3,547	3,066
Land	473	473
Leased assets, net	19	18
Construction in progress	0	0
Other, net	240	237
Total property, plant and equipment	9,906	9,007
Intangible assets	698	619
Investments and other assets		
Investment securities	4,980	4,933
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	893	767
Long-term loans receivable	583	525
Deferred tax assets	2	0
Other	143	125
Total investments and other assets	6,614	6,364
Total non-current assets	17,219	15,991
Total assets	47,859	15,441

	(Million yen)	
	Figures at the end of the previous consolidated fiscal year (As of March 31, 2016)	Figures at the end of the consolidated first quarter under review (As of June 30, 2016)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	5,857	7,643
Short-term loans payable	6,127	4,516
Income taxes payable	267	216
Provision for bonuses	205	137
Advances received	542	638
Provision for product warranties	324	274
Other	659	905
Total current liabilities	13,983	14,332
<b>Non-current liabilities</b>		
Deferred tax liabilities	511	507
Provision for directors' retirement benefits	16	18
Net defined benefit liability	703	698
Other	50	38
Total non-current liabilities	1,281	1,263
Total liabilities	15,265	15,596
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	12,345	12,345
Capital surplus	5,884	5,884
Retained earnings	15,653	15,249
Treasury stock	-4,837	-5,934
Total shareholders' equity	29,045	27,544
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	1,779	1,729
Foreign currency translation adjustment	991	-158
Remeasurements of defined benefit plans	-123	-115
Total accumulated other comprehensive income	2,647	1,455
Subscription rights to shares	900	845
Total net assets	32,594	29,845
Total liabilities and net assets	47,859	45,441

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

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2015 to June 30, 2015)	Consolidated first quarter under review (From April 1, 2016 to June 30, 2016)
Net sales	11,892	8,665
Cost of sales	8,872	6,530
Gross profit	3,020	2,134
Selling, general and administrative expenses		
Salaries and allowances	448	379
Provision of allowance for doubtful accounts	--	4
Provision for bonuses	44	23
Retirement benefit expenses	13	13
Provision for directors' retirement benefits	1	1
Research and development expenses	308	322
Insurance expenses	48	35
Provision for product warranties	147	55
Other	1,099	700
Total selling, general and administrative expenses	2,112	1,535
Operating income	908	598
Non-operating income		
Interest income	5	4
Dividend income	82	73
Rent income	12	12
Reversal of allowance for doubtful accounts	8	4
Foreign exchange gains	88	--
Insurance income	--	2
Other	9	9
Total non-operating income	207	106
Non-operating expenses		
Interest expenses	59	47
Foreign exchange losses	--	271
Loss on sales of notes payable	50	25
Share of loss of entities accounted for using equity method	--	58
Other	31	35
Total non-operating expenses	141	438
Ordinary income	974	267
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on reversal of subscription rights to shares	49	35
Total extraordinary income	50	35
Extraordinary losses		
Loss on retirement of non-current assets	0	1
Loss on sales of non-current assets	--	0
Impairment loss	--	9
Loss on valuation of investments in capital of subsidiaries and associates	21	--
Total extraordinary losses	21	11
Income before taxes and other adjustments	1,003	291
Corporate, inhabitant and enterprise taxes	314	141
Deferred taxes	-32	-0
Total corporate and other taxes	281	141
Net income	721	149
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	721	149



(Quarterly Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2015 to June 30, 2015)	Consolidated first quarter under review (From April 1, 2016 to June 30, 2016)
Net income	721	149
Other comprehensive income		
Valuation difference on available-for-sale securities	72	-50
Foreign currency translation adjustment	204	-1,150
Remeasurements of defined benefit plans, net of tax	1	8
Total other comprehensive income	278	-1,192
Comprehensive income	1,000	-1,042
(Breakdown)		
Comprehensive income attributable to owners of parent	1,000	-1,042
Comprehensive income attributable to non-controlling interests	--	--

## (3) Consolidated Statements of Cash Flows

(Million yen)

	Consolidated first quarter previous year (From April 1, 2015 to June 30, 2015)	Consolidated first quarter under review (From April 1, 2016 to June 30, 2016)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	1,003	291
Depreciation and amortization	290	237
Loss on valuation of investments in capital of subsidiaries and associates	21	--
Gain on reversal of subscription rights to shares	-49	-35
Share-based compensation expenses	48	34
Increase (decrease) in allowance for doubtful accounts	-8	-0
Increase (decrease) in provision for bonuses	208	-67
Increase (decrease) in provision for product warranties	1	-33
Increase (decrease) in net defined benefit liability	-64	-3
Interest and dividend income	-87	-77
Interest expenses	59	47
Share of (profit) loss of entities accounted for using equity method	--	58
Loss on retirement of non-current assets	--	1
Loss (gain) on sales of non-current assets	-0	-0
Foreign exchange losses (gains)	20	97
Decrease (increase) in trade notes and accounts receivable	-108	-392
Decrease (increase) in inventories	-3,182	325
Decrease (increase) in advance payments	-90	-25
Increase (decrease) in trade notes and accounts payable	5,266	2,075
Increase (decrease) in advances received	-56	132
Decrease (increase) in consumption taxes refund receivable	449	552
Other	249	368
Subtotal	3,969	3,585
Interest and dividend income received	74	66
Interest expenses paid	-62	-72
Corporate and other taxes paid	-558	-248
Cash flows from operating activities	3,422	3,330
Cash flows from investing activities		
Purchase of property, plant and equipment	-234	-52
Proceeds from sales of property, plant and equipment	0	5
Purchase of intangible assets	-1	-0
Other	1	1
Cash flows from investing activities	-234	-46
Cash flows from financing activities		
Increase in short-term loans payable	735	--
Decrease in short-term loans payable	-736	-992
Proceeds from sales of Treasury stock	35	0
Purchase of Treasury stock	-2,239	-1,157
Cash dividends paid	-557	-535
Repayments of lease obligations	-2	-2
Cash flows from financing activities	-2,765	-2,686
Effect of exchange rate change on cash and cash equivalents	35	-144
Net increase (decrease) in cash and cash equivalents	459	452
Cash and cash equivalents at the beginning of the term	4,952	4,589
Cash and cash equivalents at the end of the term	5,411	5,041

## (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, 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.

## II. Consolidated first quarter under review (from April 1, 2016 to June 30, 2016)

## 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	5,112	3,148	404	8,665
Intersegment net sales or transfer to other accounts	1,921	2,088	4	4,014
Total	7,034	5,236	408	12,679
Segment income	-38	628	13	602

## 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	602
Elimination of unrealized income and others	-3
Operating income in quarterly consolidated statements of income	598

 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, 2016 to June 30, 2016)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	4,714	976	811	6,501
II Consolidated net sales				8,665
III Ratio of overseas net sales to consolidated net sales (%)	54.4	11.3	9.3	75.0

(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

(Million yen)

	Consolidated first quarter previous year (From April 1, 2015 to June 30, 2015)		Consolidated first quarter under review (From April 1, 2016 to June 30, 2016)		Year-on-year change	
		%		%		%
Automatic lathes	9,036	76.0	7,211	83.2	-1,825	-20.2
Grinding machines	889	7.5	659	7.6	-230	-25.9
Machining centers	232	1.9	265	3.1	33	14.2
Rolling machines and specialized machines.	1,665	14.0	462	5.3	-1,203	-72.3
Other	69	0.6	66	0.8	-3	-4.3
Total	11,892	100.0	8,665	100.0	-3,227	-27.1
(Overseas net sales )	9,326	78.4	6,501	75.0	-2,825	-30.3