

Summary of Financial Results for the First nine months of the Fiscal Year Ending March 31, 2017

January 30, 2017

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 nine months of the fiscal year ending March 31, 2017

(From April 1, 2016 to December 31, 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	%
First nine months of the fiscal year ending March 31, 2017	30,488	-1.2	2,077	18.1	2,104	98.9	2,111	159.2
First nine months of the fiscal year ended March 31, 2016	30,849	-26.5	1,759	-71.2	1,058	-84.3	814	-82.3

(Note): Comprehensive income: First nine months of the fiscal year ending March 31, 2017: 3,013 million yen (-%)

First nine months of the fiscal year ended March 31, 2016: -31 million yen (-99.5%)

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
First nine months of the fiscal year ending March 31, 2017	33.30	32.51
First nine months of the fiscal year ended March 31, 2016	12.09	11.82

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
First nine months of the fiscal year ending March 31, 2017	50,823	32,276	61.8	508.04
Fiscal year ended March 31, 2016	47,859	32,594	66.2	473.78

(Reference): Shareholders' equity: First nine months of the fiscal year ending March 31, 2017: 31,388 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	--	8.00	--		
Fiscal year ending March 31, 2017 (forecast)				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
Full-year	40,000	-0.3	3,450	62.3	3,000	173.8	2,200	150.7	34.88

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

*Notes

(1) Important changes in subsidiaries during the first nine months 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):

(ii) Numbers of treasury shares at the end of the terms:

(iii) Average numbers of shares outstanding during the

periods (quarterly consolidated accumulation periods):

Q3 of FY2016	64,919,379 shares	FY2015	74,919,379 shares
Q3 of FY2016	3,136,182 shares	FY2015	8,023,683 shares
Q3 of FY2016	63,411,467 shares	Q3 of FY2015	67,411,447 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 3 of the accompanying documents of this summary of financial results for the first nine months.

Accompanying Documents

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1. Qualitative Information Relating to Consolidated Results, Etc.

(1) Information Relating to Consolidated Operating Results

During the first nine months under review, the Japanese economy continued to recover moderately, chiefly reflecting the improvement of corporate earnings and employment. However, uncertainty about the future is spreading at this time as exchange rates and stock markets fluctuate significantly due to the impact of the political and economic situations overseas.

In the machine tool industry, the domestic market was generally at a low level despite the effect of manufacturing subsidies. Meanwhile, the U.S. and European markets, which remained stable, have slowed, while the Chinese market remained stagnant overall despite some signs of recovery.

In this environment, net sales in the first nine months under review declined 1.2% year on year, to 30,488 million yen, operating income increased 18.1% year on year, to 2,077 million yen, ordinary income rose 98.9% year on year, to 2,104 million yen and net income attributable to owners of parent increased 159.2% year on year, to 2,111 million yen.

Regarding the first nine months under review, net income attributable to owners of parent includes gains from the sale of non-current assets described in the Notice of Revisions to Business Performance Forecasts disclosed on November 11, 2016. Going forward, extraordinary losses are expected to be recognized due to the costs for the investigation of soil contamination, etc. However, such costs cannot be reasonably estimated at the present time, and therefore are not included.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled 50,823 million yen at the end of the first nine months under review, increasing 2,964 million yen from the end of the previous fiscal year. The increase resulted primarily from increases of 1,799 million yen in cash and deposit, 3,136 million yen in trade notes and accounts receivable and 1,869 million yen in investment securities which offset decreases of 2,225 million yen in inventories and 1,341 million yen in property, plant and equipment.

Liabilities came to 18,547 million yen, up 3,282 million yen from the end of the previous fiscal year. The result was mainly attributable to increases of 3,786 million yen in trade notes and accounts payable, 476 million yen in deferred tax liabilities and 305 million yen in advances received offsetting 1,820 million yen decrease in short-term loans payable.

Net assets stood at 32,276 million yen at the end of the first nine months under review, decreasing 317 million yen from the end of the previous fiscal year. The decline mainly reflected increases of 2,111 million yen in net income attributable to owners of the parent and 1,341 million yen in valuation difference on available-for-sale securities which offset decreases of 1,034 million yen in dividends paid, 2,264 million yen decrease in purchase of treasury stock (Note) and 463 million yen in foreign currency translation adjustment.

As a result of the changes stated above, the capital adequacy ratio came to 61.8%, declining 4.4 percentage points from the end of the previous fiscal year.

(Note) For the period under review, treasury stock of 10,000,000 shares in the amount of 5,380 million yen was retired. The details are set forth on page 10 (Notes for cases where shareholders' equity underwent a major change in value).

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

Cash and cash equivalents amounted to 6,392 million yen at the end of the first quarter under review, increasing 1,803 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 by operating activities was 6,072 million yen.

The result principally reflected increases in cash, including income before taxes and other adjustments of 2,067 million yen after the deduction of gains on the sale of non-current assets amounting to 882 million yen, depreciation and amortization of 762 million yen, a 3,875 million yen increase in trade notes and accounts payable, a 1,850 million yen decrease in inventories, and a 317 million yen increase in advances received, which offset a decrease in cash such as a 3,198 million yen rise in trade notes and accounts receivable and 639 million yen in corporate and other taxes

paid.

(Cash flows from investing activities)

Cash generated by investing activities was 949 million yen.

The cash inflow was primarily attributable to a 1,351 million yen increase in cash that resulted from the proceeds from sales of property, plant and equipment, offsetting cash outflow consisting of a 270 million yen payment into deposits (deposits made until the completion of the soil contamination investigation as a result of the sale of property, plant and equipment) and a 117 million yen purchase of property, plant and equipment.

(Cash flows from financing activities)

Cash used for financing activities was 5,066 million yen.

The cash outflow resulted mainly from decreases in cash, 1,677 million yen decrease in short-term loans payable, 2,363 million yen spent on the purchase of treasury stock and dividends paid of 1,034 million yen.

(3) Information Relating to Consolidated Business Performance Forecasts

Net sales in the first nine months under review were almost as forecast in our business performance forecasts for the full year of the fiscal year ending March 31, 2017, which we disclosed on November 11, 2016. On the profit side, however, both operating income on sales and ordinary income on sales fell slightly below the forecast due to the posting of a valuation loss on some raw materials in the nine months under review. Meanwhile, net income attributable to owners of parent has been posted as described in the Information Relating to Consolidated Operating Results in (1) above.

Forecasts for the full year of the fiscal year ending March 31, 2017 remain unchanged for the time being, given uncertain factors such as market conditions in Japan and overseas and exchange rate trends. If we need to make any material revisions, we will disclose them promptly.

We plan to pay annual dividends of 16 yen per share including interim dividends of 8 yen per share and year –end dividends of 8 yen per share, for the fiscal year ending March 31, 2017.

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 of fiscal year 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 nine months 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 of fiscal year under review.

3. Consolidated Financial Statements

(1) 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 nine months under review (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	4,744	6,543
Trade notes and accounts receivable	5,862	8,998
Merchandise and finished goods	8,035	7,313
Work in process	3,800	3,914
Raw materials and supplies	6,463	4,846
Consumption taxes receivable	781	613
Deferred tax assets	489	406
Other	509	515
Allowance for doubtful accounts	-47	-37
Total current assets	30,639	33,115
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,625	4,795
Machinery, equipment and vehicles, net	3,547	3,063
Land	473	450
Leased assets, net	19	19
Construction in progress	0	1
Other, net	240	233
Total property, plant and equipment	9,906	8,565
Intangible assets	698	663
Investments and other assets		
Investment securities	4,980	6,849
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	893	895
Long-term loans receivable	583	590
Deferred tax assets	2	2
Other	143	129
Total investments and other assets	6,614	8,479
Total non-current assets	17,219	17,708
Total assets	47,859	50,823

	(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 nine months under review (As of December 31, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	5,857	9,644
Short-term loans payable	6,127	4,307
Income taxes payable	267	472
Provision for bonuses	205	168
Advances received	542	847
Provision for product warranties	324	295
Other	659	1,058
Total current liabilities	13,983	16,793
Non-current liabilities		
Deferred tax liabilities	511	987
Provision for directors' retirement benefits	16	20
Net defined benefit liability	703	707
Other	50	38
Total non-current liabilities	1,281	1,753
Total liabilities	15,265	18,547
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	5,884	484
Retained earnings	15,653	16,731
Treasury stock	-4,837	-1,721
Total shareholders' equity	29,045	27,838
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,779	3,121
Foreign currency translation adjustment	991	527
Remeasurements of defined benefit plans	-123	-99
Total accumulated other comprehensive income	2,647	3,549
Subscription rights to shares	900	887
Total net assets	32,594	32,276
Total liabilities and net assets	47,859	50,823

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

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2015 to December 31, 2015)	Consolidated first nine months under review (From April 1, 2016 to December 31, 2016)
Net sales	30,849	30,488
Cost of sales	23,626	23,421
Gross profit	7,222	7,067
Selling, general and administrative expenses		
Salaries and allowances	1,274	1,196
Provision of allowance for doubtful accounts	7	--
Provision for bonuses	48	52
Retirement benefit expenses	38	38
Provision for directors' retirement benefits	3	4
Research and development expenses	876	1,028
Insurance expenses	142	125
Provision for product warranties	349	331
Other	2,722	2,212
Total selling, general and administrative expenses	5,463	4,989
Operating income	1,759	2,077
Non-operating income		
Interest income	16	16
Dividend income	147	140
Foreign exchange gains	--	80
Reversal of allowance for doubtful accounts	--	10
Insurance income	43	54
Other	71	73
Total non-operating income	278	376
Non-operating expenses		
Interest expenses	204	144
Loss on sales of notes payable	117	65
Foreign exchange losses	523	--
Payment fee	55	54
Share of loss of entities accounted for using equity method	--	5
Other	77	80
Total non-operating expenses	979	349
Ordinary income	1,058	2,104
Extraordinary income		
Gain on sales of non-current assets	4	882
Gain on sales of investment securities	2	--
Gain on reversal of subscription rights to shares	49	35
Subsidy income	9	3
Total extraordinary income	66	922
Extraordinary losses		
Loss on retirement of non-current assets	1	67
Loss on sales of non-current assets	6	0
Loss on valuation of investments in capital of subsidiaries and associates	21	--
Loss on valuation of golf club membership	--	9
Total extraordinary losses	29	76
Income before taxes and other adjustments	1,095	2,949
Corporate, inhabitant and enterprise taxes	421	821
Deferred taxes	-141	16
Total corporate and other taxes	280	837
Net income	814	2,111
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	814	2,111

(Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2015 to December 31, 2015)	Consolidated first nine months under review (From April 1, 2016 to December 31, 2016)
Net income	814	2,111
Other comprehensive income		
Valuation difference on available-for-sale securities	-246	1,341
Foreign currency translation adjustment	-541	-471
Share of other comprehensive income of entities accounted for using equity method	--	7
Remeasurements of defined benefit plans, net of tax	4	24
Total other comprehensive income	-783	902
Comprehensive income	31	3,013
(Breakdown)		
Comprehensive income attributable to owners of parent	31	3,013
Comprehensive income attributable to non-controlling interests	--	--

(3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2015 to December 31, 2015)	Consolidated first nine months under review (From April 1, 2016 to December 31, 2016)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	1,095	2,949
Depreciation and amortization	845	762
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	136	77
Subsidy income	-9	-3
Increase (decrease) in allowance for doubtful accounts	7	-10
Increase (decrease) in provision for bonuses	-56	-36
Increase (decrease) in provision for product warranties	-67	-23
Increase (decrease) in net defined benefit liability	-89	4
Interest and dividend income	-163	-157
Interest expenses	204	144
Loss on retirement of non-current assets	1	67
Share of (profit) loss of entities accounted for using equity method	--	5
Loss (gain) on sales of non-current assets	1	-882
Loss (gain) on sales of investment securities	-2	--
Foreign exchange losses (gains)	228	65
Decrease (increase) in trade notes and accounts receivable	1,467	-3,198
Decrease (increase) in inventories	72	1,850
Decrease (increase) in advance payments	107	-13
Increase (decrease) in trade notes and accounts payable	-1,944	3,875
Increase (decrease) in advances received	-12	317
Decrease (increase) in consumption taxes refund receivable	329	166
Other	313	830
Subtotal	2,437	6,755
Interest and dividend income received	139	134
Interest expenses paid	-180	-182
Proceeds from subsidy	9	3
Corporate and other taxes paid	-891	-639
Cash flows from operating activities	1,515	6,072
Cash flows from investing activities		
Payments into time deposits	-360	-141
Proceeds from withdrawal of time deposits	413	141
Payments into deposit	--	-270
Purchase of property, plant and equipment	-354	-117
Proceeds from sales of property, plant and equipment	9	1,351
Purchase of intangible assets	-34	-13
Expenditure for acquisition of investment securities	-300	-1
Proceeds from sales of investment securities	2	--
Payments of long-term loans receivable	-333	--
Other	4	0
Cash flows from investing activities	-954	949
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,451	-1,677
Proceeds from sales of Treasury stock	35	15
Purchase of Treasury stock	-2,241	-2,363
Cash dividends paid	-1,092	-1,034
Repayments of lease obligations	-6	-6
Cash flows from financing activities	-1,853	-5,066
Effect of exchange rate change on cash and cash equivalents	-64	-150
Net increase (decrease) in cash and cash equivalents	-1,356	1,803
Cash and cash equivalents at the beginning of the term	4,952	4,589
Cash and cash equivalents at the end of the term	3,595	6,392

(4) Notes relating to the 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)

The Company retired its treasury stock of 10,000,000 shares on August 10, 2016 according to a resolution of the meeting of the Board of Directors held on July 15, 2016. As a result, for the first nine months under review, capital surplus and treasury stock decreased 5,380 million yen to 484 million yen and 1,721 million yen, respectively, at the end of the first nine months under review.

(Segment Information)

I. Consolidated first nine months previous year (From April 1, 2015 to December 31, 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	18,626	10,836	1,386	30,849
Intersegment net sales or transfer to other accounts	5,990	9,146	35	15,171
Total	24,616	19,982	1,422	46,021
Segment income	185	1,364	161	1,711

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	1,711
Elimination of unrealized income and others	48
Operating income in quarterly consolidated statements of income	1,759

3. Information relating to Impairment loss on Non-current assets or Goodwill, etc.

No corresponding item exists.

II. Consolidated first nine months under review (From April 1, 2016 to December 31, 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	16,425	13,099	963	30,488
Intersegment net sales or transfer to other accounts	5,518	6,875	31	12,426
Total	21,944	19,975	995	42,915
Segment income	185	2,012	36	2,234

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	2,234
Elimination of unrealized income and others	-156
Operating income in quarterly consolidated statements of income	2,077

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 nine months under review (From April 1, 2016 to December 31, 2016) (Million yen)

	Asia	America	Europe	Total
I Overseas net sales	17,903	2,438	2,485	22,827
II Consolidated net sales				30,488
III Ratio of overseas net sales to consolidated net sales (%)	58.7	8.0	8.2	74.9

(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 nine months previous year (From April 1, 2015 to December 31, 2015)		Consolidated first nine months under review (From April 1, 2016 to December 31, 2016)		Year-on-year change	
		%		%		%
Automatic lathes	24,164	78.3	25,149	82.5	985	4.1
Grinding machines	3,347	10.9	2,638	8.7	-709	-21.2
Machining centers	415	1.4	439	1.4	24	5.8
Rolling machines and specialized machines.	2,728	8.8	2,064	6.8	-664	-24.3
Other	193	0.6	197	0.6	3	1.8
Total	30,849	100.0	30,488	100.0	-360	-1.2
(Overseas net sales)	(22,546)	(73.1)	(22,827)	(74.9)	(281)	(1.2)