

Summary of Financial Results for the First Half of the Fiscal Year Ending March 31, 2019

November 12, 2018

TSUGAMI CORPORATION

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Scheduled quarterly report submission date: November 14, 2018

Scheduled date of commencement of dividend payments: November 30, 2018

Quarterly results supplementary briefing materials to be created: Yes

Quarterly results investors meeting to be held: Yes (for institutional investors and analysts)

1. Consolidated business performance for the first half of the fiscal year ending March 31, 2019

(From April 1, 2018 to September 30, 2018)

(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	%
H1 of the fiscal year ending March 31, 2019	35,123	28.3	5,519	64.9	5,482	84.8	※ 3,091	34.6
H1 of the fiscal year ended March 31, 2018	27,376	48.8	3,347	130.5	2,966	180.4	2,296	214.6

(Note): Comprehensive income: H1 of the fiscal year ending March 31, 2019: ¥2,740 million (-16.3%)

H1 of the fiscal year ended March 31, 2018: ¥3,272 million (--%)

※ ¥963 million of net income attributable to non-controlling interests

	Net income per share		Net income per share after residual equity adjustment	
	Yen		Yen	
H1 of the fiscal year ending March 31, 2019	58.56		57.06	
H1 of the fiscal year ended March 31, 2018	39.62		38.62	

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
H1 of the fiscal year ending March 31, 2019	65,852	38,411	47.9 (57.6)	599.50
Fiscal year ended March 31, 2018	62,362	37,516	49.8 (59.1)	585.58

(Reference): Shareholders' equity: H1 of the fiscal year ending March 31, 2019: ¥31,534 million

Fiscal year ended March 31, 2018: ¥31,083 million

The figure in the parenthesis is the capital adequacy ratio before non-controlling interest.

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, 2018	--	9.00	--	9.00	18.00
Fiscal year ending March 31, 2019	--	9.00			
Fiscal year ending March 31, 2019 (forecast)			--	9.00	18.00

(Note) Revision of dividend forecasts from the latest announcement: none

3. Consolidated business performance forecasts for the fiscal year ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(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	63,100	9.6	8,900	28.2	8,800	35.2	4,900	17.5	92.89

(Note) Revision of consolidated business performance forecasts from the latest announcement: yes

*Notes

- (1) Important changes in subsidiaries during the half under review (changes in specified subsidiaries that caused the scope of consolidation to change): none
- (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: applied
 - (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):

H1 of FY2018	55,000,000 shares	FY2017	55,000,000 shares
H1 of FY2018	2,398,610 shares	FY2017	1,918,101 shares
H1 of FY2018	52,791,317 shares	H1 of FY2017	57,970,721 shares

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

(iii) Average numbers of shares outstanding during the periods
(quarterly consolidated accumulation periods):

* This quarterly financial summary falls outside the scope of quarterly reviews.

* 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 [1. Qualitative Information Relating to Consolidated Quarterly Results, Etc., (3) Information Relating to Consolidated Business Performance Forecasts] on page 2 of the accompanying documents of this summary of financial results for the first half.

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 half under review, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") have kept steady growth in both domestic and overseas markets.

In this environment, for the first half under review, the Group's operating results increased both in revenue and earnings. Net sales increased 28.3% year on year, to ¥35,123 million, operating income increased 64.9% year on year, to ¥5,519 million, ordinary income rose 84.8% year on year, to ¥5,482 million and net income attributable to owners of parent increased 34.6% year on year, to ¥3,091 million.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled ¥65,852 million at the end of the first half under review, increasing ¥3,490 million from the end of the previous fiscal year.

The increase resulted primarily from increases of ¥4,603 million in inventories, ¥1,564 million in trade notes and accounts receivable and ¥604 million in construction in progress, which offset decreases of ¥1,999 million in cash and deposits and ¥1,416 million in investment securities.

Liabilities came to ¥27,441 million, up ¥2,596 million from the end of the previous fiscal year.

The result was mainly attributable to an increase of ¥2,710 million in trade notes and accounts payable.

Net assets stood at ¥38,411 million at the end of the first half under review, increasing ¥894 million from the end of the previous fiscal year.

The increase mainly reflected increase of ¥2,266 million in retained earnings offsetting decrease of ¥1,220 million in accumulated other comprehensive income.

As a result of the changes stated above, the capital adequacy ratio came to 47.9%, declining 1.9 percentage points from the end of the previous fiscal year.

(ii) State of cash flows

Cash and cash equivalents amounted to ¥8,255 million at the end of the first half under review, decreasing ¥1,926 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Cash generated through operating activities was ¥342 million.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥5,480 million and ¥2,963 million increase in trade notes and accounts payable, which offset decreases in cash, such as a ¥4,790 million increase in inventories, ¥1,868 million increase in trade notes and accounts receivable and ¥1,656 million in corporate and other taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was ¥1,226 million.

The cash outflow was primarily attributable to decreases in cash for the purchase of property, plant and equipment of ¥942 million and for the purchase of intangible assets of ¥363 million.

(Cash flows from financing activities)

Cash used for financing activities was ¥1,106 million.

The cash outflow resulted mainly from decreases in cash, including a ¥1,201 million spent on the purchase of treasury stock, dividends paid of ¥477 million and dividends paid to non-controlling interests of ¥249 million, which offset increase in cash, a ¥800 million increase in short-term loans payable.

(3) Information Relating to Consolidated Business Performance Forecasts

The consolidated business performance forecasts for the fiscal year ending March 31, 2019 have been revised based on the results in the first half under review. For details, please refer to the Notice of Revisions to Business Performance Forecasts published on November 12, 2018.

We plan to pay annual dividends of 18 yen per share according to our initial plan, including interim dividends of 9 yen per share and year-end dividends of 9 yen per share, for the fiscal year ending March 31, 2019.

2. Quarterly Consolidated Financial Statements and Significant Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)	Figures at the end of the consolidated first half under review (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	10,286	8,286
Trade notes and accounts receivable	14,482	16,047
Merchandise and finished goods	7,063	8,676
Work in process	4,953	6,225
Raw materials and supplies	5,347	7,065
Consumption taxes receivable	1,046	1,094
Other	516	575
Allowance for doubtful accounts	-56	-69
Total current assets	43,639	47,902
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,985	4,874
Machinery, equipment and vehicles, net	3,029	2,799
Land	409	409
Leased assets, net	9	6
Construction in progress	416	1,021
Other, net	294	294
Total property, plant and equipment	9,145	9,404
Intangible assets	696	1,036
Investments and other assets		
Investment securities	8,278	6,862
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	67	66
Long-term loans receivable	3	--
Deferred tax assets	235	294
Other	282	273
Total investments and other assets	8,879	7,509
Total non-current assets	18,722	17,950
Total assets	62,362	65,852

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)	Figures at the end of the consolidated first half under review (As of September 30, 2018)
Liabilities		
Current liabilities		
Trade notes and accounts payable	14,035	16,745
Short-term loans payable	3,200	4,000
Income taxes payable	1,068	735
Advances received	2,166	1,903
Provision for bonuses	275	407
Provision for product warranties	457	525
Other	1,618	1,389
Total current liabilities	22,821	25,707
Non-current liabilities		
Deferred tax liabilities	1,256	955
Provision for directors' retirement benefits	21	23
Net defined benefit liability	716	721
Other	29	33
Total non-current liabilities	2,024	1,733
Total liabilities	24,845	27,441
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	2,806	2,806
Retained earnings	13,257	15,524
Treasury stock	-1,814	-2,410
Total shareholders' equity	26,594	28,265
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,149	3,157
Foreign currency translation adjustment	409	173
Remeasurements of defined benefit plans	-69	-61
Total accumulated other comprehensive income	4,489	3,268
Subscription rights to shares	656	482
Non-controlling interests	5,776	6,394
Total net assets	37,516	38,411
Total liabilities and net assets	62,362	65,852

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

	(Million yen)	
	Consolidated first half previous year (From April 1, 2017 to September 30, 2017)	Consolidated first half under review (From April 1, 2018 to September 30, 2018)
Net sales	27,376	35,123
Cost of sales	20,246	24,549
Gross profit	7,129	10,573
Selling, general and administrative expenses		
Salaries and allowances	864	1,037
Provision of allowance for doubtful accounts	18	12
Provision for bonuses	108	165
Retirement benefit expenses	28	25
Provision for directors' retirement benefits	1	1
Research and development expenses	733	1,453
Insurance expenses	84	99
Provision for product warranties	261	328
Other	1,682	1,929
Total selling, general and administrative expenses	3,782	5,054
Operating income	3,347	5,519
Non-operating income		
Interest income	19	64
Dividend income	77	99
Foreign exchange gains	23	--
Other	34	36
Total non-operating income	154	199
Non-operating expenses		
Interest expenses	103	28
Foreign exchange losses	--	116
Loss on sales of notes receivable	106	39
Commission fee	272	--
Share of loss of entities accounted for using equity method	4	--
Other	47	51
Total non-operating expenses	535	236
Ordinary income	2,966	5,482
Extraordinary income		
Gain on sales of non-current assets	1	--
Gain on sales of investment securities	97	--
Gain on sales of investments in capital of affiliate	81	--
Gain on reversal of subscription rights to shares	2	--
Subsidy income	--	4
Total extraordinary income	183	4
Extraordinary losses		
Loss on retirement of non-current assets	6	6
Loss on sales of non-current assets	0	--
Loss from performance of warranty against defects	30	--
Total extraordinary losses	37	6
Income before taxes and other adjustments	3,112	5,480
Corporate, inhabitant and enterprise taxes	786	1,363
Deferred taxes	28	62
Total corporate and other taxes	815	1,425
Net income	2,296	4,054
Net income attributable to non-controlling interests	--	963
Net income attributable to owners of parent	2,296	3,091

(Quarterly Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first half previous year (From April 1, 2017 to September 30, 2017)	Consolidated first half under review (From April 1, 2018 to September 30, 2018)
Net income	2,296	4,054
Other comprehensive income		
Valuation difference on available-for-sale securities	518	-991
Foreign currency translation adjustment	442	-329
Remeasurements of defined benefit plans, net of tax	14	7
Share of other comprehensive income of entities accounted for using equity method	0	--
Total other comprehensive income	976	-1,313
Comprehensive income	3,272	2,740
(Breakdown)		
Comprehensive income attributable to owners of parent	3,272	1,870
Comprehensive income attributable to non-controlling interests	--	869

(3) Consolidated Statements of Cash Flows

(Million yen)

	Consolidated first half previous year (From April 1, 2017 to September 30, 2017)	Consolidated first half under review (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	3,112	5,480
Depreciation and amortization	466	506
Gain on reversal of subscription rights to shares	-2	--
Share-based compensation expenses	60	62
Subsidy income	--	-4
Increase (decrease) in allowance for doubtful accounts	18	12
Increase (decrease) in provision for bonuses	72	131
Increase (decrease) in provision for product warranties	39	73
Increase (decrease) in net defined benefit liability	10	4
Interest and dividend income	-97	-163
Commission fee	272	--
Interest expenses	103	28
Loss on retirement of non-current assets	6	6
Share of (profit) loss of entities accounted for using equity method	4	--
Loss (gain) on sales of non-current assets	-1	--
Loss (gain) on sales of investment securities	-97	--
Gain on sales of investments in capital of affiliate	-81	--
Loss from performance of warranty against defects	30	--
Foreign exchange losses (gains)	-4	5
Decrease (increase) in trade notes and accounts receivable	-61	-1,868
Decrease (increase) in inventories	-692	-4,790
Decrease (increase) in advance payments	64	53
Increase (decrease) in trade notes and accounts payable	2,511	2,963
Increase (decrease) in advances received	-41	-212
Decrease (increase) in consumption taxes refund receivable	202	-57
Other	216	-357
Subtotal	6,112	1,875
Interest and dividend income received	84	148
Interest expenses paid	-102	-28
Proceeds from subsidy income	--	4
Payments for performance of warranty against defects	-4	--
Corporate and other taxes paid	-803	-1,656
Cash flows from operating activities	5,286	342
Cash flows from investing activities		
Payments into time deposits	-20	-21
Proceeds from withdrawal of time deposits	20	96
Purchase of property, plant and equipment	-251	-942
Proceeds from sales of property, plant and equipment	6	--
Payments for retirement of property, plant and equipment	-2	-0
Purchase of intangible assets	-10	-363
Purchase of investment securities	-1	-1
Proceeds from sales of investment securities	183	--
Collection of investments in capital	152	--
Other	-1	4
Cash flows from investing activities	75	-1,226

(Million yen)

	Consolidated first half previous year (From April 1, 2017 to September 30, 2017)	Consolidated first half under review (From April 1, 2018 to September 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-1,763	800
Proceeds from sales of Treasury stock	168	26
Purchase of Treasury stock	-4,270	-1,201
Cash dividends paid	-479	-477
Dividends paid to non-controlling interests	--	-249
Repayments of lease obligations	-4	-4
Payment for Commission fee	-129	--
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	2,288	--
Proceeds from share issuance to non-controlling shareholders	4,530	--
Cash flows from financing activities	339	-1,106
Effect of exchange rate change on cash and cash equivalents	70	65
Net increase (decrease) in cash and cash equivalents	5,772	-1,926
Cash and cash equivalents at the beginning of the term	4,561	10,181
Cash and cash equivalents at the end of the term	10,333	8,255

(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.

(Changes in accounting policy)

(Adoption of IFRS 15 [Revenue from Contracts with Customers])

Overseas Subsidiaries that Prepare Financial Statements in accordance with International Financial Reporting Standards apply IFRS 15 [Revenue from Contracts with Customers] from the first quarter of the fiscal year under review.

Due to this application, recognition standards for revenue have been revised, revenue is now recognized at the time the agreed upon goods or services are transferred to the customer, as amounts that reflect the consideration for which rights are expected to be acquired in exchange for said goods or services.

Regarding the application of IFRS 15, in line with the treatments in progress of the IFRS 15, the amount of the cumulative effect has been added or subtracted from retained earnings at the beginning of the fiscal year under review.

As the result, retained earnings at the beginning of the fiscal year under review decreased by ¥4 million. Net sales for the first half under review increased by ¥30 million and operating income, ordinary income and income before income taxes and other adjustments increased by ¥9 million respectively.

(Others)

(Application of the partial amendments to Accounting Standard on Tax Effect Accounting, etc.)

The partial amendments to Accounting Standard on Tax Effect Accounting (ASBJ No.28 on February 16, 2018) has been applied from the first half under review. Deferred tax assets are presented in the Investments and other assets of the balance sheets and deferred tax liabilities in the Non-current liabilities.

(Segment information)

I. Consolidated first half previous year (From April 1, 2017 to September 30, 2017)

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	12,291	14,352	732	27,376
Intersegment net sales or transfer to other accounts	3,607	5,880	11	9,499
Total	15,898	20,233	744	36,876
Segment income (loss)	676	2,610	65	3,352

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	3,352
Elimination of unrealized income and others	-5
Operating income in quarterly consolidated statements of income	3,347

II. Consolidated first half under review (from April 1, 2018 to September 30, 2018)

1. Information relating to net sales, income or loss by reportable segment (Million yen)

	Reportable segment				
	Japan	China	India	South Korea	Total
Net sales					
Net sales to external customers	14,076	19,101	1,386	558	35,123
Intersegment net sales or transfer to other accounts	5,745	8,213	5	37	14,002
Total	19,822	27,314	1,391	596	49,125
Segment income	940	4,670	114	44	5,770

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	5,770
Elimination of unrealized income and others	-251
Operating income in quarterly consolidated statements of income	5,519

3. Information relating to changes in reportable segment, etc.

(Adoption of IFRS 15 [Revenue from Contracts with Customers])

As stated in [Changes to accounting policy], Overseas Subsidiaries that Prepare Financial Statements in accordance with International Financial Reporting Standards adopt IFRS 15 [Revenue from Contracts with Customers]. As the result, segment sales in China, one of the Company's reportable segments, increased by ¥30 million and segment income increased by ¥9 million in this first half compared with each figure based on the former method.

(Change in reportable segment classifications)

In the previous consolidated fiscal year, the Group has newly added its reportable segments India because TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED is included in consolidated subsidiaries.

3. Supplementary Information

(1) Overseas net sales

Consolidated first half under review (From April 1, 2018 to September 30, 2018)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	24,561	1,948	3,006	29,515
II Consolidated net sales				35,123
III Ratio of overseas net sales to consolidated net sales (%)	69.9	5.5	8.6	84.0

(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 half previous year (From April 1, 2017 to September 30, 2017)		Consolidated first half under review (From April 1, 2018 to September 30, 2018)		Year-on-year change	
		%		%		%
Automatic lathes	22,315	81.5	30,593	87.1	8,278	37.1
Grinding machines	1,823	6.7	2,249	6.4	426	23.4
Machining centers	227	0.8	215	0.6	-12	-5.4
Rolling machines and specialized machines.	2,855	10.4	1,897	5.4	-957	-33.5
Other	154	0.6	166	0.5	12	8.1
Total	27,376	100.0	35,123	100.0	7,746	28.3
(Overseas net sales)	(21,625)	(79.0)	(29,515)	(84.0)	(7,890)	(36.5)