

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

November 11, 2016

TSUGAMI CORPORATION

Stock code: 6101

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Scheduled date of commencement of dividend payments: November 30, 2016

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, 2017

(From April 1, 2016 to September 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	%
H1 of the fiscal year ending March 31, 2017	18,401	-13.0	1,452	9.9	1,057	24.7	730	7.4
H1 of the fiscal year ended March 31, 2016	21,141	-28.8	1,321	-72.2	848	-82.6	679	-80.0

(Note): Comprehensive income: H1 of the fiscal year ending March 31, 2017: -252 million yen ( -- %)

H1 of the fiscal year ended March 31, 2016: -413 million yen ( -- %)

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
H1 of the fiscal year ending March 31, 2017	11.39	11.12
H1 of the fiscal year ended March 31, 2016	10.05	9.81

### (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, 2017	46,498	29,858	62.4	464.48
Fiscal year ended March 31, 2016	47,859	32,594	66.2	473.78

(Reference): Shareholders' equity: H1 of the fiscal year ending March 31, 2017: 28,995 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: yes

\*Notes

(1) Important changes in subsidiaries during the first half 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):

H1 of FY2016	64,919,379 shares	FY2015	74,919,379 shares
H1 of FY2016	2,493,350 shares	FY2015	8,023,683 shares
H1 of FY2016	64,102,304 shares	H1 of FY2015	67,635,101 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 half.

## Accompanying Documents

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

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

During the first half under review, the improvement of corporate earnings and capital investment was stagnant due to the continued appreciation of the yen, and the future of the economy has become uncertain.

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 had shown a trend of improvement, have slowed, while the Chinese market remained stagnant despite some signs of recovery.

In this environment, net sales in the first half under review declined 13.0% year on year, to 18,401 million yen, however operating income increased 9.9% year on year, to 1,452 million yen, ordinary income rose 24.7% year on year, to 1,057 million yen and net income attributable to owners of parent increased 7.4% year on year, to 730 million yen.

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

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

Assets totaled 46,498 million yen at the end of the first half under review, decreasing 1,360 million yen from the end of the previous fiscal year. The decrease resulted primarily from increases of 1,221 million yen in cash and deposit, 793 million yen in trade notes and accounts receivable and 454 million yen in investment securities which offset decreases of 1,783 million yen in inventories, 379 million yen in consumption taxes receivable and 1,169 million yen in property, plant and equipment.

Liabilities came to 16,640 million yen, up 1,375 million yen from the end of the previous fiscal year. The result was mainly attributable to an increase of 3,259 million yen in trade notes and accounts payable offsetting 2,236 million yen decrease in short-term loans payable.

Net assets stood at 29,858 million yen at the end of the first half under review, decreasing 2,736 million yen from the end of the previous fiscal year. The decline mainly reflected increases of 730 million yen in net income attributable to owners of the parent and 323 million yen in valuation difference on available-for-sale securities which offset decreases of 1,322 million yen in foreign currency translation adjustment, 535 million yen in dividends paid and 1,891 million yen decrease in treasury stock (Note).

As a result of the changes stated above, the capital adequacy ratio came to 62.4%, declining 3.8 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 5,821 million yen at the end of the first half under review, increasing 1,232 million yen from the end of the previous fiscal year. A description of each cash flow during the first half was as follows:  
(Cash flows from operating activities)

Cash generated by operating activities was 5,371 million yen.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of 1,065 million yen, depreciation and amortization expenses of 471 million yen, 377 million yen decrease in consumption taxes receivable, 3,559 million yen increase in trade notes and accounts payable and 560 million yen decrease in inventories which offset decrease in cash, a 1,019 million yen decrease in trade notes and accounts receivable, and 359 million yen in corporate and other taxes paid.

(Cash flows from investing activities)

Cash generated by investing activities was 35 million yen.

The cash inflow was primarily attributable to increase in cash, 137 million yen from deposits upon sales of property, plant and equipment offsetting 95 million yen outlay for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Cash used for financing activities was 4,010 million yen.

The cash outflow resulted mainly from decreases in cash, 1,515 million yen decrease in short-term loans payable, 1,955 million yen spent on the purchase of treasury stock and dividends paid of 535 million yen.

(3) Information Relating to Consolidated Business Performance Forecasts

The consolidated business performance forecasts for the fiscal year ending March 31, 2017 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 11, 2016.

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 half 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 half 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 half under review.

(Transfer of important assets)

The Company passed a resolution for the transfer of non-current assets at the meeting of the Board of Directors held on September 29, 2016 as described below and entered into the transfer agreement as of September 30, 2016.

#### (1) Reasons for transfer

To improve the asset efficiency and reinforce the financial structure.

#### (2) Description of the assets to be transferred

Type of assets: Land, buildings and others.

Address: 3400-1, Aza, Nishiosegitamae, Oaza, Nakagomi, Saku, Nagano

#### (3) Outline of the transferee

Trade Name: CITIZEN MACHINERY CO., LTD. (“CITIZEN MACHINERY”)

Location of Office: 4107-6 Miyota, Miyota-machi, Kitasaku-gun, Nagano

Capital Amount: 2,651 million yen

Business Description: Development, manufacturing and sales of CNC lathes

Relationship between TSUGAMI and the transferee: No capital or personal relationships exist between TSUGAMI and CITIZEN MACHINERY. In addition, CITIZEN MACHINERY is not a related party of TSUGAMI.

#### (4) Schedule for transfer

Date of delivery of the assets: December 15, 2016 (scheduled)

#### (5) Future outlook

Regarding the capital gains disclosed in the “Notice of Transfer of Non-current Assets” dated September 29, 2016, the costs for the investigation of soil contamination, etc. upon disposal cannot be reasonably estimated at the present time, and are therefore not included in the forecast figures described above.

## 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 half under review (As of September 30, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	4,744	5,966
Trade notes and accounts receivable	5,862	6,655
Merchandise and finished goods	8,035	6,904
Work in process	3,800	3,799
Raw materials and supplies	6,463	5,812
Consumption taxes receivable	781	401
Deferred tax assets	489	392
Other	509	405
Allowance for doubtful accounts	-47	-39
Total current assets	30,639	30,298
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,625	5,056
Machinery, equipment and vehicles, net	3,547	2,946
Land	473	473
Leased assets, net	19	20
Construction in progress	0	0
Other, net	240	239
Total property, plant and equipment	9,906	8,737
Intangible assets	698	607
Investments and other assets		
Investment securities	4,980	5,434
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	893	761
Long-term loans receivable	583	521
Deferred tax assets	2	2
Other	143	124
Total investments and other assets	6,614	6,856
Total non-current assets	17,219	16,200
Total assets	47,859	46,498

	(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 half under review (As of September 30, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	5,857	9,117
Short-term loans payable	6,127	3,890
Income taxes payable	267	303
Advances received	542	597
Provision for bonuses	205	228
Provision for product warranties	324	275
Other	659	866
Total current liabilities	13,983	15,279
Non-current liabilities		
Deferred tax liabilities	511	596
Provision for directors' retirement benefits	16	19
Net defined benefit liability	703	704
Other	50	40
Total non-current liabilities	1,281	1,361
Total liabilities	15,265	16,640
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	5,884	485
Retained earnings	15,653	15,848
Treasury stock	-4,837	-1,348
Total shareholders' equity	29,045	27,330
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,779	2,103
Foreign currency translation adjustment	991	-330
Remeasurements of defined benefit plans	-123	-107
Total accumulated other comprehensive income	2,647	1,665
Subscription rights to shares	900	862
Total net assets	32,594	29,858
Total liabilities and net assets	47,859	46,498

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

	(Million yen)	
	Consolidated first half previous year (From April 1, 2015 to September 30, 2015)	Consolidated first half under review (From April 1, 2016 to September 30, 2016)
Net sales	21,141	18,401
Cost of sales	15,927	13,836
Gross profit	5,213	4,565
Selling, general and administrative expenses		
Salaries and allowances	870	765
Provision of allowance for doubtful accounts	2	--
Provision for bonuses	86	48
Retirement benefit expenses	24	25
Provision for directors' retirement benefits	2	2
Research and development expenses	645	655
Insurance expenses	98	79
Provision for product warranties	196	182
Other	1,967	1,353
Total selling, general and administrative expenses	3,892	3,112
Operating income	1,321	1,452
Non-operating income		
Interest income	10	10
Dividend income	86	74
Rent income	26	24
Reversal of allowance for doubtful accounts	--	7
Other	14	32
Total non-operating income	138	149
Non-operating expenses		
Interest expenses	125	87
Foreign exchange losses	291	284
Loss on sales of notes payable	84	48
Payment fee	49	--
Share of loss of entities accounted for using equity method	--	60
Other	60	63
Total non-operating expenses	611	544
Ordinary income	848	1,057
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	2	--
Gain on reversal of subscription rights to shares	49	35
Subsidy income	8	0
Total extraordinary income	61	36
Extraordinary losses		
Loss on retirement of non-current assets	0	18
Loss on sales of non-current assets	0	0
Loss on valuation of investments in capital of subsidiaries and associates	21	--
Loss on valuation of golf club membership	--	9
Total extraordinary losses	21	28
Income before taxes and other adjustments	887	1,065
Corporate, inhabitant and enterprise taxes	342	301
Deferred taxes	-134	34
Total corporate and other taxes	207	335
Net income	679	730
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	679	730

## (Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first half previous year (From April 1, 2015 to September 30, 2015)	Consolidated first half under review (From April 1, 2016 to September 30, 2016)
Net income	679	730
Other comprehensive income		
Valuation difference on available-for-sale securities	-854	323
Foreign currency translation adjustment	-241	-1,252
Share of other comprehensive income of entities accounted for using equity method	--	-69
Remeasurements of defined benefit plans, net of tax	3	16
Total other comprehensive income	-1,093	-982
Comprehensive income	-413	-252
(Breakdown)		
Comprehensive income attributable to owners of parent	-413	-252
Comprehensive income attributable to non-controlling interests	--	--

## (3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first half previous year (From April 1, 2015 to September 30, 2015)	Consolidated first half under review (From April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	887	1,065
Depreciation and amortization	568	471
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	90	56
Subsidy income	-8	-0
Increase (decrease) in allowance for doubtful accounts	2	-7
Increase (decrease) in provision for bonuses	73	22
Increase (decrease) in provision for product warranties	8	-30
Increase (decrease) in net defined benefit liability	-94	1
Interest and dividend income	-97	-85
Interest expenses	125	87
Loss on retirement of non-current assets	0	18
Share of (profit) loss of entities accounted for using equity method	--	60
Loss (gain) on sales of non-current assets	-0	-0
Loss (gain) on sales of investment securities	-2	--
Foreign exchange losses (gains)	134	135
Decrease (increase) in trade notes and accounts receivable	780	-1,019
Decrease (increase) in inventories	-3,317	560
Decrease (increase) in advance payments	91	-75
Increase (decrease) in trade notes and accounts payable	2,329	3,559
Increase (decrease) in advances received	173	97
Decrease (increase) in consumption taxes refund receivable	381	377
Other	-15	522
Subtotal	2,082	5,783
Interest and dividend income received	83	73
Interest expenses paid	-90	-125
Proceeds from subsidy	8	0
Corporate and other taxes paid	-809	-359
Cash flows from operating activities	1,274	5,371
Cash flows from investing activities		
Payments into time deposits	-224	-20
Proceeds from withdrawal of time deposits	275	20
Purchase of property, plant and equipment	-292	-95
Proceeds from sales of property, plant and equipment	2	1
Proceeds from deposits upon sales of property, plant and equipment	--	137
Purchase of intangible assets	-10	-9
Expenditure for acquisition of investment securities	-300	-1
Proceeds from sales of investment securities	2	--
Payments of long-term loans receivable	-333	--
Other	1	2
Cash flows from investing activities	-879	35
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,525	-1,515
Proceeds from sales of Treasury stock	35	0
Purchase of Treasury stock	-2,240	-1,955
Cash dividends paid	-557	-535
Repayments of lease obligations	-4	-4
Cash flows from financing activities	-1,241	-4,010
Effect of exchange rate change on cash and cash equivalents	-38	-164
Net increase (decrease) in cash and cash equivalents	-885	1,232
Cash and cash equivalents at the beginning of the term	4,952	4,589
Cash and cash equivalents at the end of the term	4,066	5,821

## (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 half under review, capital surplus and treasury stock decreased 5,380 million yen to 485 million yen and 1,348 million yen, respectively, at the end of the first half under review.

(Segment Information)

## I. Consolidated first half previous year (From April 1, 2015 to September 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	12,330	8,023	787	21,141
Intersegment net sales or transfer to other accounts	5,306	7,003	19	12,328
Total	17,636	15,026	807	33,470
Segment income	328	994	61	1,384

## 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	1,384
Elimination of unrealized income and others	-63
Operating income in quarterly consolidated statements of income	1,321

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

No corresponding item exists.

## II. Consolidated first half under review (From April 1, 2016 to September 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	11,018	6,686	696	18,401
Intersegment net sales or transfer to other accounts	3,933	4,710	18	8,662
Total	14,952	11,396	714	27,064
Segment income	315	1,163	17	1,495

## 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	1,495
Elimination of unrealized income and others	-43
Operating income in quarterly consolidated statements of income	1,452

## 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 half under review (From April 1, 2016 to September 30, 2016)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	9,801	1,770	1,855	13,426
II Consolidated net sales				18,401
III Ratio of overseas net sales to consolidated net sales (%)	53.3	9.6	10.1	73.0

(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, 2015 to September 30, 2015)		Consolidated first half under review (From April 1, 2016 to September 30, 2016)		Year-on-year change	
		%		%		%
Automatic lathes	16,610	78.6	15,097	82.1	-1,513	-9.1
Grinding machines	1,910	9.0	1,605	8.7	-304	-16.0
Machining centers	344	1.6	328	1.8	-16	-4.8
Rolling machines and specialized machines.	2,143	10.2	1,235	6.7	-907	-42.3
Other	132	0.6	135	0.7	2	2.2
Total	21,141	100.0	18,401	100.0	-2,739	-13.0
(Overseas net sales )	(15,755)	(74.5)	(13,426)	(73.0)	(-2,328)	(-14.8)