

Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018

July 28, 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 quarter of the fiscal year ending March 31, 2018

(From April 1, 2017 to June 30, 2017)

(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, 2018	12,746	47.1	1,551	159.1	1,533	473.6	1,357	805.9
Q1 of the fiscal year ended March 31, 2017	8,665	-27.1	598	-34.1	267	-72.6	149	-79.2

(Note): Comprehensive income: Q1 of the fiscal year ending March 31, 2018: ¥1,614 million (--%)

Q1 of the fiscal year ended March 31, 2017: ¥-1,042 million (--%)

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
Q1 of the fiscal year ending March 31, 2018	22.84	22.27
Q1 of the fiscal year ended March 31, 2017	2.30	2.25

(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, 2018	52,428	31,490	58.6	522.41
Fiscal year ended March 31, 2017	50,127	31,462	61.1	510.43

(Reference): Shareholders' equity: Q1 of the fiscal year ending March 31, 2018: ¥30,715 million

Fiscal year ended March 31, 2017: ¥30,620 million

2. State of dividends

(Base date)	Dividends per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
Fiscal year ended March 31, 2017	Yen --	Yen 8.00	Yen --	Yen 8.00	Yen 16.00
Fiscal year ending March 31, 2018	--				
Fiscal year ending March 31, 2018 (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, 2018

(From April 1, 2017 to March 31, 2018)

(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	24,000	30.4	2,700	85.9	2,500	136.3	1,700	132.9	28.30
Full-year	45,000	9.6	4,500	45.9	4,300	51.0	2,900	10.2	48.27

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

*Notes

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

(2) 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: none

(ii) Changes in accounting policy other than those stated in item (i) above: applied

(iii) Changes in accounting estimates: applied

(iv) Restatements: none

(Note) The depreciation method was changed effective from the fiscal year ending March 31, 2018, which is applied to "Changes in accounting policies which are difficult to distinguish from changes in accounting estimates." For details, please refer to [2. Quarterly Consolidated Financial Statements and Significant Notes, (4) Notes relating to the Quarterly Consolidated Financial Statements (Changes in accounting policy)] on page 8 of the accompanying documents.

(3) 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):

Q1 of FY2017	64,919,379 shares	FY2016	64,919,379 shares
Q1 of FY2017	6,123,117 shares	FY2016	4,930,207 shares
Q1 of FY2017	59,431,934 shares	Q1 of FY2016	65,162,097 shares

* 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 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 of the consolidated fiscal year under review, the Japanese economy remained on a path of gradual recovery supported by improved corporate earnings and a stronger employment situation. In the machine tool industry, both the domestic market and European and the U.S. markets grew steadily and the Chinese market also remained solid.

In this environment, the Company recorded higher revenues and income for the first quarter of the fiscal year under review. Net sales increased 47.1% year on year, to ¥12,746 million, operating income increased 159.1%, to ¥1,551 million, ordinary income increased 473.6%, to ¥1,533 million, and net income attributable to owners of parent increased 805.9%, to ¥1,357 million.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled ¥52,428 million at the end of the first quarter under review, increasing ¥2,300 million from the end of the previous fiscal year.

The increase resulted primarily from increases of ¥1,294 million in cash and deposit, ¥988 million in inventories, ¥146 million in trade notes and accounts receivable and ¥146 million in property, plant and equipment which offset decreases of ¥464 million in consumption taxes receivable and ¥215 million in investments in capital of subsidiaries and associates.

Liabilities came to ¥20,938 million, up ¥2,272 million from the end of the previous fiscal year.

The result was mainly attributable to an increase of ¥2,041 million in trade notes and accounts payable.

Net assets stood at ¥31,490 million at the end of the first quarter under review, increasing ¥27 million from the end of the previous fiscal year.

The increase mainly reflected increases of ¥1,357 million in net income attributable to owners of parent and ¥257 million in other comprehensive income which offset decreases of ¥479 million in retained earnings for dividend payment and ¥1,035 million in treasury stock.

As a result of the changes stated above, the capital adequacy ratio came to 58.6%, declining 2.5 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 ¥5,857 million at the end of the first quarter under review, increasing ¥1,296 million 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 ¥2,910 million.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥1,681 million, depreciation and amortization of ¥219 million, ¥1,981 million increase in trade notes and accounts payable, and ¥464 million decrease in consumption taxes refund receivable which offset decreases in cash, such as a ¥923 million increase in inventories and ¥472 million in corporate and other taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was ¥16 million.

The cash outflow was primarily attributable to increase in cash, ¥152 million from collection of investments in capital, which offset decrease in cash that resulted from a ¥162 million outlay for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Cash used for financing activities was ¥1,614 million.

The cash outflow resulted mainly from decreases in cash, ¥1,264 million spent on the purchase of treasury stock and dividends paid of ¥479 million.

(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, 2018, and our dividend forecast remain unchanged from the initial forecasts (announced on May 12, 2017).

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, 2017)	Figures at the end of the consolidated first quarter under review (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	4,666	5,961
Trade notes and accounts receivable	9,846	9,992
Merchandise and finished goods	7,108	7,341
Work in process	3,756	4,446
Raw materials and supplies	5,249	5,314
Consumption taxes receivable	718	254
Deferred tax assets	488	515
Other	676	822
Allowance for doubtful accounts	-41	-46
Total current assets	32,468	34,602
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,636	4,592
Machinery, equipment and vehicles, net	2,874	2,941
Land	450	450
Leased assets, net	17	15
Construction in progress	0	122
Other, net	217	221
Total property, plant and equipment	8,196	8,343
Intangible assets	649	652
Investments and other assets		
Investment securities	7,157	7,245
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	915	700
Long-term loans receivable	593	596
Deferred tax assets	2	5
Other	131	270
Total investments and other assets	8,813	8,830
Total non-current assets	17,659	17,825
Total assets	50,127	52,428

	(Million yen)	
	Figures at the end of the previous consolidated fiscal year (As of March 31, 2017)	Figures at the end of the consolidated first quarter under review (As of June 30, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	9,606	11,647
Short-term loans payable	4,183	4,232
Income taxes payable	525	364
Provision for bonuses	232	154
Advances received	905	948
Provision for product warranties	322	340
Other	986	1,257
Total current liabilities	16,762	18,946
Non-current liabilities		
Deferred tax liabilities	1,125	1,214
Provision for directors' retirement benefits	22	19
Net defined benefit liability	718	723
Other	36	33
Total non-current liabilities	1,902	1,991
Total liabilities	18,665	20,938
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	478	474
Retained earnings	17,250	18,127
Treasury stock	-2,986	-4,022
Total shareholders' equity	27,087	26,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	3,438
Foreign currency translation adjustment	329	449
Remeasurements of defined benefit plans	-104	-97
Total accumulated other comprehensive income	3,533	3,790
Subscription rights to shares	842	774
Total net assets	31,462	31,490
Total liabilities and net assets	50,127	52,428

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

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2016 to June 30, 2016)	Consolidated first quarter under review (From April 1, 2017 to June 30, 2017)
Net sales	8,665	12,746
Cost of sales	6,530	9,334
Gross profit	2,134	3,412
Selling, general and administrative expenses		
Salaries and allowances	379	421
Provision of allowance for doubtful accounts	4	3
Provision for bonuses	23	26
Retirement benefit expenses	13	15
Provision for directors' retirement benefits	1	0
Research and development expenses	322	385
Insurance expenses	35	41
Provision for product warranties	55	119
Other	700	847
Total selling, general and administrative expenses	1,535	1,860
Operating income	598	1,551
Non-operating income		
Interest income	4	8
Dividend income	73	75
Rent income	12	3
Reversal of allowance for doubtful accounts	4	--
Foreign exchange gains	--	10
Insurance income	2	2
Other	9	18
Total non-operating income	106	118
Non-operating expenses		
Interest expenses	47	47
Foreign exchange losses	271	--
Provision of allowance for doubtful accounts	--	1
Loss on sales of notes payable	25	39
Share of loss of entities accounted for using equity method	58	14
Other	35	34
Total non-operating expenses	438	136
Ordinary income	267	1,533
Extraordinary income		
Gain on sales of non-current assets	0	--
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	35	2
Total extraordinary income	35	181
Extraordinary losses		
Loss on retirement of non-current assets	1	3
Loss on sales of non-current assets	0	--
Loss on valuation of golf club membership	9	--
Loss from performance of warranty against defects	--	30
Total extraordinary losses	11	34
Income before taxes and other adjustments	291	1,681
Corporate, inhabitant and enterprise taxes	141	298
Deferred taxes	-0	25
Total corporate and other taxes	141	323
Net income	149	1,357
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	149	1,357

(Quarterly Consolidated Statements of Comprehensive Income)

(Million yen)

	Consolidated first quarter previous year (From April 1, 2016 to June 30, 2016)	Consolidated first quarter under review (From April 1, 2017 to June 30, 2017)
Net income	149	1,357
Other comprehensive income		
Valuation difference on available-for-sale securities	-50	130
Foreign currency translation adjustment	-1,150	111
Remeasurements of defined benefit plans, net of tax	8	7
Share of other comprehensive income of entities accounted for using equity method	--	7
Total other comprehensive income	-1,192	257
Comprehensive income	-1,042	1,614
(Breakdown)		
Comprehensive income attributable to owners of parent	-1,042	1,614
Comprehensive income attributable to non-controlling interests	--	--

(3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first quarter previous year (From April 1, 2016 to June 30, 2016)	Consolidated first quarter under review (From April 1, 2017 to June 30, 2017)
Cash flows from operating activities		
Net income before taxes and other adjustments	291	1,681
Depreciation and amortization	237	219
Gain on reversal of subscription rights to shares	-35	-2
Share-based compensation expenses	34	27
Increase (decrease) in allowance for doubtful accounts	-0	4
Increase (decrease) in provision for bonuses	-67	-77
Increase (decrease) in provision for product warranties	-33	16
Increase (decrease) in net defined benefit liability	-3	4
Interest and dividend income	-77	-84
Interest expenses	47	47
Share of (profit) loss of entities accounted for using equity method	58	14
Loss (gain) on sales of investment securities	--	-97
Gain on sales of investments in capital of affiliate	--	-81
Loss on retirement of non-current assets	1	3
Loss (gain) on sales of non-current assets	-0	--
Loss from performance of warranty against defects	--	30
Foreign exchange losses (gains)	97	-5
Decrease (increase) in trade notes and accounts receivable	-392	-75
Decrease (increase) in inventories	325	-923
Decrease (increase) in advance payments	-25	103
Increase (decrease) in trade notes and accounts payable	2,075	1,981
Increase (decrease) in advances received	132	33
Decrease (increase) in consumption taxes refund receivable	552	464
Other	368	89
Subtotal	3,585	3,374
Interest and dividend income received	66	71
Interest expenses paid	-72	-59
Payments for performance of warranty against defects	--	-4
Corporate and other taxes paid	-248	-472
Cash flows from operating activities	3,330	2,910
Cash flows from investing activities		
Purchase of property, plant and equipment	-52	-162
Proceeds from sales of property, plant and equipment	5	--
Payments for retirement of property, plant and equipment	--	-0
Purchase of intangible assets	-0	-7
Collection of investments in capital	--	152
Other	1	1
Cash flows from investing activities	-46	-16
Cash flows from financing activities		
Decrease in short-term loans payable	-992	--
Proceeds from sales of Treasury stock	0	131
Purchase of Treasury stock	-1,157	-1,264
Cash dividends paid	-535	-479
Repayments of lease obligations	-2	-2
Cash flows from financing activities	-2,686	-1,614
Effect of exchange rate change on cash and cash equivalents	-144	17
Net increase (decrease) in cash and cash equivalents	452	1,296
Cash and cash equivalents at the beginning of the term	4,589	4,561
Cash and cash equivalents at the end of the term	5,041	5,857

(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)

(Change in method of depreciation for property, plant and equipment)

The Company and its domestic consolidated subsidiaries previously used the declining-balance method for depreciation and amortization of property, plant and equipment (excluding leased assets) (Please note that the straight-line method has been used for buildings (excluding building fixtures) purchased on or after April 1, 1998 and building fixtures and structures purchased on or after April 1, 2016). From the first quarter of the fiscal year under review, the depreciation method has been changed to the straight-line method.

The manufacturing bases of the Group are located at the Company and its subsidiaries in China. With the expansion of the Chinese market, the Company has been shifting manufacturing to its subsidiaries in China. In addition, in the previous fiscal year, the Company integrated the domestic manufacturing function to Nagaoka Factory, sold other plants and conducted a review of other domestic bases. In the current fiscal year and thereafter, Nagaoka Factory will play the role as headquarters for the Group's manufacture and development, and the Company expects stable operation that is resistant to order trends.

As a result, the Company changed the method of depreciation from the declining-balance method to the straight-line method in order to carry out a cost allocation for property, plant and equipment that reflects the actual conditions of the Company and its domestic consolidated subsidiaries.

Compared with the previous depreciation method, operating income, ordinary income and income before income taxes and other adjustments in the first quarter of the fiscal year under review each increased by ¥3 million.

(Segment information)

I. Consolidated first quarter previous year (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 (loss)	-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

II. Consolidated first quarter under review (from April 1, 2017 to June 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	5,312	7,116	317	12,746
Intersegment net sales or transfer to other accounts	1,889	2,683	5	4,578
Total	7,202	9,800	322	17,325
Segment income	157	1,375	21	1,554

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	1,554
Elimination of unrealized income and others	-2
Operating income in quarterly consolidated statements of income	1,551

3. Information relating to changes in reportable segment

(Changes in method of depreciation for property, plant and equipment)

As stated in [Changes to accounting policy], the Company and its domestic consolidated subsidiaries previously used the declining-balance method for the depreciation and amortization of property, plant and equipment (excluding leased assets) (Please note that the straight-line method has been used for buildings (excluding building fixtures) purchased on or after April 1, 1998 and building fixtures and structures purchased on or after April 1, 2016). From the first quarter of the fiscal year under review, the depreciation method has been changed to the straight-line method.

Compared with the previous depreciation method, segment income in the first quarter of the fiscal year under review increased by ¥3 million in Japan, one of the Company's reportable segments.

(Important post-balance sheet events)

Acquisition of treasury stock

At a meeting of the Board of Directors held on June 21, 2017, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

- (i) Reason for the acquisition of treasury stock:
To implement flexible capital policy in response to changes in the management environment
- (ii) Type of stock to be acquired: Common stock
- (iii) Number of shares that can be acquired: 2,000 thousand shares (maximum)
(Ratio to the number of issued shares (excluding treasury stock): 3.42%)
- (iv) Total acquisition cost: ¥1,600 million (maximum)
- (v) Acquisition period: From June 21, 2017 to December 8, 2017
- (vi) Method of acquisition: Acquisition on the Tokyo Stock Exchange

Result of acquisition of treasury stock

- (i) Number of shares acquired: 1,570 thousand shares
- (ii) Total acquisition cost: ¥1,339 million
- (iii) Acquisition period: From July 7, 2017 to July 10, 2017

The acquisition of treasury stock based on this resolution was ended on July 11, 2017.

At a meeting of the Board of Directors held on July 12, 2017, the Company resolved to acquire treasury stock under Paragraph 1 of Article 459 of the Companies Act and has acquired treasury stock. Details are as follows:

Board of Directors' resolution on the acquisition of treasury stock

- (i) Reason for the acquisition of treasury stock:
To implement flexible capital policy in response to changes in the management environment
- (ii) Type of stock to be acquired: Common stock
- (iii) Number of shares that can be acquired: 2,000 thousand shares (maximum)
(Ratio to the number of issued shares (excluding treasury stock): 3.49%)
- (iv) Total acquisition cost: ¥1,700 million (maximum)
- (v) Acquisition period: From July 12, 2017 to December 8, 2017
- (vi) Method of acquisition: Acquisition on the Tokyo Stock Exchange

3. Supplementary Information

(1) Overseas net sales

Consolidated first quarter under review (From April 1, 2017 to June 30, 2017)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	8,715	671	822	10,208
II Consolidated net sales				12,746
III Ratio of overseas net sales to consolidated net sales (%)	68.4	5.3	6.4	80.1

(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, 2016 to June 30, 2016)		Consolidated first quarter under review (From April 1, 2017 to June 30, 2017)		Year-on-year change	
		%		%		%
Automatic lathes	7,211	83.2	10,599	83.1	3,388	47.0
Grinding machines	659	7.6	589	4.6	-69	-10.5
Machining centers	265	3.1	136	1.1	-129	-48.8
Rolling machines and specialized machines.	462	5.3	1,349	10.6	886	191.6
Other	66	0.8	71	0.6	5	8.2
Total	8,665	100.0	12,746	100.0	4,081	47.1
(Overseas net sales)	6,501	75.0	10,208	80.1	3,706	57.0