

Briefing on Financial Statements for the Year Ended March 2014



May 13, 2014

<http://www.tsugami.co.jp>

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1. Business performance for Fiscal Year Ended March 31, 2014

(1) Changes in Financial Results

Overview of FY2013

[Net sales] - ¥ -20.6 bn (-39%) YoY; ¥ -10.8 bn (-25%) vs. Initial forecast

Previous year saw reconstruction demand from the flooding in Thailand and large IT-related demand.

The recovery was slow in China and other markets in FY2013, and large IT-related demand was carried over to FY2014.

[Income] - Net income: ¥ -3.9 bn (-93%) YoY; ¥ -2.9 bn (-91%) vs. Initial forecast

In addition to lower sales, the ratio of yen-denominated sales increased (the cost ratio deteriorated).

- Income before taxes was ¥ 1.8 bn and Declared income was ¥ 4.5 bn (including ¥ 2.8 bn gains on valuation of subsidiary in China)

Billion Yen

	FY2012 ('12/4 - '13/3)			FY2013 ('13/4 - '14/3)				
	H1	H2	Full-year	H1	H2	Full-year	Year-on-Year	Difference from Initial forecasts
Net sales	34.4	18.4	52.8	15.6	16.6	32.2	-20.6	-10.8
Gross profit	8.7	6.0	14.7	3.7	3.4	7.1	-7.6	--
(Gross profit margin)	(25.2%)	(32.7%)	(27.8%)	(23.9%)	(20.3%)	(22.0%)	(-5.8%)	(--)
Operating income	5.6	2.8	8.4	0.8	0.4	1.2	-7.2	-4.0
(Operating income margin)	(16.4%)	(15.3%)	(16.0%)	(5.1%)	(2.4%)	(3.7%)	(-12.3%)	(-8.4%)
Ordinary income	5.0	1.8	6.8	1.4	0.5	1.9	-4.9	-3.0
(Ordinary income margin)	(14.5%)	(9.9%)	(12.9%)	(9.0%)	(3.2%)	(6.0%)	(-6.9%)	(-5.4%)
Net income	3.1	1.1	4.2	0.9	-0.6	0.3	-3.9	-2.9
(Net income margin)	(9.1%)	(5.8%)	(8.0%)	(5.7%)	(-3.2%)	(1.1%)	(-6.9%)	(-6.4%)
Net income per share	42.6 yen	14.6 yen	57.2 yen	12.1 yen	-7.4 yen	4.7 yen	-52.5 yen	-38.7 yen

(2) Changes in Financial Results - Quarterly -

Billion Yen

	FY2012 ('12/4-'13/3)				FY2013 ('13/4-'14/3)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	19.6	14.8	10.0	8.4	7.0	8.6	8.1	8.5
Gross profit	4.8	3.9	3.4	2.6	1.8	1.9	1.7	1.7
(Gross profit margin)	(24.3%)	(26.5%)	(33.9%)	(31.2%)	(26.3%)	(22.0%)	(20.5%)	(20.0%)
Operating income	3.3	2.3	1.8	1.0	0.4	0.4	0.0	0.4
(Operating income margin)	(16.9%)	(15.7%)	(17.3%)	(12.9%)	(5.9%)	(4.4%)	(0.5%)	(4.1%)
Ordinary income	2.8	2.2	1.6	0.2	1.1	0.3	0.6	-0.1
(Ordinary income margin)	(14.5%)	(14.5%)	(16.3%)	(2.3%)	(16.0%)	(3.2%)	(7.9%)	(-1.2%)
Net income	1.8	1.3	0.9	0.2	0.8	Note 1 0.1	0.4	Note 2 -1.0
(Net income margin)	(9.3%)	(8.8%)	(9.0%)	(2.1%)	(11.9%)	(0.6%)	(5.3%)	(-11.3%)

Note 1: Extraordinary loss due to the sale of shares in Tornos S.A.: 0.27

Note 2: Increase in the amount of taxes due to the transfer of shares in PTC: 1.13 (Valuation gain: 2.8)

PTC = PRECISION TSUGAMI (CHINA) CORPORATION

Changes in Financial Results - PRECISION TSUGAMI (CHINA) CORPORATION

Overview of FY2013

[Net sales] - ¥ -13.9 bn (-43%) YoY

The recovery was slow in China and other markets in FY2013, and large IT-related demand was carried over to FY2014.

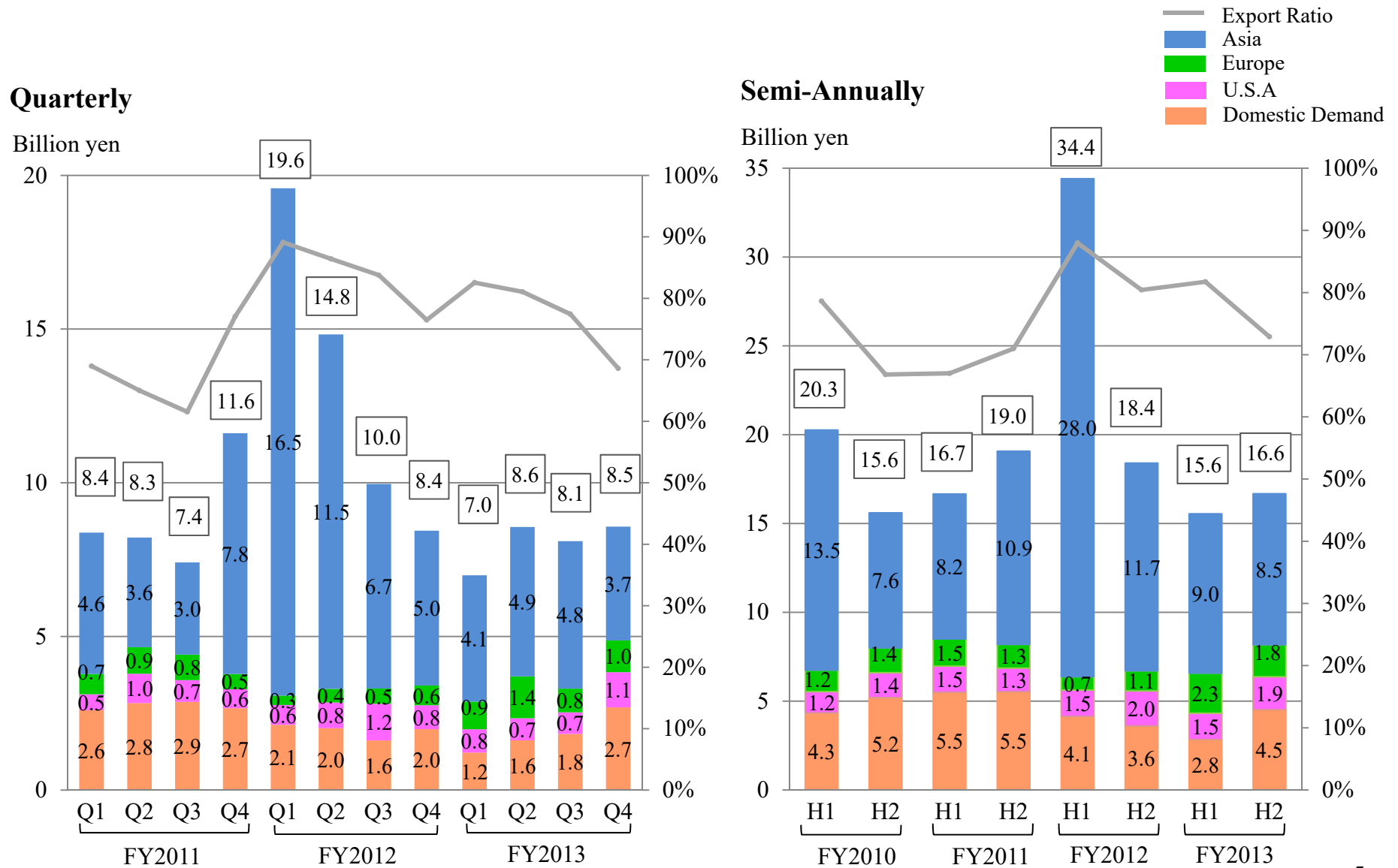
[Income] - Net income: ¥ -2.3 bn (-88%) YoY

Initial costs associated with Turret lathes, new products, and the start-up of production line for main spindles, etc. were incurred, which placed a burden on income.

Billion Yen

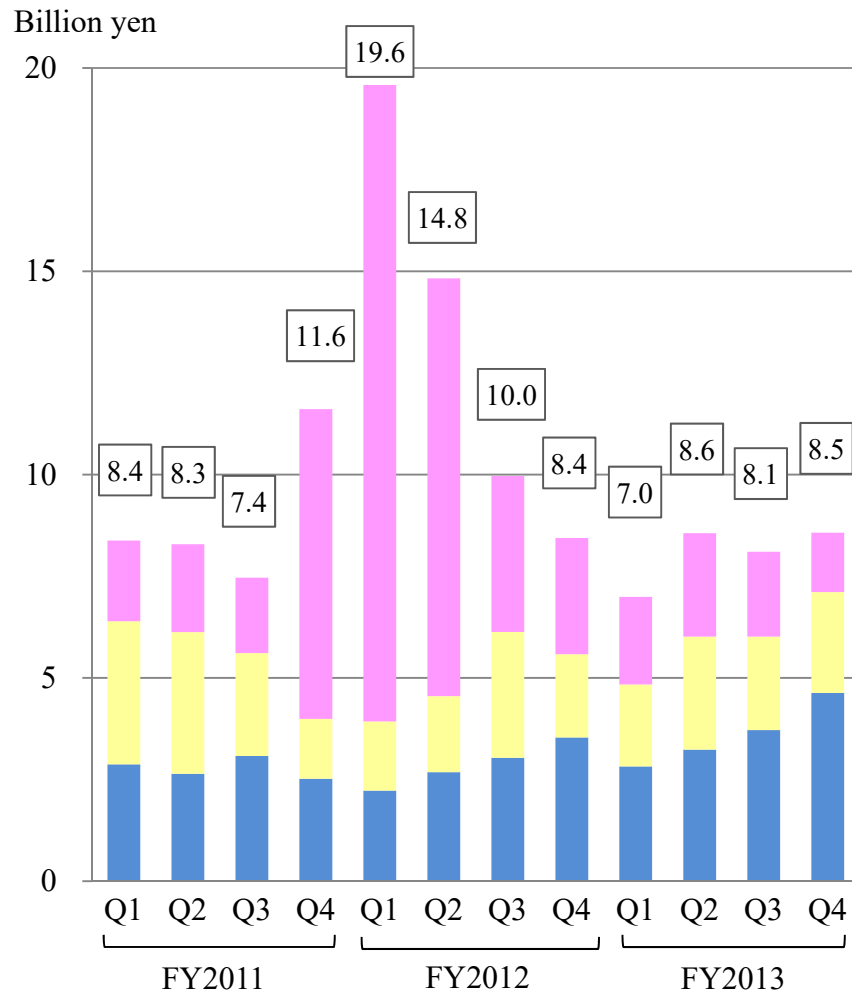
	FY2012 ('12/4 - '13/3)			FY2013 ('13/4 - '14/3)			
	H1	H2	Full-year	H1	H2	Full-year	Year-on-Year
Net sales	21.5	11.0	32.5	8.6	10.0	18.6	-13.9
Gross profit	4.3	1.8	6.1	1.1	1.3	2.4	-3.7
(Gross profit margin)	(20.1%)	(16.2%)	(18.8%)	(12.5%)	(13.8%)	(13.2%)	(-5.6%)
Operating income	2.8	0.7	3.5	0.2	0.1	0.3	-3.2
(Operating income margin)	(12.9%)	(6.9%)	(10.9%)	(2.1%)	(1.4%)	(1.7%)	(-9.2%)
Ordinary income	2.2	1.2	3.4	0.2	0.0	0.2	-3.2
(Ordinary income margin)	(10.1%)	(11.1%)	(10.4%)	(2.8%)	(0.1%)	(1.3%)	(-9.1%)
Net income	1.5	1.1	2.6	0.3	-0.0	0.3	-2.3
(Net income margin)	(7.1%)	(9.7%)	(8.0%)	(3.9%)	(-0.3%)	(1.6%)	(-6.4%)
yen-yuan exchange (closing rate)	12.33 yen	15.16 yen		15.98 yen	16.59 yen		+1.43 yen

(3) Net Sales by Geographic Segment

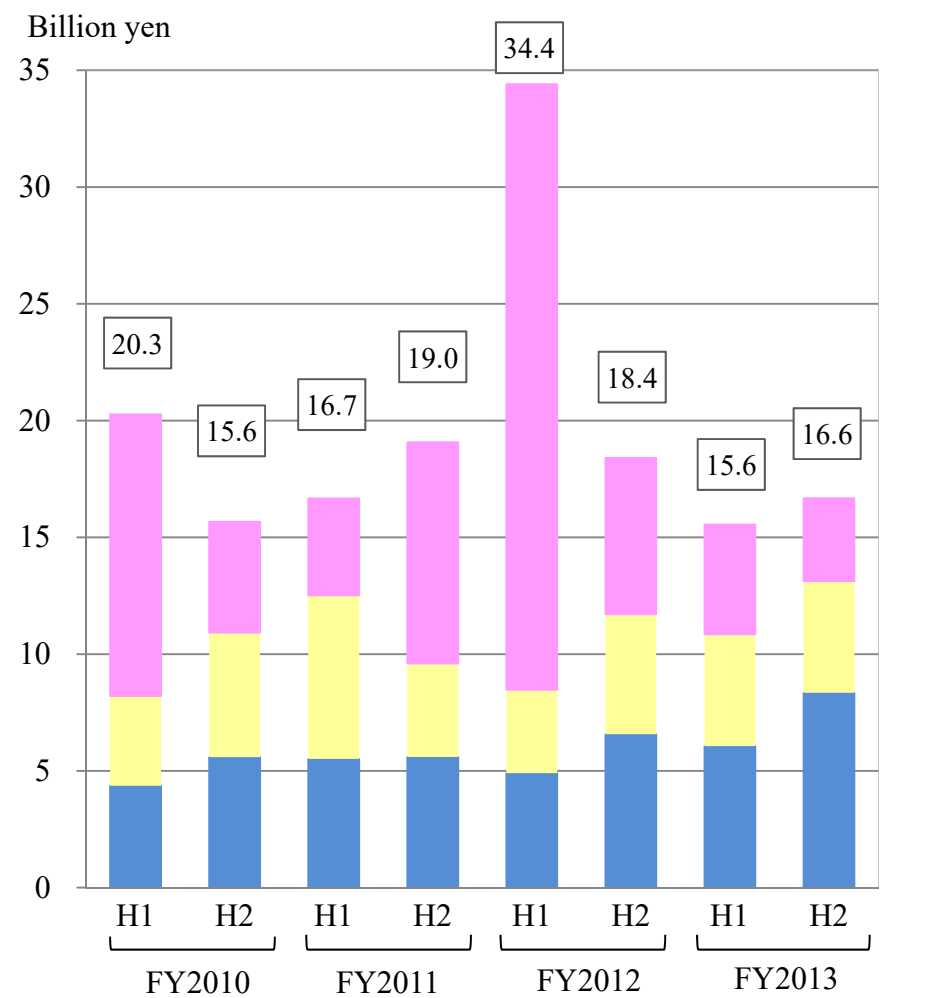


(4) Net Sales by Business Segment

Quarterly



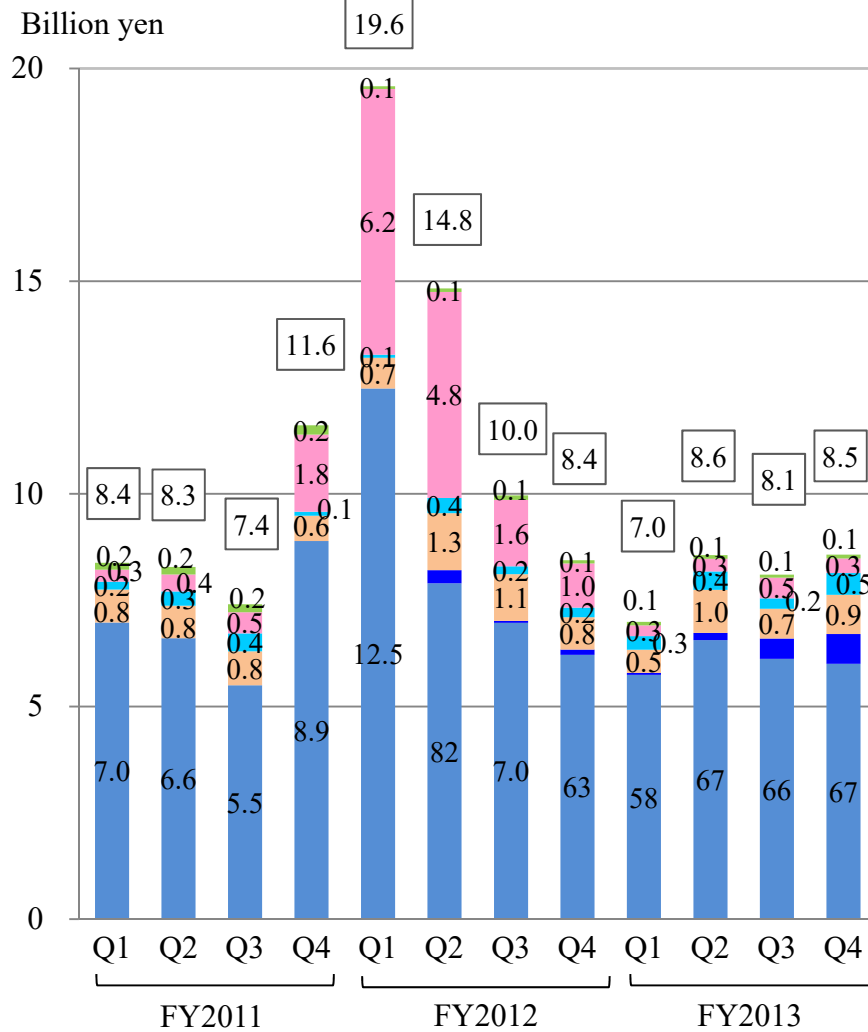
Semi-Annually



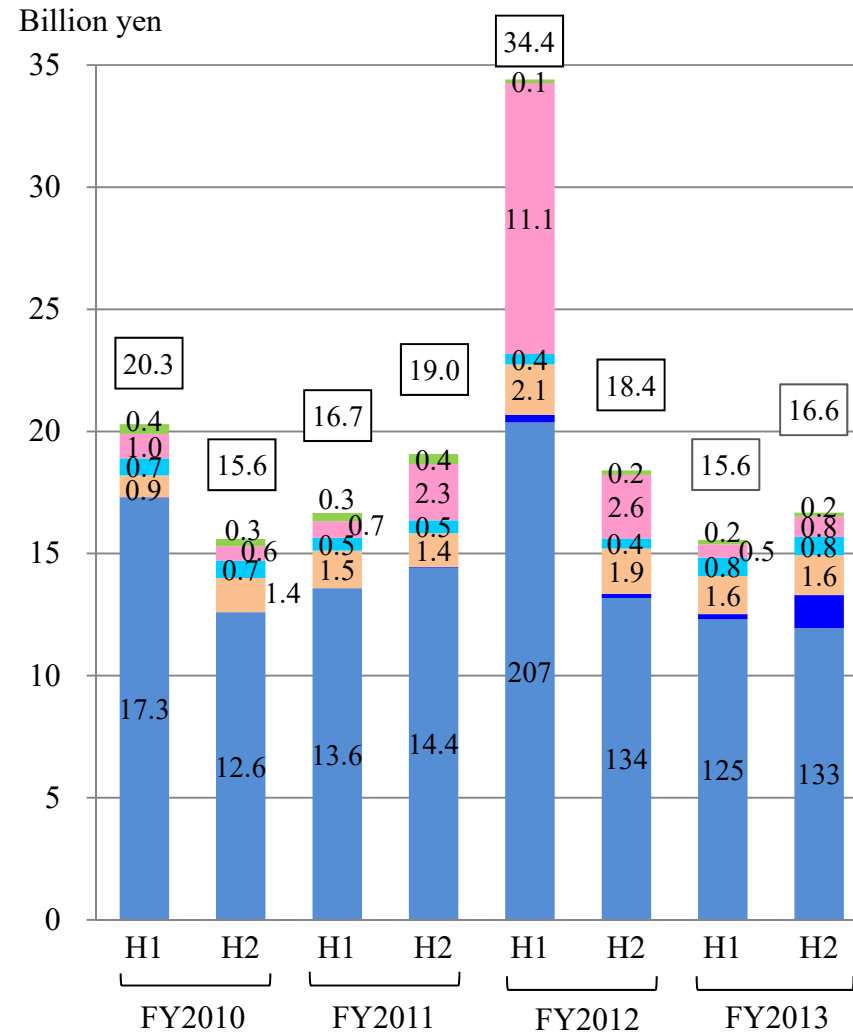
(5) Net Sales by Machinery Category

- Other businesses
- Rolling machines, etc.
- Machining centers
- Grinding machines
- Automatic lathes
- Of which, Turret lathes

Quarterly



Semi-Annually



(6) Balance Sheets

	Billion yen		
	2013/3E	2014/3E	Difference from 2013/3E
Total assets	45.9	52.3	+6.4
Current assets	30.5	36.0	+5.5
Cash and deposits	5.5	6.2	+0.7
Trade notes and accounts receivable	5.3	6.7	+1.4
Inventories	18.4	21.0	+2.6
Deferred tax assets and others	1.3	2.1	+0.8
Fixed assets	15.4	16.3	+0.9
Tangible fixed assets	9.3	10.4	Note 1 + 1.1
Intangible fixed assets	0.3	0.3	0.0
Investments and other assets	5.7	5.6	Note 2 -0.1
Total liabilities	13.9	20.7	+6.8
Current liabilities	12.8	19.3	+6.5
Trade notes and accounts payable	6.8	10.6	+3.8
Short-term borrowings	3.6	6.1	+2.5
Accrued income tax and others	2.4	2.6	+0.2
Long-term liabilities	1.1	1.4	+0.3
Total net assets	32.0	31.6	-0.4
Common stock, Capital surplus	18.2	18.2	0.0
Retained earnings	12.0	11.4	-0.6
Treasury stock	-0.5	-1.1	-0.6
Unrealized gains on marketable securities	1.1	1.4	+0.3
Translation adjustments and others	1.2	1.7	+0.5
Capital adequacy ratio	68.6%	59.3%	-9.3%

Note 1:
 China factory new wing(No.7): +0.4
 Production machines: +1.3
 New factory acquired in China: +0.4
 Depreciation and others: -1.0

Note 2:
 Sales of Tornos shares: -0.8
 Valuation of investment securities: +0.2
 Capital increase in India affiliate: +0.4

Balance Sheets - PRECISION TSUGAMI (CHINA) CORPORATION

Billion yen

	2013/3E	2014/3E	Difference from 2013/3E
Total assets	20.3	23.5	+3.2
Current assets	15.4	17.3	+1.9
Cash and deposits	3.5	1.6	-1.9
Trade notes and accounts receivable	2.0	2.7	+0.7
Inventories	9.7	12.0	Note 1 +2.3
Advance payments and others	0.2	1.0	+0.8
Fixed assets	4.9	6.2	+1.3
Tangible fixed assets	4.0	5.3	+1.3
Investments in affiliates	0.6	0.6	-0.0
Intangible fixed assets	0.3	0.3	+0.0
Total liabilities	15.8	18.3	+2.5
Current liabilities	15.8	18.3	+2.5
Trade notes and accounts payable	6.0	6.7	+0.7
Short-term borrowings	5.8 (4.2)	11.2 (5.2)	Note 2 +5.4 (+1.0)
Dividends payable	3.7	--	-3.7
Advances received and others	0.3	0.4	+0.1
Total net assets	4.5	5.2	+0.7
Common stock, Capital surplus	3.4	3.4	0.0
Retained earnings	0.4	0.7	+0.3
Translation adjustments and others	0.7	1.1	+0.4
Capital adequacy ratio	21.9%	22.0%	+0.1%

Note 1:

Increase in Inventories for large IT-related demand

Note 2:

Figures in parentheses are loans from parent company Tsugami

(7) Cash flows

Billion yen

	FY2012 (‘12/4-’13/3)	FY2013 (‘13/4-’14/3)
Cash flows from operating activities	1.9	0.7
Income before taxes, depreciation and amortization	7.6	Note 1 2.9
Gross working capital	-2.6	Note 2 -0.6
Corporate and other taxes	-3.1	-1.5
Cash flows from investing activities	-2.4	-0.7
Capital investment in Japan factory	-0.9	-0.1
Capital investment in China factory	-1.3	Note 3 -1.0
Capital increase in affiliate in India	--	-0.4
Sales of investment securities and others	--	Note 4 0.8
Cash flows from financing activities	0.3	0.4
Short-term borrowings	1.4	2.3
Redemption of corporate bonds	-0.3	-0.3
Dividends paid	-0.8	-0.9
Purchase of treasury stock	-0.0	Note 5 -0.7
Translation differences for cash and cash equivalents	0.2	0.3
Net increase (decrease) in cash and cash equivalents	0.0	0.7
Cash and cash equivalents at the end of the term	5.3	6.0

Note 1:

Income before taxes: 1.8 (Declared income: 4.5)
Depreciation and amortization: 1.1

Note 2:

Notes and accounts receivable: -1.16
Notes and accounts payable: 3.23
Inventories: -2.26
Other current assets: -0.38

Note 3:

New wing (No.7), new factory and production machines

Note 4:

Sales of Tornos shares: 0.61
Sales of underutilized real estate: 0.12

Note 5:

1,493 thousand shares purchased

2. Business Conditions and Outlook

(1) Outlook for Fiscal Year Ending March 31, 2015

Outlook for FY2014

- Moderate recovery is expected in Japan, U.S., Europe, China and other markets.
- Large IT-related sales are anticipated in the H1 of FY2014.
- Turret lathes, new products, are likely to make a solid contribution.

Billion yen

	FY2013 ('13/4-'14/3)			FY2014 ('14/4-'15/3) forecasts			
	H1	H2	Full-year	H1	H2	Full-year	Year-on-Year
Net sales	15.6	16.6	32.2	26.0	20.0	46.0	+13.8
Operating income	0.8	0.4	1.2	4.0	2.0	6.0	+4.8
(Operating income margin)	(5.1%)	(2.4%)	(3.7%)	(15.4%)	(10.0%)	(13.0%)	(+9.3%)
Ordinary income	1.4	0.5	1.9	3.8	2.0	5.8	+3.9
(Ordinary income margin)	(9.0%)	(3.2%)	(6.0%)	(14.6%)	(10.0%)	(12.6%)	(+6.6%)
Net income	0.9	-0.6	0.3	2.6	1.4	4.0	+3.7
(Net income margin)	(5.7%)	(-3.2%)	(1.1%)	(10.0%)	(7.0%)	(8.7%)	(+7.6%)
Net income per share	12.1 yen	-7.4 yen	4.7 yen	35.9 yen	19.4 yen	55.3 yen	+50.6 yen

Outlook for Fiscal Year Ending March 31, 2015 - PRECISION TSUGAMI (CHINA) CORPORATION

Outlook for FY2014

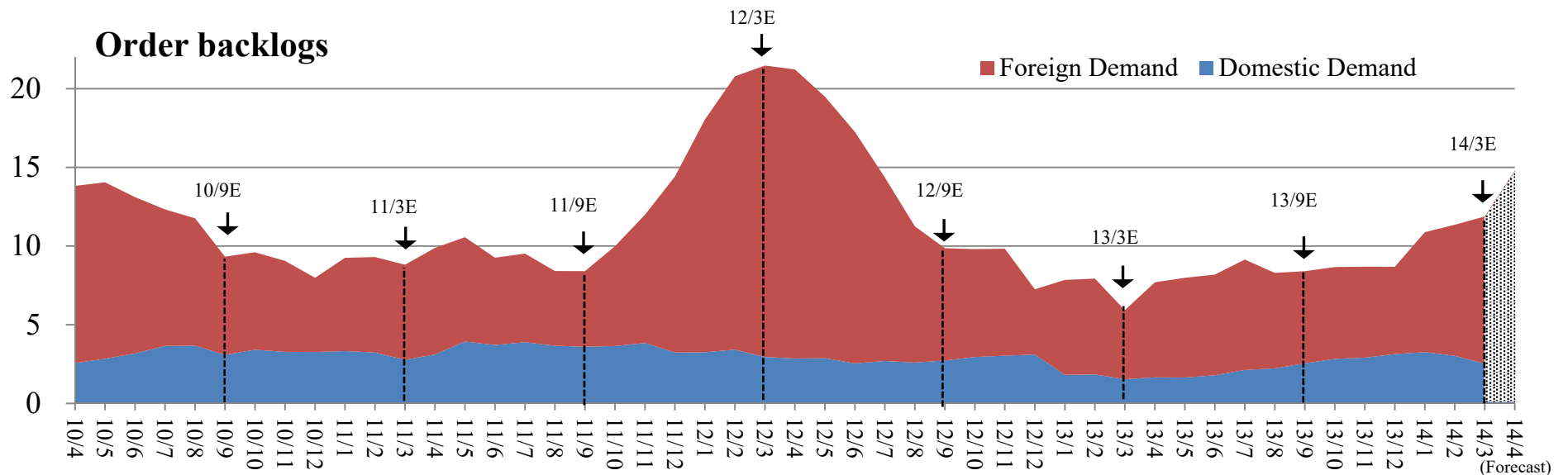
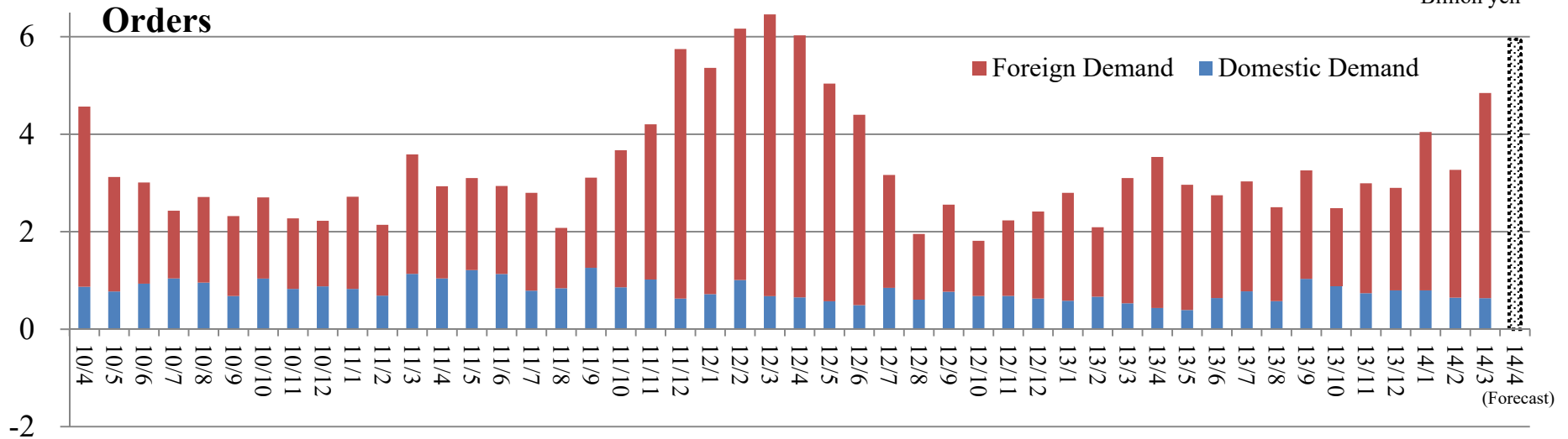
- Market conditions are expected to improve in China and other markets.
- Large IT-related demand and new products such as Turret lathes will make a contribution.

Billion yen

	FY2013 ('13/4-'14/3)			CY2014 Forecasts ('14/1-'14/12)	vs. FY2013
	H1	H2	Full-year		
Net sales	8.6	10.0	18.6	32.0	+13.4
Gross profit	1.1	1.3	2.4	7.0	+4.6
(Gross profit margin)	(12.5%)	(13.8%)	(13.2%)	(21.9%)	(+8.7%)
Operating income	0.2	0.1	0.3	4.5	+4.2
(Operating income margin)	(2.1%)	(1.4%)	(1.7%)	(14.1%)	(+12.4%)
Ordinary income	0.2	0.0	0.2	4.0	+3.8
(Ordinary income margin)	(2.8%)	(0.1%)	(1.3%)	(12.5%)	(+11.2%)
Net income	0.3	-0.0	0.3	3.0	+2.7
(Net income margin)	(3.9%)	(-0.3%)	(1.6%)	(9.4%)	(+7.8%)
yen-yuan exchange (closing rate)	15.98 yen	16.59 yen		16.59 yen	

(2) Orders Received and Order Backlogs

Billion yen



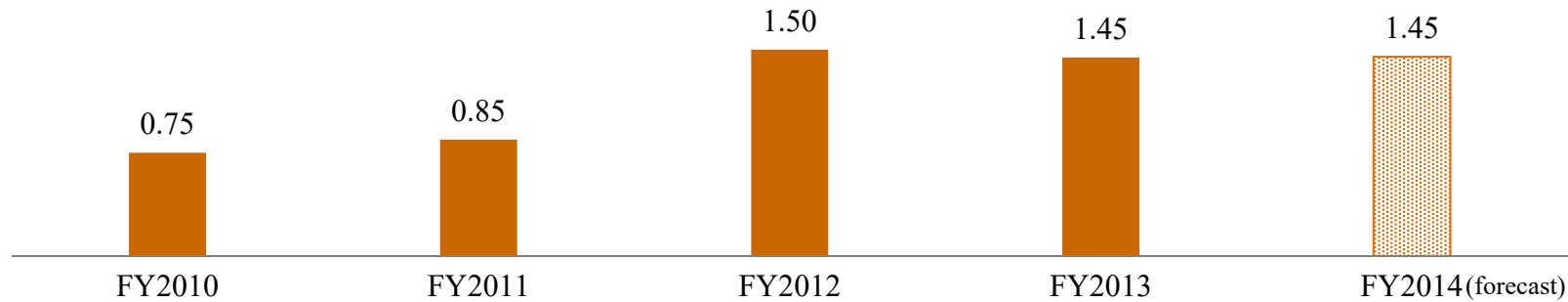
(3) New Products

		Orders start	Main target
Released	M06J, M08J M06SY, M08SY	July 2013	Automobile parts and Others
	M06D, M08D M06SD, M08SD	January 2014	Automobile parts and Others
	M06JC	February 2014	Automobile parts and Others
	B020M	June 2013	IT, Automobile small size parts and Others
	B038T	June 2013	Automobile parts and Others
	VA3	July 2013	IT, Automobile small size parts and Others
	G350-750 (2 types)	July 2013	Automobile parts and Others
Scheduled for release	Automatic lathes 8 models	Q4 / FY2014	IT, Automobile small size parts and Others
	Turning center 1 model	Q3 / FY2014	Automobile parts and Others

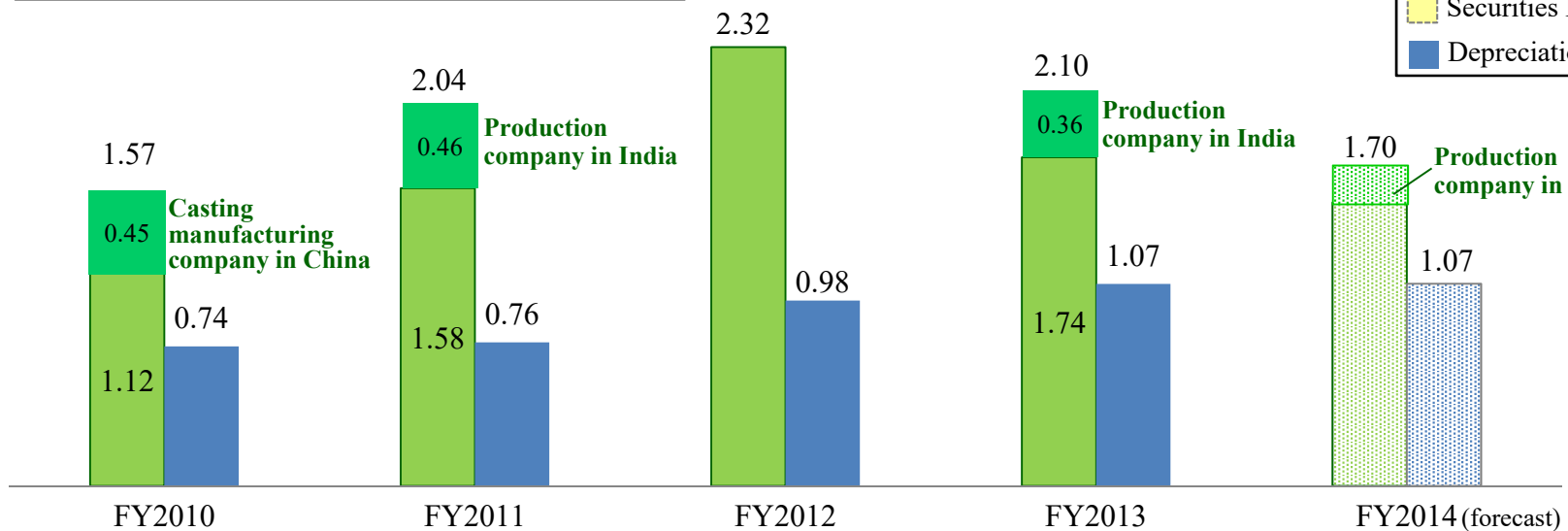
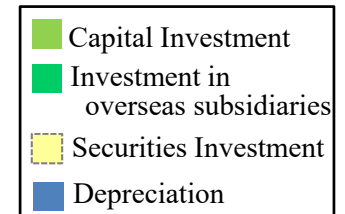
(4) R&D Expenditures, Capital Investment and Depreciation

R&D Expenditures

Billion yen

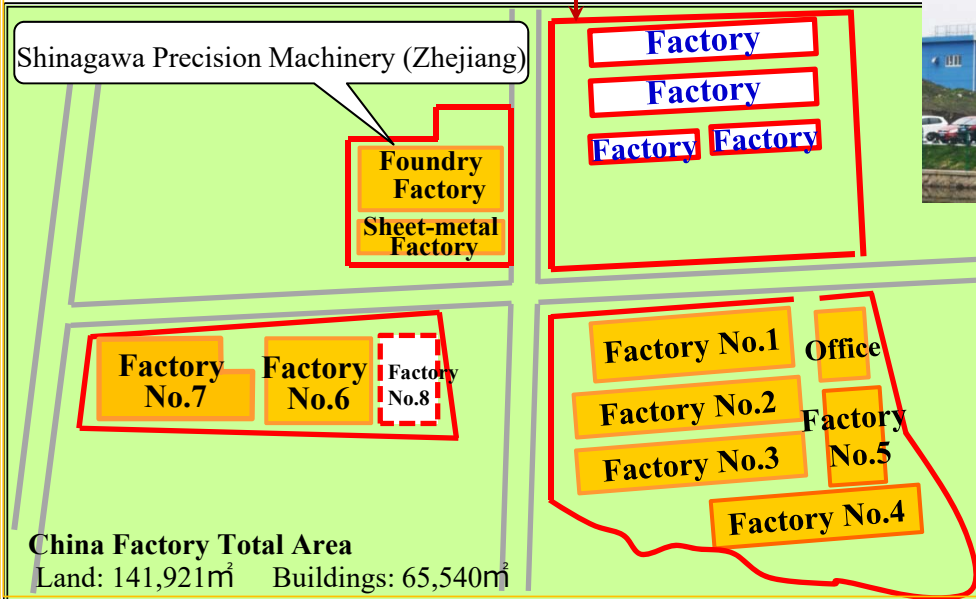


Capital Investment and Depreciation



Factories in China and India

【China Factory】



The content in this material is premised on various assumptions and does not ensure or guarantee the realization of the planned figures and/or future policies stated herein.