

## Summary of Financial Results for the First half of the Fiscal Year Ending March 31, 2016

November 12, 2015

TSUGAMI CORPORATION

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Scheduled quarterly report submission date: November 13, 2015

Scheduled date of commencement of dividend payments: November 30, 2015

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, 2016

(From April 1, 2015 to September 30, 2015)

(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, 2016	21,141	-28.8	1,321	-72.2	848	-82.6	679	-80.0
H1 of the fiscal year ended March 31, 2015	29,703	91.0	4,756	500.2	4,877	249.1	3,405	285.3

(Note): Comprehensive income: H1 of the fiscal year ending March 31, 2016: -413 million yen (-110.1%)

H1 of the fiscal year ended March 31, 2015: 4,103 million yen (217.2%)

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
H1 of the fiscal year ending March 31, 2016	10.05	9.81
H1 of the fiscal year ended March 31, 2015	47.21	46.40

### (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, 2016	56,682	34,145	58.8	498.15
Fiscal year ended March 31, 2015	56,829	37,279	64.1	522.94

(Reference): Shareholders' equity: H1 of the fiscal year ending March 31, 2016: 33,310 million yen

Fiscal year ended March 31, 2015: 36,414 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, 2015	--	6.00	--	8.00	14.00
Fiscal year ending March 31, 2016	--	8.00	--	--	--
Fiscal year ending March 31, 2016 (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, 2016

(From April 1, 2015 to March 31, 2016)

(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	42,000	-22.4	3,000	-58.6	2,500	-67.7	1,800	-66.0	26.75

(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 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):

H1 of FY2015	74,919,379 shares	FY2014	74,919,379 shares
H1 of FY2015	8,050,267 shares	FY2014	5,285,426 shares
H1 of FY2015	67,635,101 shares	H1 of FY2014	72,131,076 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 Japanese economy remained on a modest recovery path, with corporate earnings and employment improving. However, uncertainty about the future of the economy is rising, given concern over the effects of a slowdown in Chinese economic growth and the prospect of an interest rate hike in the United States.

In the machine tool industry, the domestic market continued its moderate upward trend on the back of subsidies and tax breaks, with products for auto parts continuing to perform well. The U.S. and European markets were steady, while the Chinese market was weak as the economy slowed.

In this environment, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") promoted sales in the IT industry and a wide range of other industries. However, both net sales and income declined from a year ago, reflecting a reactionary fall in demand for smartphones compared with the same period of the previous fiscal year and the effect of a slowdown in the Chinese market.

Net sales, operating income, and ordinary income for the first half were 21,141 million yen (decreased 28.8% year on year), 1,321 million yen (decreased 72.2% year on year), and 848 million yen (decreased 82.6% year on year), respectively. Net income attributable to owners of the parent was 679 million yen (decreased 80.0% year on year).

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

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

Assets totaled 56,682 million yen at the end of the first half under review, decreasing 146 million yen from the end of the previous fiscal year. The decrease resulted primarily from an increase of 2,930 million yen in inventories, which offset decreases of 950 million yen in cash and deposit, 837 million yen in trade notes and accounts receivable and 890 million yen in investment securities.

Liabilities came to 22,537 million yen, up 2,987 million yen from the end of the previous fiscal year. The result was mainly attributable to an increase of 2,157 million yen in trade notes and accounts payable and a 1,522 million yen increase in short-term loans payable offsetting 471 million yen decrease in income taxes payable.

Net assets stood at 34,145 million yen at the end of the first half under review, decreasing 3,133 million yen from the end of the previous fiscal year. The decline mainly reflected an increase of 679 million yen in net income attributable to owners of the parent which offset 557 million yen in dividends paid, 2,114 million yen decrease in treasury shares and 854 million yen decrease in valuation difference on available-for-sale securities.

As a result of the changes stated above, the capital adequacy ratio came to 58.8%, declining 5.3 percentage points from the end of the previous fiscal year.

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

Cash and cash equivalents amounted to 4,066 million yen at the end of the first half under review, decreasing 885 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 1,274 million yen.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of 887 million yen, depreciation and amortization expenses of 568 million yen, 780 million yen decrease in trade notes and accounts receivable, 381 million yen decrease in consumption taxes receivable and 2,329 million yen increase in trade notes and accounts payable, which offset decrease in cash, a 3,317 million yen increase in inventories and 809 million yen in corporate and other taxes paid.

##### (Cash flows from investing activities)

Cash used for investing activities was 879 million yen.

The cash outflow was primarily attributable to decrease in cash that resulted from a 292 million yen outlay for the purchase of property, plant and equipment, 300 million yen for the purchase of investment securities and 333 million yen for the payments of long-term loans to Indian production subsidiary.

##### (Cash flows from financing activities)

Cash used for financing activities was 1,241 million yen.

The cash outflow resulted mainly from decreases in cash, 2,240 million yen spent on the purchase of treasury shares and dividends paid of 557 million yen, which offset an increase in short-term loans payable of 1,525 million yen.

### (3) Information Relating to Consolidated Business Performance Forecasts

The consolidated business performance forecasts for the fiscal year ending March 31, 2016 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, 2015.

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, 2016.

## 2. Summary information (notes)

### Changes in accounting policy and in accounting estimates, and restatements

#### Changes in accounting policy

##### (Application of Accounting Standard for Business Combinations)

From the first half under review, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22; September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under the newly-applied accounting standards, the Company shall post a gain or loss on change in the Company's equity in subsidiaries that the Company continues to control in capital surplus and shall post expenses related to acquisitions as expenses in a consolidated fiscal year when they are incurred. Any review of the allocation of the acquisition cost in provisional accounting of a business combination from the beginning of the first half under review shall be reflected in consolidated financial statements for the half in which the date of the business combination belongs. The presentation of net income etc. has also been changed. To reflect the change in presentation, the consolidated financial statements for the first half of the previous fiscal year have been reorganized.

The application of the Accounting Standard for Business Combinations, etc. follows the transitional treatment set force in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and the accounting standards are applied from the beginning of the first half under review.

The application of the accounting standards has no impact on the Group's earnings.

## 3. Consolidated Financial Statements

## (1) Consolidated Balance Sheets

	(Million yen)	
	Figures at the end of the previous consolidated fiscal year (As of March 31, 2015)	Figures at the end of the consolidated first half under review (As of September 30, 2015)
Assets		
Current assets		
Cash and deposits	5,175	4,224
Trade notes and accounts receivable	7,054	6,216
Merchandise and finished goods	8,264	10,890
Work in process	5,684	6,129
Raw materials and supplies	8,750	8,610
Consumption taxes receivable	1,017	636
Deferred tax assets	443	536
Other	513	480
Allowance for doubtful accounts	-43	-44
Total current assets	36,861	37,680
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,396	6,217
Machinery, equipment and vehicles, net	4,171	4,003
Land	564	564
Leased assets, net	27	23
Construction in progress	3	11
Other, net	287	287
Total property, plant and equipment	11,451	11,107
Intangible assets	756	736
Investments and other assets		
Investment securities	6,148	5,257
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	1,131	1,110
Long-term loans receivable	316	632
Deferred tax assets	1	2
Other	149	144
Total investments and other assets	7,759	7,158
Total non-current assets	19,967	19,002
Deferred assets	0	--
Total assets	56,829	56,682

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2015)	Figures at the end of the consolidated first half under review (As of September 30, 2015)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	8,276	10,433
Short-term loans payable	6,855	8,377
Income taxes payable	616	145
Provision for bonuses	227	301
Provision for product warranties	448	451
Other	1,427	1,603
Total current liabilities	17,851	21,312
<b>Non-current liabilities</b>		
Deferred tax liabilities	1,084	708
Provision for directors' retirement benefits	18	20
Net defined benefit liability	535	440
Other	58	54
Total non-current liabilities	1,698	1,224
Total liabilities	19,550	22,537
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	12,345	12,345
Capital surplus	5,889	5,884
Retained earnings	15,963	16,074
Treasury shares	-2,738	-4,853
Total shareholders' equity	31,460	29,450
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	2,798	1,943
Foreign currency translation adjustment	2,123	1,881
Remeasurements of defined benefit plans	32	35
Total accumulated other comprehensive income	4,953	3,860
Subscription rights to shares	865	834
Total net assets	37,279	34,145
Total liabilities and net assets	56,829	56,682

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

	(Million yen)	
	Consolidated first half previous year (From April 1, 2014 to September 30, 2014)	Consolidated first half under review (From April 1, 2015 to September 30, 2015)
Net sales	29,703	21,141
Cost of sales	21,669	15,927
Gross profit	8,034	5,213
Selling, general and administrative expenses		
Salaries and allowances	764	870
Provision of allowance for doubtful accounts	--	2
Provision for bonuses	52	86
Retirement benefit expenses	37	24
Provision for directors' retirement benefits	2	2
Research and development expenses	570	645
Insurance expenses	86	98
Provision for product warranties	186	196
Other	1,576	1,967
Total selling, general and administrative expenses	3,278	3,892
Operating income	4,756	1,321
Non-operating income		
Interest income	6	10
Dividend income	38	86
Foreign exchange gains	561	--
Other	47	40
Total non-operating income	653	138
Non-operating expenses		
Interest expenses	128	125
Foreign exchange losses	--	291
Loss on sales of notes payable	62	84
Payment fee	264	49
Other	77	60
Total non-operating expenses	532	611
Ordinary income	4,877	848
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investments securities	2	2
Gain on reversal of subscription rights to shares	--	49
Subsidy income	--	8
Total extraordinary income	2	61
Extraordinary losses		
Loss on retirement of non-current assets	7	0
Loss on sales of non-current assets	28	0
Loss on valuation of investments in capital of subsidiaries and associates	--	21
Loss on liquidation of business	16	--
Total extraordinary losses	53	21
Income before taxes and other adjustments	4,826	887
Corporate, inhabitant and enterprise taxes	1,257	342
Deferred taxes	162	-134
Total corporate and other taxes	1,420	207
Net income	3,405	679
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	3,405	679



## (Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first half previous year (From April 1, 2014 to September 30, 2014)	Consolidated first half under review (From April 1, 2015 to September 30, 2015)
Net income	3,405	679
Other comprehensive income		
Valuation difference on available-for-sale securities	224	-854
Foreign currency translation adjustment	429	-241
Remeasurements of defined benefit plans, net of tax	44	3
Total other comprehensive income	698	-1,093
Comprehensive income	4,103	-413
(Breakdown)		
Comprehensive income attributable to owners of parent	4,103	-413
Comprehensive income attributable to non-controlling interests	--	--

## (3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first half previous year (From April 1, 2014 to September 30, 2014)	Consolidated first half under review (From April 1, 2015 to September 30, 2015)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	4,826	887
Depreciation and amortization	528	568
Loss on valuation of investments in capital of subsidiaries and associates	--	21
Gain on reversal of subscription rights to shares	--	-49
Subsidy income	--	-8
Increase (decrease) in allowance for doubtful accounts	-19	2
Increase (decrease) in provision for bonuses	40	73
Increase (decrease) in provision for product warranties	-26	8
Increase (decrease) in net defined benefit liability	15	-94
Interest and dividend income	-44	-97
Interest expenses	128	125
Loss on retirement of fixed assets	7	0
Loss (gain) on sales of non-current assets	28	-0
Loss (gain) on sales of investment securities	-2	-2
Loss on liquidation of business	16	--
Foreign exchange losses (gains)	-330	134
Decrease (increase) in trade notes and accounts receivable	-7,478	780
Decrease (increase) in inventories	-1,738	-3,317
Decrease (increase) in advance payments	65	91
Increase (decrease) in trade notes and accounts payable	1,909	2,329
Decrease (increase) in consumption taxes refund receivable	62	381
Other	634	248
Subtotal	-1,375	2,082
Interest and dividend income received	38	83
Interest expenses paid	-121	-90
Proceeds from subsidy	--	8
Corporate and other taxes paid	-1,378	-809
Cash flows from operating activities	-2,837	1,274
Cash flows from investing activities		
Payments into time deposits	-30	-224
Proceeds from withdrawal of time deposits	87	275
Purchase of property, plant and equipment	-703	-292
Proceeds from sales of property, plant and equipment	9	2
Purchase of intangible assets	-382	-10
Purchase of investment securities	-0	-300
Proceeds from sales of investment securities	2	2
Payments of long-term loans receivable	--	-333
Other	3	1
Cash flows from investing activities	-1,013	-879
Cash flows from financing activities		
Increase in short-term loans payable	4,638	2,956
Decrease in short-term loans payable	-2,609	-1,430
Proceeds from sales of treasury shares	51	35
Purchase of treasury shares	-265	-2,240
Cash dividends paid	-434	-557
Repayments of lease obligations	-6	-4
Cash flows from financing activities	1,373	-1,241
Effect of exchange rate change on cash and cash equivalents	59	-38
Net increase (decrease) in cash and cash equivalents	-2,418	-885
Cash and cash equivalents at the beginning of the term	6,044	4,952
Cash and cash equivalents at the end of the term	3,626	4,066

## (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  
No corresponding item exists.

## Segment information

## I. Consolidated first half previous year (From April 1, 2014 to September 30, 2014)

## 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	11,451	17,736	515	29,703
Intersegment net sales or transfer to other accounts	8,206	4,963	17	13,187
Total	19,658	22,700	532	42,891
Segment income	775	4,064	20	4,860

## 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	4,860
Elimination of unrealized income and others	-104
Operating income in quarterly consolidated statements of income	4,756

 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, 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.

## 4. Supplementary Information

## (1) Overseas net sales

Consolidated first half under review (From April 1, 2015 to September 30, 2015) (Million yen)

	Asia	America	Europe	Total
I Overseas net sales	12,132	2,089	1,533	15,755
II Consolidated net sales				21,141
III Ratio of overseas net sales to consolidated net sales (%)	57.4	9.9	7.2	74.5

(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, 2014 to September 30, 2014)		Consolidated first half under review (From April 1, 2015 to September 30, 2015)		Year-on-year change	
		%		%		%
Automatic lathes	26,606	89.6	16,610	78.6	-9,995	-37.6
Grinding machines	1,433	4.8	1,910	9.0	476	33.2
Machining centers	712	2.4	344	1.6	-367	-51.6
Rolling machines and specialized machines.	780	2.6	2,143	10.2	1,362	174.5
Other	170	0.6	132	0.6	-38	-22.3
Total	29,703	100.0	21,141	100.0	-8,562	-28.8
(Overseas net sales )	(25,590)	(86.2)	(15,755)	(74.5)	(-9,834)	(-38.4)