

Summary of Financial Results for the Fiscal Year Ended March 31, 2017

May 12, 2017

TSUGAMI CORPORATION

Stock code: 6101

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Scheduled date of annual shareholders meeting: June 21, 2017

Scheduled date of commencement of dividend payments: May 29, 2017

Scheduled date of submission of securities report: June 22, 2017

Supplementary briefing materials to be created: Yes

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

1. Consolidated business performance for the fiscal year ended March 31, 2017

(From April 1, 2016 to March 31, 2017)

(Figures are rounded down to the nearest one million yen.)

(1) Consolidated operating results

(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	%
Fiscal year ended March 31, 2017	41,050	2.3	3,083	45.1	2,848	160.0	2,630	199.8
Fiscal year ended March 31, 2016	40,132	-25.9	2,125	-70.7	1,095	-85.9	877	-83.4

(Note): Comprehensive income: Fiscal year ended March 31, 2017: ¥3,516 million (-- %)

Fiscal year ended March 31, 2016: ¥-1,428 million (-118.2 %)

	Net income per share	Net income per share after residual equity adjustment	Return on equity	Return on assets	Operating margin
	Yen	Yen	%	%	%
Fiscal year ended March 31, 2017	41.91	40.93	8.4	5.8	7.5
Fiscal year ended March 31, 2016	13.04	12.77	2.6	2.1	5.3

(Reference): Investment gain or loss by equity method: Fiscal year ended March 31, 2017: ¥11 million

Fiscal year ended March 31, 2016: ¥-37 million

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
Fiscal year ended March 31, 2017	50,127	31,462	61.1	510.43
Fiscal year ended March 31, 2016	47,859	32,594	66.2	473.78

(Reference): Shareholders' equity: Fiscal year ended March 31, 2017: ¥30,620 million

Fiscal year ended March 31, 2016: ¥31,693 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the term
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended March 31, 2017	5,550	920	-6,353	4,561
Fiscal year ended March 31, 2016	4,226	-959	-3,520	4,589

2. State of dividends

	Dividends per share					Total dividends (annual)	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 31, 2016	--	8.00	--	8.00	16.00	1,092	122.7	3.2
Fiscal year ended March 31, 2017	--	8.00	--	8.00	16.00	979	38.2	3.3
Fiscal year ending March 31, 2018 (forecast)	--	8.00	--	8.00	16.00		33.1	

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
First half	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

*Notes

(1) Important changes in subsidiaries during the fiscal year 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: applied

(ii) Changes in accounting policy other than those stated in item (i) above: none

(iii) Changes in accounting estimates: none

(iv) Restatements: none

(Note) For details, please refer to [3. Consolidated Financial Statements and Significant Notes, (5) Notes concerning the Consolidated Financial Statements, (Changes in Accounting Policy)] on page 12 of the accompanying documents.

(3) Numbers of outstanding shares (common stock)

(i) Numbers of outstanding shares at the end of the terms (including treasury stock):

March 2017	64,919,379 shares	March 2016	74,919,379 shares
March 2017	4,930,207 shares	March 2016	8,023,683 shares
March 2017	62,779,569 shares	March 2016	67,292,440 shares

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

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

(Reference) Summary of non-consolidated business performance

Non-consolidated business performance for the fiscal year ended March 31, 2017 (From April 1, 2016 to March 31, 2017)

(1) Non-consolidated operating results

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 31, 2017	28,601	-10.2	89	--	706	179.9	1,253	328.9
Fiscal year ended March 31, 2016	31,852	-9.0	-184	--	252	-90.0	292	-82.8

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
Fiscal year ended March 31, 2017	19.96	19.50
Fiscal year ended March 31, 2016	4.34	4.25

(2) Non-consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
Fiscal year ended March 31, 2017	33,331	24,708	72.1	400.56
Fiscal year ended March 31, 2016	33,281	26,574	77.6	386.23

(Reference): Shareholders' equity: Fiscal year ended March 31, 2017: ¥24,029 million

Fiscal year ended March 31, 2016: ¥25,837 million

* This summary of financial results falls outside the scope of audit procedures.

* Explanations for the appropriate use of business forecasts and other items warranting special mention

The business forecasts presented above are produced on the basis of information accessible on the date of their announcement.

Actual performance may differ materially from these forecasts due to underlying uncertainties.

Accompanying Documents

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1. Consolidated Operating Results

(1) Overview of operating results under review

(i) Overview of the fiscal year under review

During the consolidated fiscal year under review, the Japanese economy continued to recover moderately, chiefly reflecting improvements in corporate earnings and employment.

In the machine tool industry, both the domestic market and the U.S. and European markets grew gradually. In the Chinese market, signs of a recovery emerged in all industries from the third quarter.

In this environment, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") sought to boost sales in auto parts-related sectors and a wide range of other industries. As a result, net sales increased from a year ago, and income also rose, reflecting the posting of a gain on sales of non-current assets, in addition to higher net sales.

Net sales for the fiscal year under review increased 2.3% year on year, to ¥41,050 million.

Net sales in Japan decreased 8.8% year on year, to ¥10,305 million. Exports increased 6.6% year on year, to ¥30,744 million. The export ratio increased from 71.8% for the previous fiscal year, to 74.9%.

A breakdown of net sales by machinery category shows that sales of mainstay Automatic lathes rose 8.4% year on year, to ¥34,217 million, sales of Grinding machines fell 24.3%, to ¥3,332 million, sales of Machining centers fell 12.3%, to ¥500 million, and sales of Rolling machines and other specialized machines fell 18.1%, to ¥2,723 million.

Operating income increased 45.1% year on year, to ¥3,083 million. Ordinary income increased 160.0% year on year, to ¥2,848 million and net income attributable to owners of parent increased 199.8% year on year, to ¥2,630 million for the fiscal year under review.

(iii) Forecasts for the next fiscal year

The Japanese market and the U.S. and European markets are expected to continue growing moderately, and the recovery is currently pronounced in the Chinese market. However, the Group expects a sense of uncertainty to emerge about the future of these economies. The Group's forecasts are as follows:

Consolidated business performance forecasts for the fiscal year ending March 31, 2018

(Million yen)

	First half	Full year
Net sales	24,000	45,000
Operating income	2,700	4,500
Ordinary income	2,500	4,300
Net income attributable to owners of parent	1,700	2,900

(2) Overview of the consolidated financial position under review

(i) State of assets, liabilities and net assets

Assets totaled ¥50,127 million at the end of the fiscal year under review, increasing ¥2,268 million from the end of the previous fiscal year.

The increase resulted primarily from increases of ¥3,983 million in trade notes and accounts receivable and ¥2,177 million in investment securities which offset decreases of ¥2,185 million in inventories and ¥1,710 million in property, plant and equipment.

Liabilities came to ¥18,665 million, increasing ¥3,399 million from the end of the previous fiscal year.

The result was mainly attributable to increases of ¥3,748 million in trade notes and accounts payable, ¥614 million in deferred tax liabilities, ¥363 million in advances received and ¥258 million in income taxes payable offsetting ¥1,943 million decrease in short-term loans payable.

Net assets stood at ¥31,462 million at the end of the fiscal year under review, decreasing ¥1,131 million from the end of the previous fiscal year.

The decline mainly reflected increases of ¥2,630 million in net income attributable to owners of the parent and ¥1,528 million in valuation difference on available-for-sale securities which offset decreases of ¥3,734 million decrease in purchase of treasury stock, ¥1,034 million in dividends paid and ¥662 million in foreign currency translation adjustment.

As a result of the changes stated above, the capital adequacy ratio came to 61.1%, declining 5.1 percentage points from the end of the previous fiscal year.

In the consolidated fiscal year under review, the Company has retired 10,000,000 treasury shares worth ¥5,380 million by using its capital surplus.

(ii) State of cash flows

Cash and cash equivalents declined by ¥27 million from the end of the previous fiscal year, to ¥4,561 million at the end of the consolidated fiscal year under review.

(Cash flows from operating activities)

Cash provided by operating activities was ¥5,550 million. (provided ¥4,226 million previous year)

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥3,666 million, depreciation and amortization of ¥989 million, ¥3,871 million increase in trade notes and accounts payable and ¥1,574 million decrease in inventories, which offset decreases in cash, such as a ¥4,086 million increase in trade notes and accounts receivable and ¥864 million in corporate and other taxes paid.

(Cash flows from investing activities)

Cash provided by investing activities was ¥920 million. (used ¥959 million previous year)

The cash inflow was primarily attributable to a ¥1,343 million increase in cash that resulted from the proceeds from sales of property, plant and equipment, offsetting cash outflow consisting of a ¥270 million payment into deposits (deposits made until the completion of the soil contamination investigation as a result of the sale of property, plant and equipment) and a ¥162 million purchase of property, plant and equipment.

(Cash flows from financing activities)

Cash used for financing activities was ¥6,353 million. (used ¥3,520 million previous year)

The cash outflow resulted mainly from decreases in cash, ¥1,629 million decrease in short-term loans payable, ¥3,739 million spent on the purchase of treasury stock and dividends paid of ¥1,034 million.

(3) Basic policy relating to profit distribution, and dividends for the fiscal year under review and the following fiscal year

The Group adopts a basic policy of increasing its collective capabilities and returning profits to shareholders by sustaining aggressive investment in development projects in response to changing social demands and continuing its efforts to enhance competitiveness and streamline management.

Based on this policy, the Group is united in its commitment to strengthening its business structure and achieving stable dividends.

The Group will also deal appropriately with the acquisition of treasury stock for the flexible enforcement of capital policies and other purposes as part of its measures for returning profits to shareholders, based on a comprehensive assessment of factors, including the need, financial conditions and share price trends.

For the consolidated fiscal year ended March 31, 2017, the Company has decided to pay annual dividends of ¥16 per share, including interim dividends of ¥8 per share and year-end dividends of ¥8 per share.

For the consolidated fiscal year ending March 31, 2018, the Company plans to pay annual dividends of ¥16 per share, including interim dividends of ¥8 per share and year-end dividends of ¥8 per share.

2. Basic Approach to the Selection of Accounting Standards

The Group's policy is to prepare its consolidated financial statements in accordance with Japanese accounting standards for the time being, to facilitate comparisons between periods and comparisons between companies. The Group will address the issue of adoption of International Financial Reporting Standards as appropriate, taking into consideration conditions both inside and outside of Japan.

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 fiscal year under review (As of March 31, 2017)
Assets		
Current assets		
Cash and deposits	4,744	4,666
Trade notes and accounts receivable	5,862	9,846
Merchandise and finished goods	8,035	7,108
Work in process	3,800	3,756
Raw materials and supplies	6,463	5,249
Consumption taxes receivable	781	718
Deferred tax assets	489	488
Other	509	676
Allowance for doubtful accounts	-47	-41
Total current assets	30,639	32,468
Non-current assets		
Property, plant and equipment		
Buildings and structures	10,759	8,651
Accumulated depreciation	-5,134	-4,014
Buildings and structures (net)	5,625	4,636
Machinery, equipment and vehicles	9,790	8,297
Accumulated depreciation	-6,243	-5,423
Machinery, equipment and vehicles (net)	3,547	2,874
Land	473	450
Leased assets	38	38
Accumulated depreciation	-18	-20
Leased assets (net)	19	17
Construction in progress	0	0
Other	1,145	987
Accumulated depreciation	-905	-770
Other (net)	240	217
Total property, plant and equipment	9,906	8,196
Intangible assets	698	649
Investments and other assets		
Investment securities	4,980	7,157
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	893	915
Long-term loans receivable	583	593
Deferred tax assets	2	2
Other	143	131
Total investments and other assets	6,614	8,813
Total non-current assets	17,219	17,659
Total assets	47,859	50,127

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2016)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	5,857	9,606
Short-term loans payable	6,127	4,183
Income taxes payable	267	525
Provision for bonuses	205	232
Advances received	542	905
Provision for product warranties	324	322
Other	659	986
Total current liabilities	13,983	16,762
Non-current liabilities		
Deferred tax liabilities	511	1,125
Provision for directors' retirement benefits	16	22
Net defined benefit liability	703	718
Other	50	36
Total non-current liabilities	1,281	1,902
Total liabilities	15,265	18,665
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	5,884	478
Retained earnings	15,653	17,250
Treasury stock	-4,837	-2,986
Total shareholders' equity	29,045	27,087
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,779	3,308
Foreign currency translation adjustment	991	329
Remeasurements of defined benefit plans	-123	-104
Total accumulated other comprehensive income	2,647	3,533
Subscription rights to shares	900	842
Total net assets	32,594	31,462
Total liabilities and net assets	47,859	50,127

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

	(Million yen)	
	Previous consolidated fiscal year (From April 1, 2015 to March 31, 2016)	Consolidated fiscal year under review (From April 1, 2016 to March 31, 2017)
Net sales	40,132	41,050
Cost of sales	31,164	31,418
Gross profit	8,968	9,631
Selling, general and administrative expenses		
Salaries and allowances	1,630	1,601
Provision for bonuses	74	79
Retirement benefit expenses	49	52
Provision for directors' retirement benefits	4	5
Research and development expenses	1,187	1,320
Insurance expenses	178	164
Provision of allowance for doubtful accounts	5	--
Provision for product warranties	431	472
Other	3,281	2,853
Total selling, general and administrative expenses	6,843	6,547
Operating income	2,125	3,083
Non-operating income		
Interest income	21	23
Dividend income	148	141
Rent income	51	39
Reversal of allowance for doubtful accounts	--	5
Insurance income	43	59
Share of profit of entities accounted for using equity method	--	11
Other	56	44
Total non-operating income	322	325
Non-operating expenses		
Interest expenses	262	185
Loss on sales of notes payable	148	90
Foreign exchange losses	709	25
Payment fee	82	156
Share of loss of entities accounted for using equity method	37	--
Other	113	102
Total non-operating expenses	1,352	560
Ordinary income	1,095	2,848
Extraordinary income		
Gain on sales of non-current assets	4	871
Gain on sales of investments securities	2	--
Gain on reversal of subscription rights to shares	49	35
Subsidy income	187	47
Total extraordinary income	243	954
Extraordinary losses		
Loss on retirement of non-current assets	0	91
Loss on sales of non-current assets	14	7
Impairment loss	111	26
Loss on valuation of investments in capital of subsidiaries and associates	21	--
Loss on valuation of golf club membership	--	9
Total extraordinary losses	148	135
Income before taxes and other adjustments	1,190	3,666
Corporate, inhabitant and enterprise taxes	418	1,076
Deferred taxes	-105	-40
Total corporate and other taxes	313	1,035
Net income	877	2,630
Net income attributable to non-controlling interests	--	--
Net income attributable to owners of parent	877	2,630

(Consolidated Statements of Comprehensive Income)

(Million yen)

	Previous consolidated fiscal year (From April 1, 2015 to March 31, 2016)	Consolidated fiscal year under review (From April 1, 2016 to March 31, 2017)
Net income	877	2,630
Other comprehensive income		
Valuation difference on available-for-sale securities	-1,018	1,528
Foreign currency translation adjustment	-1,033	-673
Remeasurements of defined benefit plans, net of tax	-156	19
Share of other comprehensive income of entities accounted for using equity method	-98	11
Total other comprehensive income	-2,305	885
Comprehensive income	-1,428	3,516
(Breakdown)		
Comprehensive income attributable to owners of parent	-1,428	3,516
Comprehensive income attributable to non-controlling interests	--	--

(3) Consolidated Statements of Changes in Net Assets

Previous consolidated fiscal year (From April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	12,345	5,889	15,963	-2,738	31,460
Change during the fiscal year					
Cash dividends paid			-1,092		-1,092
Net income attributable to owners of parent			877		877
Change of scope of equity method			-79		-79
Purchase of treasury stock				-2,238	-2,238
Disposal of treasury stock		-5	-15	140	118
Other			-0		-0
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	-5	-309	-2,098	-2,414
Balance as of March 31, 2017	12,345	5,884	15,653	-4,837	29,045

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2016	2,798	2,123	32	4,953	865	37,279
Change during the fiscal year						
Cash dividends paid						-1,092
Net income attributable to owners of parent						877
Change of scope of equity method						-79
Purchase of treasury stock						-2,238
Disposal of treasury stock						118
Other						-0
Changes in items other than shareholders' equity during the fiscal year (net)	-1,018	-1,131	-156	-2,305	35	-2,270
Total change during the fiscal year	-1,018	-1,131	-156	-2,305	35	-4,684
Balance as of March 31, 2017	1,779	991	-123	2,647	900	32,594

Consolidated fiscal year under review (From April 1, 2016 to March 31, 2017)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2015	12,345	5,884	15,653	-4,837	29,045
Change during the fiscal year					
Cash dividends paid			-1,034		-1,034
Net income attributable to owners of parent			2,630		2,630
Purchase of treasury stock				-3,734	-3,734
Disposal of treasury stock		-25		204	179
Retirement of treasury stock		-5,380		5,380	--
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	-5,405	1,596	1,850	-1,958
Balance as of March 31, 2016	12,345	478	17,250	-2,986	27,087

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2015	1,779	991	-123	2,647	900	32,594
Change during the fiscal year						
Cash dividends paid						-1,034
Net income attributable to owners of parent						2,630
Purchase of treasury stock						-3,734
Disposal of treasury stock						179
Retirement of treasury stock						--
Changes in items other than shareholders' equity during the fiscal year (net)	1,528	-662	19	885	-58	826
Total change during the fiscal year	1,528	-662	19	885	-58	-1,131
Balance as of March 31, 2016	3,308	329	-104	3,533	842	31,462

(4) Consolidated Statements of Cash Flows

	(Million yen)	
	Previous consolidated fiscal year (From April 1, 2015 to March 31, 2016)	Consolidated fiscal year under review (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities		
Net income (loss) before taxes and other adjustments	1,190	3,666
Depreciation and amortization	1,092	989
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	177	98
Impairment loss	111	26
Subsidy income	-187	-47
Increase (decrease) in allowance for doubtful accounts	5	-5
Increase (decrease) in provision for bonuses	-22	27
Increase (decrease) in provision for product warranties	-97	7
Increase (decrease) in net defined benefit liability	-67	15
Interest and dividend income	-170	-165
Interest expenses	262	185
Share of (profit) loss of entities accounted for using equity method	37	-11
Loss (gain) on sales of investment securities	-2	--
Loss on retirement of non-current assets	0	91
Loss (gain) on sales of non-current assets	10	-864
Foreign exchange losses (gains)	229	64
Decrease (increase) in trade notes and accounts receivable	940	-4,086
Decrease (increase) in inventories	2,890	1,574
Decrease (increase) in advance payments	57	-138
Increase (decrease) in trade notes and accounts payable	-1,765	3,871
Increase (decrease) in advances received	253	382
Decrease (increase) in consumption taxes refund receivable	236	64
Other	-47	722
Sub total	5,106	6,434
Interest and dividend income received	146	142
Interest expenses paid	-226	-209
Proceeds from subsidy	187	47
Corporate and other taxes paid	-987	-864
Cash flows from operating activities	4,226	5,550
Cash flows from investing activities		
Payments into time deposits	-375	-155
Proceeds from withdrawal of time deposits	425	205
Payments into deposit	--	-270
Purchase of property, plant and equipment	-449	-162
Proceeds from sales of property, plant and equipment	117	1,343
Payments for retirement of property, plant and equipment	--	-8
Purchase of intangible assets	-47	-28
Expenditure for acquisition of investment securities	-301	-2
Proceeds from sales of investment securities	2	--
Payments of long-term loans receivable	-333	--
Other	2	0
Cash flows from investing activities	-959	920
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-212	-1,629
Proceeds from sales of treasury shares	35	58
Purchase of treasury shares	-2,241	-3,739
Cash dividends paid	-1,092	-1,034
Repayments of lease obligations	-9	-8
Cash flows from financing activities	-3,520	-6,353
Effect of exchange rate change on cash and cash equivalents	-110	-145
Net increase (decrease) in cash and cash equivalents	-362	-27
Cash and cash equivalents at the beginning of the term	4,952	4,589
Cash and cash equivalents at the end of the term	4,589	4,561

(5) Notes concerning the Consolidated Financial Statements

(Notes relating to the Going Concern Assumption)

No corresponding item exists.

(Important Matters that Become Basis of Presenting Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries

TSUGAMI MACHINERY CO., LTD.
 TSUGAMI GENERAL SERVICE CO., LTD.
 PRECISION TSUGAMI (CHINA) CORPORATION
 Shinagawa Precision Machinery (Zhejiang) Co., Ltd.
 TSUGAMI KOREA Co., Ltd.
 Precision Tsugami (China) Corporation Limited
 Precision Tsugami (Hong Kong) Limited

(2) Names of non-consolidated subsidiaries:

Non-consolidated subsidiaries:

TSUGAMI (THAI) CO., LTD.
 TSUGAMI EUROPE GmbH
 TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED
 TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED
 TSUGAMI Universal Pte. Ltd.

(Reason for non-consolidation)

The non-consolidated subsidiaries are small in size, and their total assets, sales, net income or loss (amounts to equivalent to the equity holding) and retained earnings (amounts to equivalent to the equity holding) do not have significant material effect on the consolidated financial statements.

2. Application of equity method

(1) Non-consolidated subsidiaries or affiliates accounted for by the equity method: 1

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

(2) The non-consolidated subsidiaries (TSUGAMI (THAI) CO., LTD., TSUGAMI EUROPE GmbH, TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED and TSUGAMI Universal Pte. Ltd.) as well as the affiliate (REM SALES LLC), have little material effect on the consolidated net income or loss and the consolidated retained earnings, and further, have small significance in the Group as a whole.

For the above reason, the equity method is not applied on these companies."

3. Matters Concerning Fiscal year of consolidated subsidiaries, etc.

Among the consolidated subsidiaries, the balance sheet date of PRECISION TSUGAMI (CHINA) CORPORATION, Shinagawa Precision Machinery (Zhejiang) Co., Ltd. and Precision Tsugami (Hong Kong) Limited are December 31.

In preparing the consolidated financial statements, financial statements based on provisional calculations made as of the consolidated closing date were utilized in connection with this company.

(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 consolidated fiscal year 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 consolidated fiscal year 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 to the consolidated fiscal year under review.

(Changes in Method of Presentation)

(Consolidated Statements of Income)

"Payment fee" which had been included in "Other" of the non-operating income in the previous consolidated fiscal year, was posted as a separate item in the consolidated fiscal year under review because of an increase in its importance in terms of the amount. To reflect the change in the method of presentation, the Group changed the consolidated financial statements for the previous consolidated fiscal year.

As a result, "Other" of ¥195 million in the non-operating income in the consolidated statements of income for the previous consolidated fiscal year was divided into "Payment fee" of ¥82 million and "Other" of ¥113 million.

(Segment information)

a. Segment Information

1. Summary of reportable segments

The Company's reportable segments are its constituent units that disclose financial information separately. They fall under the scope of periodic reviews the Company's Board of Directors performs to determine the distribution of its management resources and to assess its operating results.

The Group manufactures and sells machine tools in Japan and abroad. The Group consists of geographic segments based on its manufacturing and sales organizations. The Company's reportable segments are Japan, China and South Korea, which are the areas where Group companies are located.

2. Basis of calculating net sales, income or loss, assets, liabilities and other items by reportable segment

The accounting methods for the reportable segments are the same as those described in "Important Matters that Become Basis of Presenting Consolidated Financial Statements."

Segment income is based on operating income for each reportable segment.

Intersegment revenue and transfers are based on market prices.

3. Information relating to net sales income or loss, assets, liabilities and other items by reportable segment.

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

(Million yen)

	Reportable segment				Adjustment (Note) 1	Consolidated financial statement amount (Note) 2
	Japan	China	South Korea	Total		
Net sales						
Net sales to external customers	24,965	13,612	1,554	40,132	--	40,132
Intersegment net sales or transfers to other accounts	7,061	11,121	53	18,237	-18,237	--
Total	32,027	24,734	1,607	58,369	-18,237	40,132
Segment income (loss)	-28	1,907	128	2,007	118	2,125
Segment assets	21,137	19,537	1,089	41,763	6,095	47,859
Other items						
Depreciation and amortization	365	721	19	1,105	-13	1,091
Investments in equity method affiliates	616	--	--	616	--	616
Increases in property, plant and equipment and intangible assets	130	417	48	595	--	595

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of ¥118 million is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of ¥6,095 million includes Company-wide assets of ¥8,371 million and an effect of intersegment adjustments of ¥-2,275 million.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

2. Segment income is adjusted in accordance with operating income on the consolidated financial statements.

Consolidated fiscal year under review (from April 1, 2016 to March 31, 2017)

(Million yen)

	Reportable segment				Adjustment (Note) 1	Consolidated financial statement amount (Note) 2
	Japan	China	South Korea	Total		
Net sales						
Net sales to external customers	21,876	17,905	1,268	41,050	--	41,050
Intersegment net sales or transfers to other accounts	7,017	8,841	43	15,903	-15,903	--
Total	28,894	26,747	1,312	56,953	-15,903	41,050
Segment income (loss)	233	2,938	78	3,250	-166	3,083
Segment assets	19,719	22,510	981	43,211	6,916	50,127
Other items						
Depreciation and amortization	293	689	20	1,003	-12	991
Investments in equity method affiliates	--	--	--	--	--	--
Increases in property, plant and equipment and intangible assets	81	160	69	311	--	311

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of ¥166 million is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of ¥6,916 million includes Company-wide assets of ¥10,037 million and an effect of intersegment adjustments of ¥-3,123 million.

Company-wide assets are primarily assets that do not belong to any reportable segment (cash and deposits and investment securities).

2. Segment income is adjusted in accordance with operating income on the consolidated financial statements.

(Per Share information)

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Consolidated fiscal year under review (from April 1, 2016 to March 31, 2017)
Net assets per share	¥473.78	¥510.43
Net income per share	¥13.04	¥41.91
Net income per share after residual equity adjustment	¥12.77	¥40.93

(Note) The bases for the calculation of net income per share and net income per share after residual equity adjustment are as follows.

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Consolidated fiscal year under review (from April 1, 2016 to March 31, 2017)
Net income per share		
Net income attributable to owners of parent (million yen)	877	2,630
Amount not attributed to common shareholders (million yen)	--	--
Net income attributable to owners of parent on common shares (million yen)	877	2,630
Average number of shares during the period (thousand shares)	67,292	62,779
Net income per share after residual equity adjustment		
Adjustment in net income attributable to owners of parent (million yen)	--	--
Increase in common shares (thousand shares)	1,441	1,498
(Stock option) (thousand shares)	(1,441)	(1,498)
Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect	<p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 15, 2012 (Number of shares: 152,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 21, 2013 (Number of shares: 200,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 20, 2014 (Number of shares: 200,000)</p> <p>(Consolidated subsidiary)</p> <p>Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000)</p>	<p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 15, 2012 (Number of shares: 131,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 21, 2013 (Number of shares: 150,000)</p> <p>Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 20, 2014 (Number of shares: 170,000)</p> <p>(Consolidated subsidiary)</p> <p>Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000)</p>

(Important post-balance sheet events)

No corresponding event occurred.

4. Other

(1) Supplementary Information

(i) Overseas net sales

Consolidated fiscal year under review (from April 1, 2016 to March 31, 2017)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	24,267	3,173	3,303	30,744
II Consolidated net sales				41,050
III Ratio of overseas net sales to consolidated net sales (%)	59.1	7.7	8.1	74.9

(Notes) 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.

(ii) Net sales by machinery category

(Million yen)

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)		Consolidated fiscal year under review (from April 1, 2016 to March 31, 2017)		Year-on-year change	
		%		%		%
Automatic lathes	31,579	78.7	34,217	83.4	2,637	8.4
Grinding machines	4,399	11.0	3,332	8.1	-1,066	-24.3
Machining centers	570	1.4	500	1.2	-70	-12.3
Rolling machines and specialized machines	3,326	8.3	2,723	6.6	-603	-18.1
Other	257	0.6	277	0.7	20	7.8
Total	40,132	100.0	41,050	100.0	917	2.3
(Overseas net sales)	(28,834)	(71.8)	(30,744)	(74.9)	(1,909)	(6.6)

(2) Changes in Directors (scheduled to take effect on June 21, 2017)

- New Directors candidate

Nobuyuki Nagai (currently Executive adviser and Plant Manager)

Wang Xiaokun (currently Director, Vice president and Executive General Manager of Sales Department of PRECISION TSUGAMI (CHINA) CORPORATION)

- New statutory auditor candidate

Kenji Yoneyama (currently Senior adviser, Accounting)

- Statutory auditor scheduled to retire from the post

Kenji Yamada (plans to assume the post of Advisor)