

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

January 29, 2018

TSUGAMI CORPORATION

Stock code: 6101

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Supplementary briefing materials to be created: Yes

Results investors meeting to be held: None

1. Consolidated business performance for the first nine months of the fiscal year ending March 31, 2018

(From April 1, 2017 to December 31, 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	%
First nine months of the fiscal year ending March 31, 2018	42,269	38.6	4,976	139.5	4,713	124.0	3,140	48.7
First nine months of the fiscal year ended March 31, 2017	30,488	-1.2	2,077	18.1	2,104	98.9	2,111	159.2

(Note): Comprehensive income: First nine months of the fiscal year ending March 31, 2018: ¥5,215 million (73.0%)

First nine months of the fiscal year ended March 31, 2017: 3,013 million yen (-- %)

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
First nine months of the fiscal year ending March 31, 2018	55.44	53.86
First nine months of the fiscal year ended March 31, 2017	33.30	32.51

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
First nine months of the fiscal year ending March 31, 2018	60,394	37,358	(Note) 52.1	587.14
Fiscal year ended March 31, 2017	50,127	31,462	61.1	510.43

(Reference): Shareholders' equity: First nine months of the fiscal year ending March 31, 2018: ¥31,452 million

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

(Note) Capital adequacy ratio before non-controlling interest (Precision Tsugami (China) Co., Ltd.) is 60.5%

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, 2017	--	8.00	--	8.00	16.00
Fiscal year ending March 31, 2018	--	9.00	--		
Fiscal year ending March 31, 2018 (forecast)				9.00	18.00

(Note) Revision of dividend forecasts from the latest announcement: 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
Full-year	52,000	26.7	6,000	94.6	5,600	96.6	3,600	36.8	64.39

(Note) Revision of consolidated business performance forecasts from the latest announcement: none

*Notes

(1) Important changes in subsidiaries during the first nine months 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 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: 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. Consolidated Financial Statements and Significant Notes, (4) Notes relating to the Consolidated Financial Statements (Changes in accounting policy)] on page 9 of the accompanying documents.

(4) Numbers of outstanding shares (common shares)

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

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

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

First nine months of FY2017	55,000,000 shares	FY2016	64,919,379 shares
First nine months of FY2017	1,431,216 shares	FY2016	4,930,207 shares
First nine months of FY2017	56,637,936 shares	First nine months of FY2016	63,411,467 shares

* This document 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 “Information Relating to Consolidated Business Performance Forecasts” on page 2 of the accompanying documents of this summary of financial results for the first nine months.

Accompanying Documents

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1. Qualitative Information Relating to Consolidated Results, Etc.

(1) Information Relating to Consolidated Operating Results

For the first nine months of the fiscal year under review, the Company's operating results increased both in revenue and earnings. Net sales in the first nine months under review increased 38.6% year on year, to ¥42,269 million, operating income increased 139.5% year on year, to ¥4,976 million, ordinary income rose 124.0% year on year, to ¥4,713 million and net income attributable to owners of parent increased 48.7% year on year, to ¥3,140 million.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled ¥60,394 million at the end of the first nine months under review, increasing ¥10,266 million from the end of the previous fiscal year. The increase resulted primarily from increase of ¥6,139 million in cash and deposit. Liabilities came to ¥23,036 million, up ¥4,370 million from the end of the previous fiscal year. The result was mainly attributable to increase of ¥3,063 million in trade notes and accounts payable.

Net assets stood at ¥37,358 million at the end of the first nine months under review, increasing ¥5,895 million from the end of the previous fiscal year. The increase mainly reflected decrease of ¥5,020 million in retained earnings, resulting ¥3,140 million increase from net income attributable to owners of the parent offsetting decrease of ¥7,159 million from retirement of treasury stock, increase of ¥2,344 million in capital surplus (Note 1), decrease of ¥1,883 million in treasury stock (Note 2) and increase of ¥5,108 million in non-controlling interests.

(Note1)(Note 2) The details are set forth on page 9 (Notes for cases where shareholders' equity underwent a major change in value).

(ii) State of cash flows

Cash and cash equivalents amounted to ¥10,695 million at the end of the first nine months under review, increasing ¥6,134 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Cash generated by operating activities was ¥7,123 million.

The cash inflow was primarily attributable to increase in cash from net income before taxes and other adjustments.

(Cash flows from investing activities)

Cash generated by investing activities was ¥28 million.

(Cash flows from financing activities)

Cash used for financing activities was ¥1,129 million.

The cash outflow resulted mainly from decrease in cash due to purchase of treasury stock.

(3) Information Relating to Consolidated Business Performance Forecasts

The consolidated business performance forecasts for the fiscal year ending March 31, 2018 remain unchanged from the Notice of Revisions to Business Performance Forecasts published on November 13, 2017.

We plan to pay annual dividends of 18 yen per share as announced on November 13, 2017, including interim dividends of 9 yen per share and year-end dividends of 9 yen per share, for the fiscal year ending March 31, 2018.

2. Consolidated Financial Statements and Significant Notes

(1) 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 nine months under review (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	4,666	10,805
Trade notes and accounts receivable	9,846	11,955
Merchandise and finished goods	7,108	7,537
Work in process	3,756	4,439
Raw materials and supplies	5,249	4,622
Consumption taxes receivable	718	643
Deferred tax assets	488	497
Other	676	387
Allowance for doubtful accounts	-41	-57
Total current assets	32,468	40,831
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,636	4,730
Machinery, equipment and vehicles, net	2,874	2,968
Land	450	451
Leased assets, net	17	11
Construction in progress	0	88
Other, net	217	243
Total property, plant and equipment	8,196	8,494
Intangible assets	649	675
Investments and other assets		
Investment securities	7,157	8,766
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	915	726
Long-term loans receivable	593	606
Deferred tax assets	2	3
Other	131	278
Total investments and other assets	8,813	10,393
Total non-current assets	17,659	19,563
Total assets	50,127	60,394

	(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 nine months under review (As of December 31, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	9,606	12,669
Short-term loans payable	4,183	2,600
Advances received	905	1,867
Income taxes payable	525	1,214
Provision for bonuses	232	218
Provision for product warranties	322	389
Other	986	1,593
Total current liabilities	16,762	20,554
Non-current liabilities		
Deferred tax liabilities	1,125	1,698
Provision for directors' retirement benefits	22	20
Net defined benefit liability	718	731
Other	36	30
Total non-current liabilities	1,902	2,481
Total liabilities	18,665	23,036
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	478	2,823
Retained earnings	17,250	12,229
Treasury stock	-2,986	-1,103
Total shareholders' equity	27,087	26,293
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	4,493
Foreign currency translation adjustment	329	748
Remeasurements of defined benefit plans	-104	-83
Total accumulated other comprehensive income	3,533	5,158
Subscription rights to shares	842	796
Non-controlling interests	-	5,108
Total net assets	31,462	37,358
Total liabilities and net assets	50,127	60,394

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

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2016 to December 31, 2016)	Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)
Net sales	30,488	42,269
Cost of sales	23,421	31,583
Gross profit	7,067	10,685
Selling, general and administrative expenses		
Salaries and allowances	1,196	1,321
Provision of allowance for doubtful accounts	--	15
Provision for bonuses	52	90
Retirement benefit expenses	38	44
Provision for directors' retirement benefits	4	1
Research and development expenses	1,028	1,053
Insurance expenses	125	128
Provision for product warranties	331	399
Other	2,212	2,654
Total selling, general and administrative expenses	4,989	5,709
Operating income	2,077	4,976
Non-operating income		
Interest income	16	27
Dividend income	140	156
Foreign exchange gains	80	86
Reversal of allowance for doubtful accounts	10	--
Insurance income	54	57
Other	73	38
Total non-operating income	376	366
Non-operating expenses		
Interest expenses	144	115
Loss on sales of notes receivable	65	136
Commission fee	54	300
Share of loss of entities accounted for using equity method	5	0
Other	80	76
Total non-operating expenses	349	628
Ordinary income	2,104	4,713
Extraordinary income		
Gain on sales of non-current assets	882	35
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
Subsidy income	3	18
Total extraordinary income	922	235
Extraordinary losses		
Loss on retirement of non-current assets	67	269
Loss on sales of non-current assets	0	5
Loss on valuation of golf club membership	9	--
Loss from performance of warranty against defects	--	30
Total extraordinary losses	76	305
Income before taxes and other adjustments	2,949	4,644
Corporate, inhabitant and enterprise taxes	821	1,269
Deferred taxes	16	73
Total corporate and other taxes	837	1,343
Net income	2,111	3,300
Net income attributable to non-controlling interests	--	160
Net income attributable to owners of parent	2,111	3,140

(Consolidated Statements of Comprehensive Income)

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2016 to December 31, 2016)	Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)
Net income	2,111	3,300
Other comprehensive income		
Valuation difference on available-for-sale securities	1,341	1,185
Foreign currency translation adjustment	-471	688
Share of other comprehensive income of entities accounted for using equity method	7	19
Remeasurements of defined benefit plans, net of tax	24	21
Total other comprehensive income	902	1,914
Comprehensive income	3,013	5,215
(Breakdown)		
Comprehensive income attributable to owners of parent	3,013	4,994
Comprehensive income attributable to non-controlling interests	--	220

(3) Consolidated Statements of Cash Flows

(Million yen)

	Consolidated first nine months previous year (From April 1, 2016 to December 31, 2016)	Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Net income before taxes and other adjustments	2,949	4,644
Depreciation and amortization	762	730
Gain on reversal of subscription rights to shares	-35	-2
Share-based compensation expenses	77	94
Subsidy income	-3	-18
Increase (decrease) in allowance for doubtful accounts	-10	15
Increase (decrease) in provision for bonuses	-36	-13
Increase (decrease) in provision for product warranties	-23	58
Increase (decrease) in net defined benefit liability	4	12
Interest and dividend income	-157	-184
Commission fee	--	300
Interest expenses	144	115
Loss on retirement of non-current assets	67	269
Share of (profit) loss of entities accounted for using equity method	5	0
Loss (gain) on sales of non-current assets	-882	-30
Loss (gain) on sales of investment securities	--	-97
Gain on sales of investments in capital of affiliate	--	-81
Loss from performance of warranty against defects	--	30
Foreign exchange losses (gains)	65	-20
Decrease (increase) in trade notes and accounts receivable	-3,198	-1,695
Decrease (increase) in inventories	1,850	-63
Decrease (increase) in advance payments	-13	88
Increase (decrease) in trade notes and accounts payable	3,875	2,661
Increase (decrease) in advances received	317	910
Decrease (increase) in consumption taxes refund receivable	166	75
Other	830	222
Subtotal	6,755	8,022
Interest and dividend income received	134	160
Interest expenses paid	-182	-130
Proceeds from subsidy income	3	18
Payments for performance of warranty against defects	--	-4
Corporate and other taxes paid	-639	-941
Cash flows from operating activities	6,072	7,123
Cash flows from investing activities		
Payments into time deposits	-141	-104
Proceeds from withdraw of time deposits	141	104
Payments into deposit	-270	--
Proceeds from withdraw of deposit	--	200
Purchase of property, plant and equipment	-117	-563
Proceeds from sales of property, plant and equipment	1,351	83
Payments for retirement of property, plant and equipment	--	-2
Purchase of intangible assets	-13	-20
Expenditure for acquisition of investment securities	-1	-1
Proceeds from sales of investment securities	--	183
Collection of investments in capital	--	152
Other	0	-2
Cash flows from investing activities	949	28

(Million yen)

	Consolidated first nine months previous year (From April 1, 2016 to December 31, 2016)	Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)
Cash flows from financing activities		
Decrease in short-term loans payable	-1,677	-1,848
Proceeds from sales of Treasury stock	15	204
Purchase of Treasury stock	-2,363	-6,124
Cash dividends paid	-1,034	-978
Repayments of lease obligations	-6	-6
Payment for commission fee	--	-331
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	--	2,288
Proceeds from share issuance to non-controlling shareholders	--	5,667
Cash flows from financing activities	-5,066	-1,129
Effect of exchange rate change on cash and cash equivalents	-150	112
Net increase (decrease) in cash and cash equivalents	1,803	6,134
Cash and cash equivalents at the beginning of the term	4,589	4,561
Cash and cash equivalents at the end of the term	6,392	10,695

(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)

Note 1: Precision Tsugami (China) Corporation Limited, a consolidated subsidiary of the Company, was listed on the Main Board of The Stock Exchange of Hong Kong Limited on September 25, 2017 and issued new shares and made a secondary offering of some of its shares owned by the parent company.

Precision Tsugami (China) Corporation Limited also increased capital through private placement in relation to the secondary offering by way of over-allotment on the Stock Exchange of Hong Kong Limited on which the company was listed, and the payment was completed on October 13, 2017.

As a result, capital surplus increased ¥2,823 million at the end of the first nine months under review.

Capital surplus increased ¥2,344 million including ¥478 million decrease due to retirement of treasury stock.

Note2: The Company acquired treasury stock of 6,958 thousand shares in the first nine months under review based on resolutions at a meeting of the Board of Directors held on March 13, 2017, June 21, 2017, July 12, 2017 and September 15, 2017, leading to a ¥6,115 million increase in treasury stock.

Treasury stock also decreased ¥364 million resulting from disposal of treasury stock.

The Company retired treasury stock of 9,919 thousand shares on October 20, 2017 based on a resolution at a meeting of the Board of Directors held on October 16, 2017, leading to decreases of ¥478 million in capital surplus, ¥7,159 million in retained earnings and ¥7,637 million in treasury stock.

As a result, treasury stock decreased ¥1,883 million.

As a result of the changes stated above, capital surplus, retained earnings and treasury stock came to ¥2,823 million, ¥12,229 million and ¥1,103 million, respectively, at the end of the first nine months under review.

(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 nine months of the fiscal year under review each increased by ¥15 million.

(Segment information)

I. Consolidated first nine months previous year (From April 1, 2016 to December 31, 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	16,425	13,099	963	30,488
Intersegment net sales or transfer to other accounts	5,518	6,875	31	12,426
Total	21,944	19,975	995	42,915
Segment income	185	2,012	36	2,234

2. Total income or loss for reportable segments, its difference from the amount stated in consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	2,234
Elimination of unrealized income and others	-156
Operating income in consolidated statements of income	2,077

II. Consolidated first nine months under review (From April 1, 2017 to December 31, 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	19,539	21,657	1,071	42,269
Intersegment net sales or transfer to other accounts	5,513	8,330	15	13,859
Total	25,053	29,987	1,087	56,128
Segment income	1,295	3,681	71	5,048

2. Total income or loss for reportable segments, its difference from the amount stated in consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	5,048
Elimination of unrealized income and others	-72
Operating income in consolidated statements of income	4,976

3. Information relating to impairment loss on non-current assets or goodwill, etc.

(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 nine months of the fiscal year under review increased by ¥15 million in Japan, one of the Company's reportable segments.

(Business combination, etc.)

(Transaction under common control, etc.)

Precision Tsugami (China) Corporation Limited, a consolidated subsidiary of the Company, was listed on the Main Board of The Stock Exchange of Hong Kong Limited on September 25, 2017 and issued new shares and made a secondary offering of some of its shares owned by the parent company.

Precision Tsugami (China) Corporation Limited also increased capital through private placement in relation to the secondary offering by way of over-allotment on the Stock Exchange of Hong Kong Limited on which the company was listed, and the payment was completed on October 13, 2017.

1. Overview of the transaction

(1) Name and business of the company involved in the business combination

Name of the company involved in business combination: Precision Tsugami (China) Corporation Limited

Business: Manufacture and sale of machine tools (the principal business corporation is a local subsidiary in China)

(2) Date of business combination

September 25, 2017 (i) Issuance of new shares by the subsidiary through public offering (ii) Secondary offering of the subsidiary's shares)

October 13, 2017 ((iii) Issuance of new shares by the subsidiary through public offering)

(3) Legal form of business combination

(i) Issuance of new shares by the subsidiary through public offering

(ii) Secondary offering of the subsidiary's shares

(iii) Issuance of new shares by the subsidiary through public offering

(4) Company name after combination

No change

(5) Other matters related to the overview of the transaction

The consolidated subsidiary aims to raise funds for business through the issuance of new shares, and the Company aims to recover the amount of investment through a secondary offering of some of the subsidiary's shares.

As a result of the transaction, the percentage of voting rights of Precision Tsugami (China) Corporation Limited held by the Company declined to 72.29% at the end of the first nine months under review.

2. Overview of accounting

This transaction is treated as a transaction under common control based on the Accounting Standard for Business Combinations (Accounting Standard Board of Japan (ASBJ) Statement No.21 on September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 on September 13, 2013).

3. Supplementary Information

(1) Overseas net sales

Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	28,058	2,345	2,773	33,176
II Consolidated net sales				42,269
III Ratio of overseas net sales to consolidated net sales (%)	66.4	5.5	6.6	78.5

(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 nine months previous year (From April 1, 2016 to December 31, 2016)		Consolidated first nine months under review (From April 1, 2017 to December 31, 2017)		Year-on-year change	
		%		%		%
Automatic lathes	25,149	82.5	34,697	82.1	9,547	38.0
Grinding machines	2,638	8.7	3,012	7.1	374	14.2
Machining centers	439	1.4	239	0.6	-199	-45.4
Rolling machines and specialized machines.	2,064	6.8	4,066	9.6	2,001	97.0
Other	197	0.6	253	0.6	56	28.5
Total	30,488	100.0	42,269	100.0	11,780	38.6
(Overseas net sales)	(22,827)	(74.9)	(33,176)	(78.5)	(10,349)	(45.3)