

## Summary of Financial Results for the Fiscal Year Ended March 31, 2018

May 11, 2018

TSUGAMI CORPORATION

Stock code: 6101

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Scheduled date of annual shareholders meeting: June 20, 2018

Scheduled date of commencement of dividend payments: May 28, 2018

Scheduled date of submission of securities report: June 21, 2018

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, 2018

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

(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, 2018	57,576	40.3	6,942	125.1	6,510	128.5	4,171	58.5
Fiscal year ended March 31, 2017	41,050	2.3	3,083	45.1	2,848	160.0	2,630	199.8

(Note): Comprehensive income: Fiscal year ended March 31, 2018: ¥5,813 million (65.3%)

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

	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, 2018	74.71	71.97	13.5	11.5	12.1
Fiscal year ended March 31, 2017	41.91	40.93	8.4	5.8	7.5

(Reference): Investment gain or loss by equity method: Fiscal year ended March 31, 2018: ¥-- million

Fiscal year ended March 31, 2017: ¥11 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, 2018	62,656	37,516	(Note) 49.6	585.58
Fiscal year ended March 31, 2017	50,127	31,462	61.1	510.43

(Reference): Shareholders' equity: Fiscal year ended March 31, 2018: ¥31,083 million

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

(Note) Capital adequacy ratio before non-controlling interest (Precision Tsugami (China) Co., Ltd.) is 58.8%

#### (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, 2018	6,832	-615	-1,002	10,181
Fiscal year ended March 31, 2017	5,550	920	-6,353	4,561

### 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, 2017	--	8.00	--	8.00	16.00	979	38.2	3.3
Fiscal year ended March 31, 2018	--	9.00	--	9.00	18.00	976	24.1	3.3
Fiscal year ending March 31, 2019 (forecast)	--	9.00	--	9.00	18.00		22.2	

### 3. Consolidated business performance forecasts for the fiscal year ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(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	33,500	22.4	4,600	37.4	4,500	51.7	2,500	8.8	47.16
Full-year	61,500	6.8	8,000	15.2	7,800	19.8	4,300	3.1	81.13

\*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: 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 ended 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 [3. Consolidated Financial Statements and Significant Notes, (5) Notes relating to the Consolidated Financial Statements (Changes in accounting policy)] on page 9 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 2018	55,000,000 shares	March 2017	64,919,379 shares
March 2018	1,918,101 shares	March 2017	4,930,207 shares
March 2018	55,834,996 shares	March 2017	62,779,569 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, 2018 (From April 1, 2017 to March 31, 2018)

(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, 2018	33,821	18.3	1,450	--	1,767	150.1	3,072	145.2
Fiscal year ended March 31, 2017	28,601	-10.2	89	--	706	179.9	1,253	328.9

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
Fiscal year ended March 31, 2018	55.03	53.52
Fiscal year ended March 31, 2017	19.96	19.50

(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, 2018	36,570	21,129	56.0	385.68
Fiscal year ended March 31, 2017	33,331	24,708	72.1	400.56

(Reference): Shareholders' equity: Fiscal year ended March 31, 2018: ¥20,472 million

Fiscal year ended March 31, 2017: ¥24,029 million

\* This document is not subject to audit procedures based on the Financial Instruments and Exchange Act.

\* 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, Etc.

### (1) Overview of operating results under review

#### (i) Overview of the fiscal year under review

During the consolidated fiscal year under review, TSUGAMI Corporation (the "Company") and its affiliates (the "Group") have kept steady growth in both domestic, U.S. and European markets, and showed strong growth in the Chinese market. In this environment, the Group sought to boost sales in auto parts-related sectors and conventional industries. As a result, net sales for the fiscal year under review increased 40.3% year on year, to ¥57,576 million, operating income increased 125.1% year on year, to ¥6,942 million, ordinary income rose 128.5% year on year, to ¥6,510 million and net income attributable to owners of parent increased 58.5% year on year, to ¥4,171 million.

Net sales in Japan increased 23.0% year on year, to ¥12,670 million. Exports increased 46.1% year on year, to ¥44,905 million. The export ratio increased 3.1% year on year, to 78.0%.

A breakdown of net sales by machinery category shows that sales of mainstay Automatic lathes rose 40.1% year on year, to ¥47,949 million, sales of Grinding machines increased 26.7%, to ¥4,221 million, sales of Machining centers fell 46.1%, to ¥269 million, and sales of Rolling machines and other specialized machines rose 76.1%, to ¥4,795 million.

#### (iii) Forecasts for the next fiscal year

Although the Group expects a sense of uncertainty whether the Chinese market will continue to perform well, it is expected that the overall market including the domestic and overseas markets will remain steady.

The Group's forecasts are as follows:

Consolidated business performance forecasts for the fiscal year ending March 31, 2019

(Million yen)

	First half	Full year
Net sales	33,500	61,500
Operating income	4,600	8,000
Ordinary income	4,500	7,800
Net income attributable to owners of parent	2,500	4,300

### (2) Overview of the financial position under review

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

Assets totaled ¥62,656 million at the end of the fiscal year under review, increasing ¥12,528 million from the end of the previous fiscal year.

The increase resulted primarily from increases of ¥5,619 million in cash and deposits, ¥4,636 million in trade notes and accounts receivable and ¥1,250 million in inventories.

Liabilities came to ¥25,139 million, increasing ¥6,474 million from the end of the previous fiscal year.

The result was mainly attributable to increases of ¥4,429 million in trade notes and accounts payable, ¥1,260 million in advances received and ¥543 million in income taxes payable.

Net assets stood at ¥37,516 million at the end of the fiscal year under review, increasing ¥6,054 million from the end of the previous fiscal year.

The increase mainly reflected increases of ¥4,171 million in retained earnings resulting from net income attributable to owners of the parent and ¥956 million in other comprehensive income, as well as increases of ¥2,327 million in capital surplus and ¥5,776 million in non-controlling interests as a result of the issuance of new shares associated with the listing of a consolidated subsidiary on the Stock Exchange of Hong Kong Limited and the secondary offering of some of its shares owned by the parent company, which offset decreases of ¥978 million in retained earnings due to the payment of dividends and ¥6,491 million mainly due to the purchase of treasury stock.

As a result of the changes stated above, the capital adequacy ratio came to 49.6%, declining 11.5 percentage points from the end of the previous fiscal year.

In the consolidated fiscal year under review, the Company has retired 9,919,000 treasury shares worth ¥7,637 million by using its retained earnings and others.

## (ii) State of cash flows

Cash and cash equivalents amounted to ¥10,181 million at the end of the fiscal year under review, increasing ¥5,070 million from the end of the previous fiscal year. A description of each cash flow during the fiscal year was as follows:

(Cash flows from operating activities)

Cash provided by operating activities was ¥6,832 million. (provided ¥5,550 million previous year)

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥6,440 million, depreciation and amortization of ¥1,008 million, ¥3,554 million increase in trade notes and accounts payable and ¥1,197 million increase in advances received, which offset decreases in cash, such as a ¥4,334 million increase in trade notes and accounts receivable and ¥1,552 million in corporate and other taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was ¥615 million. (provided ¥920 million previous year)

The cash outflow was primarily attributable to decrease in cash of 1,258 million payment for purchase of property, plant and equipment offsetting cash inflow consisting of a ¥270 million of proceeds from withdraw of deposit and ¥183 million from sale of investment securities.

(Cash flows from financing activities)

Cash used for financing activities was ¥1,002 million. (used ¥6,353 million previous year)

The cash outflow resulted mainly from an increase in cash due to the issuance of new shares and others of ¥5,837 million associated with the listing of a consolidated subsidiary on the Stock Exchange of Hong Kong and the secondary offering of some of its shares worth ¥2,288 million owned by the parent company, as well as a decrease in cash due to the repayment of short-term loans payable of ¥1,148 million, the purchase of treasury stock of ¥6,848 million and cash dividends paid of ¥978 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, 2018, the Company has decided to pay annual dividends of ¥18 per share, including interim dividends of ¥9 per share and year-end dividends of ¥9 per share.

For the consolidated fiscal year ending March 31, 2019, the Company plans to pay annual dividends of ¥18 per share, including interim dividends of ¥9 per share and year-end dividends of ¥9 per share.

## 2. Basic Approach to the Selection of Accounting Standards

The Group plans to voluntarily adopt International Financial Reporting Standards (“IFRS”) for its consolidated financial statements from annual securities report for the fiscal year ending March 31, 2019, in order to improve the international comparability of its financial information in the capital markets.

## 3. 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 fiscal year under review (As of March 31, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	4,666	10,286
Trade notes and accounts receivable	9,846	14,482
Merchandise and finished goods	7,108	7,063
Work in process	3,756	4,953
Raw materials and supplies	5,249	5,347
Consumption taxes receivable	718	1,046
Deferred tax assets	488	525
Other	676	516
Allowance for doubtful accounts	-41	-56
Total current assets	32,468	44,165
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,651	9,283
Accumulated depreciation	-4,014	-4,297
Buildings and structures (net)	4,636	4,985
Machinery, equipment and vehicles	8,297	8,095
Accumulated depreciation	-5,423	-5,065
Machinery, equipment and vehicles (net)	2,874	3,029
Land	450	409
Leased assets	38	38
Accumulated depreciation	-20	-28
Leased assets (net)	17	9
Construction in progress	0	416
Other	987	1,074
Accumulated depreciation	-770	-779
Other (net)	217	294
Total property, plant and equipment	8,196	9,145
Intangible assets	649	696
Investments and other assets		
Investment securities	7,157	8,278
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	915	67
Long-term loans receivable	593	3
Deferred tax assets	2	3
Other	131	282
Total investments and other assets	8,813	8,648
Total non-current assets	17,659	18,490
Total assets	50,127	62,656

	(Million yen)	
	Figures at the end of the previous consolidated fiscal year (As of March 31, 2017)	Figures at the end of the consolidated fiscal year under review (As of March 31, 2018)
Liabilities		
Current liabilities		
Trade notes and accounts payable	9,606	14,035
Short-term loans payable	4,183	3,200
Income taxes payable	525	1,068
Provision for bonuses	232	275
Advances received	905	2,166
Provision for product warranties	322	457
Other	986	1,618
Total current liabilities	16,762	22,821
Non-current liabilities		
Deferred tax liabilities	1,125	1,550
Provision for directors' retirement benefits	22	21
Net defined benefit liability	718	716
Other	36	29
Total non-current liabilities	1,902	2,318
Total liabilities	18,665	25,139
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	478	2,806
Retained earnings	17,250	13,257
Treasury stock	-2,986	-1,814
Total shareholders' equity	27,087	26,594
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,308	4,149
Foreign currency translation adjustment	329	409
Remeasurements of defined benefit plans	-104	-69
Total accumulated other comprehensive income	3,533	4,489
Subscription rights to shares	842	656
Non-controlling interests	--	5,776
Total net assets	31,462	37,516
Total liabilities and net assets	50,127	62,656

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

	(Million yen)	
	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Net sales	41,050	57,576
Cost of sales	31,418	43,021
Gross profit	9,631	14,554
Selling, general and administrative expenses		
Salaries and allowances	1,601	1,839
Provision for bonuses	79	99
Retirement benefit expenses	52	58
Provision for directors' retirement benefits	5	3
Research and development expenses	1,320	1,318
Insurance expenses	164	177
Provision of allowance for doubtful accounts	--	12
Provision for product warranties	472	563
Other	2,853	3,541
Total selling, general and administrative expenses	6,547	7,612
Operating income	3,083	6,942
Non-operating income		
Interest income	23	58
Dividend income	141	158
Reversal of allowance for doubtful accounts	5	--
Insurance income	59	66
Share of profit of entities accounted for using equity method	11	--
Other	83	48
Total non-operating income	325	332
Non-operating expenses		
Interest expenses	185	124
Loss on sales of notes receivable	90	154
Foreign exchange losses	25	119
Payment fee	156	269
Other	102	95
Total non-operating expenses	560	764
Ordinary income	2,848	6,510
Extraordinary income		
Gain on sales of non-current assets	871	36
Gain on sales of investments securities	--	97
Gain on sales of investments in capital of affiliate	--	81
Gain on reversal of subscription rights to shares	35	2
Subsidy income	47	90
Total extraordinary income	954	308
Extraordinary losses		
Loss on retirement of non-current assets	91	342
Loss on sales of non-current assets	7	5
Impairment loss	26	--
Loss on valuation of golf club membership	9	--
Loss from performance of warranty against defects	--	30
Total extraordinary losses	135	378
Income before taxes and other adjustments	3,666	6,440
Corporate, inhabitant and enterprise taxes	1,076	1,715
Deferred taxes	-40	41
Total corporate and other taxes	1,035	1,756
Net income	2,630	4,684
Net income attributable to non-controlling interests	--	513
Net income attributable to owners of parent	2,630	4,171



## (Consolidated Statements of Comprehensive Income)

(Million yen)

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Net income	2,630	4,684
Other comprehensive income		
Valuation difference on available-for-sale securities	1,528	840
Foreign currency translation adjustment	-673	252
Remeasurements of defined benefit plans, net of tax	19	35
Share of other comprehensive income of entities accounted for using equity method	11	--
Total other comprehensive income	885	1,128
Comprehensive income	3,516	5,813
(Breakdown)		
Comprehensive income attributable to owners of parent	3,516	5,367
Comprehensive income attributable to non-controlling interests	--	445

## (3) Consolidated Statements of Changes in Net Assets

Previous consolidated fiscal year (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, 2016	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, 2017	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, 2016	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, 2017	3,308	329	-104	3,533	842	31,462

Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	12,345	478	17,250	-2,986	27,087
Change during the fiscal year					
Cash dividends paid			-978		-978
Change in ownership interest of parent due to transactions with non-controlling interests		2,806			2,806
Net income attributable to owners of parent			4,171		4,171
Purchase of treasury stock				-6,842	-6,842
Disposal of treasury stock			-25	376	350
Retirement of treasury stock		-478	-7,159	7,637	--
Changes in items other than shareholders' equity during the fiscal year (net)					
Total change during the fiscal year	--	2,327	-3,992	1,171	-492
Balance as of March 31, 2018	12,345	2,806	13,257	-1,814	26,594

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	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, 2017	3,308	329	-104	3,533	842	--	31,462
Change during the fiscal year							
Cash dividends paid							-978
Change in ownership interest of parent due to transactions with non-controlling interests							2,806
Net income attributable to owners of parent							4,171
Purchase of treasury stock							-6,842
Disposal of treasury stock							350
Retirement of treasury stock							--
Changes in items other than shareholders' equity during the fiscal year (net)	840	79	35	956	-185	5,776	6,546
Total change during the fiscal year	840	79	35	956	-185	5,776	6,054
Balance as of March 31, 2018	4,149	409	-69	4,489	656	5,776	37,516

## (4) Consolidated Statements of Cash Flows

	(Million yen)	
	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	3,666	6,440
Depreciation and amortization	989	1,008
Gain on reversal of subscription rights to shares	-35	-2
Share-based compensation expenses	98	137
Impairment loss	26	--
Subsidy income	-47	-90
Increase (decrease) in allowance for doubtful accounts	-5	12
Increase (decrease) in provision for bonuses	27	43
Increase (decrease) in provision for product warranties	7	129
Increase (decrease) in net defined benefit liability	15	-2
Interest and dividend income	-165	-217
Commission fee	--	269
Interest expenses	185	124
Loss on retirement of non-current assets	91	342
Share of (profit) loss of entities accounted for using equity method	-11	--
Loss (gain) on sales of non-current assets	-864	-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)	64	27
Decrease (increase) in trade notes and accounts receivable	-4,086	-4,334
Decrease (increase) in inventories	1,574	-661
Decrease (increase) in advance payments	-138	29
Increase (decrease) in trade notes and accounts payable	3,871	3,554
Increase (decrease) in advances received	382	1,197
Decrease (increase) in consumption taxes refund receivable	64	-164
Other	722	590
Sub total	6,434	8,254
Interest and dividend income received	142	192
Interest expenses paid	-209	-140
Proceeds from subsidy	47	90
Payments for performance of warranty against defects	--	-12
Corporate and other taxes paid	-864	-1,552
Cash flows from operating activities	5,550	6,832
Cash flows from investing activities		
Payments into time deposits	-155	-124
Proceeds from withdrawal of time deposits	205	124
Payments into deposit	-270	--
Proceeds from withdraw of deposit	--	270
Purchase of property, plant and equipment	-162	-1,258
Proceeds from sales of property, plant and equipment	1,343	122
Payments for retirement of property, plant and equipment	-8	-53
Purchase of intangible assets	-28	-30
Expenditure for acquisition of investment securities	-2	-2
Proceeds from sales of investment securities	--	183
Collection of investments in capital	--	152
Other	-1	-0
Cash flows from investing activities	920	-615

	Previous consolidated fiscal year (From April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (From April 1, 2017 to March 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-1,629	-1,148
Proceeds from sales of treasury shares	58	211
Purchase of treasury shares	-3,739	-6,848
Cash dividends paid	-1,034	-978
Repayments of lease obligations	-8	-8
Payment for commission fee	--	-355
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	--	5,837
Cash flows from financing activities	-6,353	-1,002
Effect of exchange rate change on cash and cash equivalents	-145	-144
Net increase (decrease) in cash and cash equivalents	-27	5,070
Cash and cash equivalents at the beginning of the term	4,589	4,561
Increase in cash and cash equivalents from newly consolidated subsidiary	--	549
Cash and cash equivalents at the end of the term	4,561	10,181

## (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: 8

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

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED

TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED listed above which had been included in the scope of Non-consolidated subsidiaries or affiliates accounted for by the equity method in the previous fiscal year, is included in consolidated subsidiaries from the fiscal year under review because of increasing their significance.

(2) Names of non-consolidated subsidiaries:

Non-consolidated subsidiaries:

TSUGAMI (THAI) CO., LTD.

TSUGAMI EUROPE GmbH

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: none

(2) The non-consolidated subsidiaries (TSUGAMI (THAI) CO., LTD., TSUGAMI EUROPE GmbH, TSUGAMI TECH SOLUTIONS INDIA PRIVATE LIMITED and TSUGAMI Universal Pte. Ltd. and others) 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)

(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 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 fiscal year under review each increased by ¥23 million.

## (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, India and South Korea, which are the areas where Group companies are located.

In the consolidated fiscal year under review, the Group has newly added its reportable segments India because TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED is included in consolidated subsidiaries.

## 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, 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	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	292	689	20	1,002	-12	989
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 ¥-3,120 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, 2017 to March 31, 2018)

(Million yen)

	Reportable segment					Adjustment (Note) 1	Consolidated financial statement amount (Note) 2
	Japan	China	India	South Korea	Total		
Net sales							
Net sales to external customers	25,885	28,603	1,866	1,221	57,576	--	57,576
Intersegment net sales or transfers to other accounts	8,241	10,624	16	28	18,911	-18,911	--
Total	34,127	39,227	1,882	1,249	76,487	-18,911	57,576
Segment income	1,620	5,231	32	16	6,901	40	6,942
Segment assets	20,891	31,152	2,792	940	55,777	6,878	62,656
Other items							
Depreciation and amortization	224	722	30	42	1,020	-11	1,008
Increases in property, plant and equipment and intangible assets	689	747	66	154	1,658	--	1,658

(Note) 1. Adjustment details are as follows.

(1) "Adjustment" of segment income of ¥40 million is the adjustment of unrealized income.

(2) "Adjustment" of segment assets of ¥6,878 million includes Company-wide assets of ¥11,644 million and an effect of intersegment adjustments of ¥-4,765 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.

3. Changes in reportable business segments, 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 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 fiscal year under review increased by ¥23 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 70.80% at the end of the fiscal year 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).

(Per Share information)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Net assets per share	510.43 yen	585.58 yen
Net income per share	41.91 yen	74.71 yen
Net income per share after residual equity adjustment	40.93 yen	71.97 yen

(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, 2016 to March 31, 2017)	Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)
Net income per share		
Net income attributable to owners of parent (million yen)	2,630	4,171
Amount not attributed to common shareholders (million yen)	--	--
Net income attributable to owners of parent on common shares (million yen)	2,630	4,171
Average number of shares during the period (thousand shares)	62,779	55,834
Net income per share after residual equity adjustment		
Adjustment in net income attributable to owners of parent (million yen)	--	-33
(Adjustment of dilutive shares issued by subsidiaries) (million yen)	--	(-33)
Increase in common shares (thousand shares)	1,498	1,656
(Stock option) (thousand shares)	(1,498)	(1,656)
Summary of residual shares not included in the calculation of net income per share after residual equity adjustment because of no dilutive effect	Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 15, 2012 (Number of shares: 131,000) Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 21, 2013 (Number of shares: 150,000) Stock options granted on the basis of a resolution at the annual shareholders meeting held on June 20, 2014 (Number of shares: 170,000) (Consolidated subsidiary) Two types of subscription rights to shares as stock options (Number of the subscription rights to shares: 4,845,000 and 3,781,000)	--

## (Important post-balance sheet events)

(Establishment of a significant new company and acquisition of significant non-current assets)

Precision Tsugami (China) Corporation (“PTC”), a Chinese production company and consolidated subsidiary of TSUGAMI CORPORATION (the “Company”) resolved to establish a new company in Anhui Province, the PRC at the Board of Directors meeting on April 11, 2018 and established the new company on April 18, 2018.

PTC plans to increase the production capacity of PTC group, maintain the strong output of metal castings and CNC high precision machine tools and expand the PRC market by constructing a new plant through establishing a new company.

## 1. Outline of a new company

- (1) Trade name: Precision Tsugami (Anhui) Corporation
- (2) Location: Bowang High-tech Industrial Development Zone, Ma'anshan, Anhui Province
- (3) Representative: Chairman, Tang Donglei
- (4) Business: Manufacture and sale of CNC high precision machine tools and metal castings
- (5) Capital: Renminbi (RMB) 50 million
- (6) Establishment: April 18, 2018
- (7) Fiscal year: End of December
- (8) Share Holding: Share held by PTC (100%)

## 2. Content of the Investment

- (1) Investment Content: Making the investment agreement with Industrial development zone and Construction of a new plant
- (2) Total investment amount: approx. RMB200 million  
(Breakdown, Land and construction of plant: approx. RMB110 million  
Production machinery and equipment: approx. RMB85 million  
General working capital: approx. RMB5 million)
- (3) Production capacity of a new company:  
Metal castings: 18,000 ton per year  
Machine tools: 1,200 unit per year
- (4) Future schedule:  
Commencement of the plant construction from around August 2018  
Production will start at the beginning of 2020

## 4. Other

## (1) Supplementary Information

## (i) Overseas net sales

Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)

(Million yen)

	Asia	America	Europe	Total
I Overseas net sales	37,862	3,404	3,638	44,905
II Consolidated net sales				57,576
III Ratio of overseas net sales to consolidated net sales (%)	65.8	5.9	6.3	78.0

(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

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

(Million yen)

	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)		Consolidated fiscal year under review (from April 1, 2017 to March 31, 2018)		Year-on-year change	
		%		%		%
Automatic lathes	34,217	83.4	47,949	83.3	13,732	40.1
Grinding machines	3,332	8.1	4,221	7.3	889	26.7
Machining centers	500	1.2	269	0.5	-230	-46.1
Rolling machines and specialized machines	2,723	6.6	4,795	8.3	2,071	76.1
Other	277	0.7	340	0.6	62	22.7
Total	41,050	100.0	57,576	100.0	16,525	40.3
(Overseas net sales)	(30,744)	(74.9)	(44,905)	(78.0)	(14,161)	(46.1)

(2) Transition to a Company with Audit and Supervisory Committee

The Company plans to transit to a company with audit and supervisory committee based on the approval by resolution at the 115th annual shareholders meeting scheduled to be held on June 20, 2018. For details, please refer to the Notice of Transition to a Company with an Audit and Supervisory Committee and Change in the Number of Shares Constituting One Trading Unit published on February 13, 2018.

(3) Changes in Officers (scheduled to take effect on June 20, 2018)

(i) Changes in Representative Director

- Director scheduled to retire from the post

Representative Director, COO Toshiharu Niijima (plans to assume the post of executive advisor)

Representative Director, CFO Toshio Honma (plans to assume the post of executive advisor)

(ii) Changes in Other Directors

-New Directors candidate (excluding directors who are members of the audit and supervisory committee)

Director: Kameswaran Balasubramanian (currently president of TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LTD.)

Director: Tang Donglei (currently executive director of Precision Tsugami (China) Corporation Limited)

Director: Nobuaki Takahashi (currently senior adviser, administration)

Director: Hitoshi Yoshida (currently outside statutory auditor)

(Note) Mr. Hitoshi Yoshida is a candidate for the position of outside director.

-New Directors candidate (directors who are members of the audit and supervisory committee)

Director: Kenji Yoneyama (currently standing statutory auditor)

Director: Takeo Nakagawa (currently outside statutory auditor)

Director: Koichi Maruno (currently Representative Director, President of The Dai-ichi Life Research Institute INC)

Director: Kunio Shimada (currently outside director)

(Note) Mr. Takeo Nakagawa, Mr. Koichi Maruno and Mr. Kunio Shimada are candidates for the position of outside directors.

- Director scheduled to retire from the post

Director: Nobuyuki Nagai (plans to assume the post of Executive Advisor)

Director: Wang Xiaokun (continues Vice president of Precision Tsugami (China) Corporation Limited)

Director: Takeo Nakagawa (plans to assume the post of director who are members of the audit and supervisory committee)

Director: Kunio Shimada (plans to assume the post of director who are members of the audit and supervisory committee)

(Note) Mr. Takeo Nakagawa and Mr. Kunio Shimada are outside directors.

- Statutory auditor scheduled to retire from the post

Standing statutory auditor: Keiji Hayazaki (plans to assume the post of executive advisor)

Standing statutory auditor: Kenji Yoneyama (plans to assume the post of director who are members of the audit and supervisory committee)

Statutory auditor: Morikuni Uchigasaki

Statutory auditor: Hitoshi Yoshida (plans to assume the post of director)

Statutory auditor: Hideo Teramoto

(Note) Mr. Morikuni Uchigasaki and Mr. Hideo Teramoto are outside auditors.