

Consolidated Financial Results for the First Quarter of Fiscal 2018 [Japanese GAAP]

Name: **Tokyo Rope Manufacturing Co., Ltd.**

Listing: **Tokyo Stock Exchange**

Stock code number: **5981**

URL: <http://www.tokyoropeco.jp>

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Preparation of Supplementary Explanations of Quarterly Financial Results: **August 13, 2018**

Start of cash dividend payments: **-**

Supplementary quarterly materials prepared: **None**

Quarterly results information meeting held: **None**

*Amounts fewer than one million yen have been rounded down.

1. Fiscal 2018-First quarter (April 1– June 30, 2018)

(1) Results of operations

(Millions of yen, except per share data; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---------------------------|-----------|------------|------------------|------------|-----------------|------------|---|------------|
| | | (% change) | | (% change) | | (% change) | | (% change) |
| Fiscal 2018–First quarter | ¥14,312 | 0.3% | ¥ 28 | -93.6% | ¥ 79 | -83.5% | ¥ -55 | —% |
| Fiscal 2017–First quarter | 14,263 | 0.6 | 438 | -20.2 | 482 | 136.2 | 327 | 126.8 |

Note: Comprehensive income

Fiscal 2018–1st quarter: ¥ -305 million (—%)

Fiscal 2017–1st quarter: ¥257 million (—%)

| | Earnings per share | Earnings per share (fully diluted) |
|---------------------------|--------------------|------------------------------------|
| | (Yen) | (Yen) |
| Fiscal 2018–First quarter | ¥ -3.45 | — |
| Fiscal 2017–First quarter | 20.33 | — |

(2) Financial position

(Millions of yen)

| | Total assets | Net assets | Equity ratio |
|---------------------------|--------------|------------|--------------|
| Fiscal 2018–First quarter | ¥86,138 | ¥24,853 | 28.9% |
| Fiscal 2017–Year-end | 86,306 | 25,781 | 29.9 |

Note: Equity capital at term-end

Fiscal 2018–1st quarter: ¥24,853 million

Fiscal 2017: ¥25,781 million

2. Cash dividends

Cash dividend per share (yen)

| | First quarter | Second quarter | Third quarter | Year-end | Full year |
|--------------------|---------------|----------------|---------------|----------|-----------|
| Fiscal 2017 | — | ¥0.00 | — | ¥ 40.00 | ¥ 40.00 |
| Fiscal 2018 | — | | | | |
| Fiscal 2018 (est.) | | 0.00 | — | 40.00 | 40.00 |

Note: Revision of latest cash dividend forecast in review: No

3. Forecast for fiscal 2017 (April 1, 2018–March 31, 2019)

(Millions of yen, except per share data; percentage figures denote year-on-year change)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Earnings per share (Yen) |
|------------------|-----------|------|------------------|---------|-----------------|---------|---|---------|--------------------------|
| First 2 quarters | ¥30,000 | 1.9% | ¥ 0 | -100.0% | ¥ 0 | -100.0% | ¥ 0 | -100.0% | ¥ 0.00 |
| Full year | 69,000 | 8.5 | 3,400 | 9.9 | 3,400 | 9.2 | 2,300 | -8.9 | 142.66 |

Note: Revision of latest consolidated forecasts in review: Yes

Notes

(1) Changes in important subsidiaries during the period (changes in specific subsidiaries due to change in scope of consolidation):

Yes

Newly consolidated 1 (Company name: Tokyo Rope International, Inc.) Excluded -

(2) Application of special accounting treatment: Yes

Note: This note refers to the adoption of special accounting treatment pertaining to the preparation of quarterly consolidated financial statements.

(3) Changes in accounting policies; changes in accounting estimates; restatements:

1. Changes in accounting policies resulting from the revision of the accounting standards and other regulations: None

2. Other changes in accounting policies: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Fiscal 2018–1st quarter: 16,268,242

Fiscal 2017: 16,268,242

2. Number of treasury shares outstanding

Fiscal 2018–1st quarter: 146,175

Fiscal 2017: 146,806

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2018–1st quarter: 16,121,547

Fiscal 2017–1st quarter: 16,122,653

Note: Treasury stocks that are deducted when calculating the number of treasury stocks outstanding at the end of Fiscal 2017 and the average number of shares over the year include shares of the Company owned by Board Benefit Trust (Fiscal 2018 1Q: 135,900 shares).

This financial report is exempt from audit procedures.

Appropriate use of business forecasts; other special items

In this document, performance forecasts and other forward-looking statements are based on information currently available and certain assumptions judged by the Company to be rational. Actual results may differ significantly from forecasts due to various factors. Please refer to “(3) Performance Forecasts” on page 3 for information on preconditions underlying the above forecasts and other related information.

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1. Performance and Financial Position

(1) Business Results

In the first quarter of the consolidated fiscal year, the Japanese economy has been buoyed by strong corporate earnings and improvements in the employment environment, and is continuing to expand steadily. The world economy, the United States in particular, is also showing steady growth, but high oil prices and concerns about trade friction emanating from the United States are leading to growing uncertainty about the future.

Given these circumstances, the Tokyo Rope Group has worked to promote various measures under its mid-term management plan, "TCT-Focus 2020," which is to be concluded in Fiscal 2019, by setting three key phrases: "Strengthening of Domestic Business Base," "Challenge to New Materials and Technologies," and "Overseas Business Expansion."

The Tokyo Rope Group's total sales came to ¥14,312 million in the first quarter under review, up 0.3% year-on-year, due to increases in the sales volume of tire cord and petroleum-related products, and despite a slight decrease in sales of elevator rope and road-related products.

In terms of profits, the Group posted operating income of ¥28 million, down 93.6% year-on-year, while ordinary profits stood at ¥79 million, down 83.5% year-on-year. This was a result of factors including a decrease in sales of saw wire for silicon wafers in solar power generation. In addition, the group also recorded a valuation loss on investment securities of ¥109 million as an extraordinary loss, resulting in a net quarterly loss attributable to owners of the parent of ¥55 million (compared to a net profit of ¥327 million for the year-earlier period).

Results by business segment of the Group were as follows:

Wire Rope

Demand for elevator rope in China has fallen, while domestic demand for replacement has cooled, leading to a reduction in sales volume. The performance of steel wire products was also rather weak. As a result, segment sales totaled ¥6,844 million, down 5.4% year-on-year, while operating income stood at ¥447 million yen, down 25.1% year-on-year.

Steel Cord

Total sales in the Steel Cord segment amounted to ¥2,873 million, up 8.3% year-on-year, due to an increase in the sales volume of tire cord in Japan. However, as a result of a reduction in domestic sales of saw wire for silicon wafers in solar power generation, the segment recorded an operating loss of ¥111 million (compared to a profit of ¥60 million in the year-earlier period).

Product Development

Total sales of the Product Development segment stood at ¥2,196 million, down 5.6% year-on-year, as a result of a decline in road-related products and despite strong performance in bridge-related products. The operating loss was ¥498 million (compared to a loss of ¥399 million in the year-earlier period).

Real Estate

Total sales for the Real Estate segment came to ¥300 million, down 7.0% year-on-year, while operating income totaled ¥73 million, down 17.7% year-on-year. Excluding the one-time real estate income from last year, performance in this segment has largely remained robust.

Other

With the rise in crude oil prices, a sales increase in oil-related products brought total sales of the Other segment to ¥2,098 million, up 21.3% year-on-year. Meanwhile, as a result of an increase in the industrial machinery business, operating income came to ¥117 million, up 28.4% year-on-year.

(2) Financial Position

Assets, Liabilities and Net Assets

As of June 30, 2018, the Tokyo Rope Group had total assets of ¥86,138 million. Despite increases in inventory assets and construction in progress, the figure represents a decrease of ¥168 million from the end of the previous consolidated fiscal year, attributable to a decline in investment securities due to outstanding sales accounts and revaluation.

Total liabilities increased ¥759 million yen from the end of the previous consolidated fiscal year to ¥61,285 million as a result of a decrease in long-term borrowings and an increase in short-term borrowings.

Net assets stood at ¥24,853 million, a decrease of ¥928 million compared to the end of the previous consolidated fiscal year. The decrease was a result of the payment of cash dividends and a decrease in foreign currency translation adjustment.

(3) Performance Forecasts

Because sales of saw wire for silicon wafers in solar power generation are expected to underperform previous forecasts, the second quarter and full-year financial results forecasts have been revised.

3. Quarterly Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

| | Fiscal 2017 (March 31, 2018) | Fiscal 2018-First quarter (June 30, 2018) |
|--|---------------------------------|--|
| ASSETS | | |
| Current assets | | |
| Cash and bank deposits | ¥ 4,374 | ¥ 4,921 |
| Notes and accounts receivable | 14,311 | 12,221 |
| Commodities and products | 6,939 | 6,837 |
| Goods in process | 4,167 | 4,440 |
| Materials and supplies | 4,216 | 4,778 |
| Other | 1,346 | 1,862 |
| Allowance for doubtful accounts | (19) | (16) |
| Total current assets | 35,336 | 35,043 |
| Fixed assets | | |
| Property, plant and equipment | | |
| Buildings and structures (net) | 7,195 | 7,034 |
| Machinery and vehicles (net) | 6,985 | 6,642 |
| Land | 18,307 | 18,303 |
| Construction in progress | 1,070 | 1,957 |
| Other (net) | 1,507 | 1,463 |
| Total property, plant and equipment | 35,066 | 35,401 |
| Intangibles | 626 | 884 |
| Investments and other assets | | |
| Investment securities | 9,355 | 8,995 |
| Net defined benefit asset | 154 | 150 |
| Deferred tax assets | 2,952 | 2,890 |
| Other | 3,218 | 3,167 |
| Allowance for doubtful accounts | (407) | (399) |
| Total investments and other assets | 15,272 | 14,804 |
| Total fixed assets | 50,965 | 51,091 |
| Deferred assets | 4 | 3 |
| Total assets | 86,306 | 86,138 |

(Millions of yen, rounded down)

| | Fiscal 2017 (March 31, 2018) | Fiscal 2018-First quarter (June 30, 2018) |
|---|---------------------------------|--|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable | ¥12,143 | ¥12,122 |
| Short-term borrowings | 14,239 | 15,073 |
| Accrued expenses | 2,672 | 2,863 |
| Reserve for employees' bonuses | 911 | 1,374 |
| Other | 5,379 | 5,538 |
| Total current liabilities | 35,346 | 36,973 |
| Long-term liabilities | | |
| Long-term loans | 13,918 | 13,456 |
| Deferred tax liabilities for land revaluation | 4,183 | 4,183 |
| Net defined benefit liability | 5,153 | 4,777 |
| Other | 1,923 | 1,893 |
| Total long-term liabilities | 25,178 | 24,311 |
| Total liabilities | 60,525 | 61,285 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | 1,000 | 1,000 |
| Capital surplus | 684 | 684 |
| Retained earnings | 14,507 | 13,827 |
| Treasury stock | (312) | (311) |
| Total shareholders' equity | 15,878 | 15,200 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,221 | 1,087 |
| Revaluation reserve for land | 9,718 | 9,718 |
| Foreign currency translation adjustment | 149 | (258) |
| Remeasurements of defined benefit plans | (1,187) | (894) |
| Total accumulated other comprehensive income | 9,902 | 9,652 |
| Total net assets | 25,781 | 24,853 |
| Total liabilities and net assets | 86,306 | 86,138 |

(2) Statements of Income and Statements of Comprehensive Income

1) Statements of Income

(Millions of yen, rounded down)

| | Fiscal 2017–First quarter (April 1–June 30, 2017) | Fiscal 2018–First quarter (April 1–June 30, 2018) |
|---|--|--|
| Net sales | ¥14,263 | ¥14,312 |
| Cost of sales | 11,248 | 11,599 |
| Gross profit | 3,014 | 2,713 |
| Selling, general and administrative expenses | 2,575 | 2,685 |
| Operating income | 438 | 28 |
| Other income | | |
| Interest income | 10 | 4 |
| Dividend income | 70 | 78 |
| Share of profit of entities accounted for using equity method | 29 | (21) |
| Other | 51 | 107 |
| Total other income | 162 | 168 |
| Other expenses | | |
| Interest expense | 67 | 71 |
| Foreign exchange losses | 12 | 9 |
| Other | 39 | 35 |
| Total other expenses | 118 | 117 |
| Ordinary income | 482 | 79 |
| Extraordinary income | | |
| Gain on sales of investment securities | — | 109 |
| Total extraordinary income | — | 109 |
| Income (loss) before income taxes | 482 | (30) |
| Income taxes | 150 | 25 |
| Profit (loss) | 332 | (55) |
| Profit attributable to non-controlling interests | 5 | — |
| Profit (loss) attributable to owners of parent | 327 | (55) |

2) Statements of Comprehensive Income

(Millions of yen, rounded down)

| | Fiscal 2017–First quarter (April 1–June 30, 2017) | Fiscal 2018–First quarter (April 1–June 30, 2018) |
|---|--|--|
| Profit (loss) | ¥332 | ¥(55) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 116 | (134) |
| Foreign currency translation adjustment | (194) | (367) |
| Remeasurements of defined benefit plans, net of tax | 73 | 292 |
| Share of other comprehensive income (loss) of entities accounted for using equity method | (70) | (40) |
| Total other comprehensive income (loss) | (75) | (249) |
| Comprehensive income (loss) | 257 | (305) |
| Comprehensive income attributable to Comprehensive income (loss) attributable to owners of the parent | 252 | (305) |
| Comprehensive income attributable to non-controlling interests | 5 | — |

(3) Notes on Consolidated Financial Statements

Notes on Going-concern Assumptions

None

Notes in the Event of Major Changes in Shareholders' Equity

None

Application of Special Accounting Treatment

We have adopted the method in which income taxes are calculated by multiplying quarterly profit before income taxes by reasonably estimating the effective tax rate subsequent to the application of tax effect accounting to the profit before income taxes for the consolidated fiscal year, including the first quarter under review.

Additional Information

The "Partial Revision of Accounting Standards Relating to Deferred Tax Accounting" (Corporate Accounting Standard No. 28, February 16th 2018) has been applied from the beginning of the first quarter consolidated accounting period. Deferred tax assets are displayed under the Investments and Other Assets section, and deferred tax liabilities are displayed in the Fixed Liabilities section.

Segment Information

Fiscal 2017—First quarter (April 1– June 30, 2017)

Sales, Income (Loss) by Reporting Segment

| | Reporting Segment | | | | | Other (Note) | Total | Adjustment | Consolidated statements of Income |
|---------------------------------|-------------------|------------|------------------------|-------------|---------|-----------------|---------|------------|---|
| | Wire Rope | Steel Cord | Product Development | Real Estate | Total | | | | |
| Net sales | | | | | | | | | |
| Sales to outside customers | ¥7,231 | ¥2,652 | ¥2,326 | ¥323 | ¥12,533 | ¥1,730 | ¥14,263 | ¥ — | ¥14,263 |
| Intersegment sales or transfers | 41 | 11 | 60 | — | 113 | 156 | 270 | (270) | — |
| Total | 7,272 | 2,664 | 2,386 | 323 | 12,646 | 1,886 | 14,533 | (270) | 14,263 |
| Segment income (loss) | 596 | 60 | (399) | 89 | 347 | 91 | 438 | — | 438 |

Note: "Other" refers to a business segment that is not included in the reporting segments. It includes the Company's industrial machinery, powder metallurgy products, and oil businesses.

Fiscal 2018—First quarter (April 1– June 30, 2018)

Sales, Income (Loss) by Reporting Segment

| | Reporting Segment | | | | | Other (Note) | Total | Adjustment | Consolidated statements of Income |
|---------------------------------|-------------------|------------|------------------------|-------------|---------|-----------------|---------|------------|---|
| | Wire Rope | Steel Cord | Product Development | Real Estate | Total | | | | |
| Net sales | | | | | | | | | |
| Sales to outside customers | ¥6,844 | ¥2,873 | ¥2,196 | ¥300 | ¥12,214 | ¥2,098 | ¥14,312 | ¥ — | ¥14,312 |
| Intersegment sales or transfers | 42 | 28 | 1 | — | 72 | 182 | 254 | (254) | — |
| Total | 6,886 | 2,901 | 2,198 | 300 | 12,286 | 2,280 | 14,567 | (254) | 14,312 |
| Segment income (loss) | 447 | (111) | (498) | 73 | (89) | 117 | 28 | — | 28 |

Note: "Other" refers to a business segment that is not included in the reporting segments. It includes the Company's industrial machinery, powder metallurgy products, and oil businesses.