

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2018 [Japanese GAAP]

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

Listing: **Tokyo Stock Exchange**

Stock code number: **5981**

URL: <http://www.tokyorope.co.jp>

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Preparation of Supplementary Explanations of Quarterly Financial Results: **November 14, 2018**

Start of cash dividend payments: **—**

Supplementary quarterly materials prepared: **Yes**

Quarterly results information meeting held: **Yes (for institutional investors)**

1. Fiscal 2018 -First 2 Quarters (April 1–September 30, 2018)

(1) Results of Operations

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2018–First 2 quarters	¥29,763	1.1%	¥-80	— %	¥-14	—%	¥-341	—%
Fiscal 2017–First 2 quarters	29,448	-8.4	990	-41.2	1,059	-14.3	744	-8.2

Note: Comprehensive income

Fiscal 2018–1st 2 quarters: ¥ -529million (—%)

Fiscal 2017–1st 2 quarters: ¥1,186million (—%)

	Earnings per share	Earnings per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2018–First 2 quarters	¥-21.17	¥—
Fiscal 2017–First 2 quarters	46.16	—

(2) Financial Position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
Fiscal 2018–First 2 quarters	¥85,834	¥24,631	28.7%
Fiscal 2017–Year-end	86,306	25,781	29.9

Note: Equity capital at term-end

Fiscal 2018–First 2 quarters: ¥24,631 million

Fiscal 2017: ¥25,781 million

2. Cash Dividends

	Cash dividend per share (yen)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
Fiscal 2017	—	¥0.00	—	¥40.00	¥40.00
Fiscal 2018	—	0.00	—	—	—
Fiscal 2018 (est.)	—	—	—	40.00	40.00

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

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

(Millions of yen, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share (Yen)
		(% change)		(% change)		(% change)		(% change)	
Full year	65,000	2.3%	1,500	-51.5%	1,500	-51.8%	600	-76.2%	36.88

Note: Revision of latest consolidated forecasts in review: No

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 2 quarters: 16,268,242

Fiscal 2017: 16,268,242

2. Number of treasury shares outstanding

Fiscal 2018–1st 2 quarters: 145,087

Fiscal 2017: 146,806

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

Fiscal 2018–1st 2 quarters: 16,122,280

Fiscal 2017–1st 2 quarters: 16,122,605

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 2Q: 134,300 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.

Contents

1. Performance and Financial Position	2
(1) Business Results	2
(2) Financial Position	3
(3) Performance Forecasts	3
2. Quarterly Consolidated Financial Statements	4
(1) Balance Sheets	4
(2) Statements of Income and Statements of Comprehensive Income	6
(3) Statements of Cash Flows	8
(4) Notes on Consolidated Financial Statements	9
<i>Notes on Going-concern Assumptions</i>	9
<i>Note in the Event of Major Changes in Shareholders' Equity</i>	9
<i>Application of Special Accounting Treatment</i>	9
<i>Additional Information</i>	9
<i>Segment Information</i>	9

1. Performance and Financial Position

(1) Business Results

In the second quarter of the consolidated fiscal year, the Japanese economy continued to expand gradually buoyed by continued strong corporate earnings and improvements in the employment environment despite the impact from a series of natural disasters and increasing trade issues. 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 ¥29,763 million in the second quarter under review, up 1.1% year-on-year, due to increases in the sales volume of tire cord and an increase in the value of petroleum-related products with the rise in crude oil prices, and despite a decrease in sales of elevator rope and road-related products.

In terms of profits, the Group posted operating loss of ¥80 million (compared to operating income of ¥990 million for the year-earlier period) and an ordinary loss of ¥14 million (compared to ordinary income of ¥1,059 million for the year-earlier period). This was a result mainly of a decrease in sales of saw wire for silicon wafers in solar power generation (hereafter “core wire”). In addition, the Group also recorded an extraordinary loss of ¥289 million due to disasters, resulting in a net quarterly loss attributable to owners of the parent company of ¥341 million (compared to net income of ¥744 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, and profit on sales declined due to the effects from typhoons that delayed shipments of general wire rope, etc. As a result, segment sales totaled ¥13,908 million, down 1.8% year-on-year, while operating income stood at ¥700 million, down 30.4% year-on-year.

Steel Cord

Total sales in the Steel Cord segment amounted to ¥5,525 million, up 3.1% year-on-year, due to an increase in the sales volume of tire cord in Japan and core wire in China. However, due to a reduction in sales of core wire in Japan, which were strong the previous period, the segment recorded an operating loss of ¥389 million (compared to a profit of ¥50 million in the year-earlier period).

Product Development

Total sales for the Product Development segment stood at ¥5,376 million, down 8.2% year-on-year, as a result of a decline in road-related products and CFCC products. The operating loss was ¥846 million (compared to a loss of ¥455 million in the year-earlier period.)

Real Estate

Total sales for the real estate segment came to ¥605 million, down 2.5% year-on-year, while operating income totaled ¥150 million, up 4.6% year-on-year due to this segment becoming robust.

Other

With the rise in crude oil prices, a sales increase in oil-related products brought total sales of the Other segment to ¥4,348 million, up 26.2% year-on-year. Meanwhile, as a result of an increase in the industrial machinery business, operating income came to ¥303 million, up 24.2% year-on-year.

(2) Financial Position

Assets, Liabilities and Net Assets

As of September 30, 2018, the Tokyo Rope Group had total assets of ¥85,834 million. Despite increases in inventory assets and construction in progress, the figure represents a decrease of ¥471 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 ¥677 million from the end of the previous consolidated fiscal year to ¥61,203 million as a result of an increase in long-term borrowing despite a decrease in short-term borrowing and liabilities for retirement benefits.

Net assets stood at ¥24,631 million, a decrease of ¥1,149 million compared to the end of the previous consolidated fiscal year. The decrease was a result recording a net loss for the period and of the payment of cash dividends.

Cash Flow

As of September 30, 2018, cash and cash equivalents totaled ¥3,451 million, down ¥900 million compared to the end of the previous consolidated fiscal year.

Cash flow from business activities produced an inflow of ¥1,125 million resulting from a decrease in accounts receivable and depreciation despite an increase in inventory assets.

Cash flow from investment activities produced an outflow of ¥2,443 million due mainly to the acquisition of tangible fixed assets.

Cash flow from financing activities produced an inflow of ¥391 million resulting mainly from long-term borrowing.

(3) Performance Forecasts

The Tokyo Rope Group has made no revision to its full-year projected results forecast released on October 29, 2018.

3. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018–First 2 quarters (September 30, 2018)
ASSETS		
Current assets		
Cash and bank deposits	¥ 4,374	¥ 3,474
Notes and accounts receivable	14,311	13,231
Commodities and products	6,939	6,878
Goods in process	4,167	4,341
Materials and supplies	4,216	4,858
Other	1,346	1,640
Allowance for doubtful accounts	(19)	(17)
Total current assets	35,336	34,406
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	7,195	7,116
Machinery and vehicles (net)	6,985	6,645
Land	18,307	18,305
Construction in progress	1,070	2,415
Other (net)	1,507	1,477
Total property, plant and equipment	35,066	35,959
Intangibles	626	858
Investments and other assets		
Investment securities	9,355	8,838
Net defined benefit asset	154	154
Deferred tax assets	2,952	2,851
Other	3,218	3,154
Allowance for doubtful accounts	(407)	(390)
Total investments and other assets	15,272	14,608
Total fixed assets	50,965	51,426
Deferred assets	4	1
Total assets	86,306	85,834

(Millions of yen, rounded down)

	Fiscal 2017 (March 31, 2018)	Fiscal 2018–First 2 quarters (September 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥12,143	¥12,597
Short-term borrowings	14,239	13,350
Accrued expenses	2,672	2,459
Reserve for employees' bonuses	911	930
Other	5,379	5,439
Total current liabilities	35,346	34,777
Long-term liabilities		
Long-term loans	13,918	15,895
Deferred tax liabilities for land revaluation	4,183	4,183
Net defined benefit liability	5,153	4,626
Other	1,923	1,720
Total long-term liabilities	25,178	26,425
Total liabilities	60,525	61,203
NET ASSETS		
Shareholders' equity		
Common stock	1,000	1,000
Capital surplus	684	684
Retained earnings	14,507	13,541
Treasury stock	(312)	(308)
Total shareholders' equity	15,878	14,917
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,221	918
Revaluation reserve for land	9,718	9,718
Foreign currency translation adjustment	149	(116)
Remeasurements of defined benefit plans	(1,187)	(806)
Total accumulated other comprehensive income	9,902	9,714
Total net assets	25,781	24,631
Total liabilities and net assets	86,306	85,834

(2) Statements of Income and Statements of Comprehensive Income

Statements of Income

(Millions of yen, rounded down)

	Fiscal 2017–First 2 quarters (April 1–September 30, 2017)	Fiscal 2018–First 2 quarters (April 1–September 30, 2018)
Net sales	¥29,448	¥29,763
Cost of sales	23,308	24,361
Gross profit	6,140	5,401
Selling, general and administrative expenses	5,150	5,481
Operating income (loss)	990	(80)
Other income		
Interest income	12	9
Dividend income	115	140
Other	212	236
Total other income	339	386
Other expenses		
Interest expense	135	139
Other	135	180
Total other expenses	271	320
Ordinary income (loss)	1,059	(14)
Extraordinary expenses		
Loss from disasters	—	289
Other	—	54
Total extraordinary expenses	—	344
Income (loss) before income taxes	1,059	(358)
Income taxes	304	(17)
Profit (loss)	754	(341)
Profit attributable to non-controlling interests	10	—
Profit (loss) attributable to owners of parent	744	(341)

Statement of Comprehensive Income

(Millions of yen, rounded down)

	Fiscal 2017–First 2 quarters (April 1– September 30, 2017)	Fiscal 2018–First 2 quarters (April 1– September 30, 2018)
Profit (loss)	¥754	¥(341)
Other comprehensive income		
Valuation difference on available-for-sale securities	346	(303)
Foreign currency translation adjustment	(55)	(201)
Remeasurements of defined benefit plans, net of tax	165	381
Share of other comprehensive income (loss) of entities accounted for using equity method	(23)	(65)
Total other comprehensive income (loss)	432	(188)
Comprehensive income (loss)	1,186	(529)
Comprehensive income attributable to Comprehensive income (loss) attributable to owners of the parent	1,176	(529)
Comprehensive income attributable to non-controlling interests	10	—

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2017–First 2 quarters (April 1–September 30, 2017)	Fiscal 2018–First 2 quarters (April 1–September 30, 2018)
Operating activities		
Income (loss) before income taxes	¥1,059	¥(358)
Depreciation	998	1,071
Increase (decrease) in reserve for employees' bonuses	(33)	14
Increase (decrease) in reserve for directors' shares	7	3
Increase (decrease) in net defined benefit liability	40	11
Interest expense	135	139
Interest and dividend income	(127)	(149)
(Increase) decrease in notes and accounts receivable	833	1,076
(Increase) decrease in inventories	(1,071)	(831)
Increase (decrease) in notes and accounts payable	240	556
Increase (decrease) in advances received	354	164
Loss from disasters	—	289
Other	(339)	(526)
Subtotal	2,096	1,462
Interest and dividends received	146	181
Interest paid	(133)	(149)
Disaster loss payment amount	—	(38)
Directors' retirement bonuses paid	(5)	(92)
Income tax paid	(394)	(238)
Net cash provided by operating activities	1,708	1,125
Investing activities		
Purchases of investment securities	(9)	(9)
Proceeds from sales of investment securities	—	14
Payments of loans receivable	(342)	(20)
Collection of loans receivable	177	39
Purchases of property, plant and equipment	(1,506)	(2,149)
Proceeds from sales of property, plant and equipment	17	23
Other	(181)	(342)
Net cash used in investing activities	(1,844)	(2,443)
Financing activities		
Net increase (decrease) in short-term borrowings	3,072	(2,775)
Proceeds from long-term borrowings	—	5,300
Repayment of long-term borrowings	(988)	(1,423)
Cash dividends paid	(646)	(646)
Proceeds from disposal of treasury stock	1	4
Purchase of treasury stock	(2)	(1)
Repayments of lease obligations	(136)	(68)
Net cash provided by (used in) financing activities	1,301	391
Effect of exchange rate changes on cash and cash equivalents	69	2
Net increase (decrease) in cash and cash equivalents	1,235	(925)
Cash and cash equivalents at beginning of term	3,144	4,352
Increase in cash and cash equivalents from newly consolidated subsidiary	100	24
Cash and cash equivalents at end of term	4,481	3,451

(4) 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

Calculation of income taxes

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 2 quarters (April 1– September 30, 2017)

Sales, Income (Loss) by Reporting Segment

	Reporting Segment					Other (Note)	Total	Adjustment	(Millions of yen)	
	Wire Rope	Steel Cord	Product Development	Real Estate	Total				Total	Consolidated statements of Income
Net sales										
Sales to outside customers	¥14,163	¥5,361	¥5,858	¥620	¥26,004	¥3,444	¥29,448	¥ —	¥29,448	
Intersegment sales or transfers	72	44	3	—	120	358	479	(479)	—	
Total	14,236	5,406	5,861	620	26,124	3,803	29,928	(479)	29,448	
Segment income (loss)	1,006	50	(455)	144	745	244	990	—	990	

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 2 quarters (April 1– September 30, 2018)

Sales, Income (Loss) by Reporting Segment

	Reporting Segment					Other (Note)	Total	Adjustment	(Millions of yen)	
	Wire Rope	Steel Cord	Product Development	Real Estate	Total				Total	Consolidated statements of Income
Net sales										
Sales to outside customers	¥13,908	¥5,525	¥ 5,376	¥ 605	¥ 25,415	¥4,348	¥29,763	¥ —	¥29,763	
Intersegment sales or transfers	99	77	4	—	181	455	637	(637)	—	
Total	14,007	5,603	5,380	605	25,596	4,803	30,400	(637)	29,763	
Segment income (loss)	700	(389)	(846)	150	(383)	303	(80)	—	(80)	

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.